WELLS FARGO & COMPANY/MN
Form 10-Q
November 06, 2018

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, 2018

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 þ No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).
Yes þ No o

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

Large accelerated filer	þ	Accelerated filer o
Non-accelerated filer	o	Smaller reporting company o
		Emerging growth company o

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. o

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

Yes o No þ

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

	Shares Outstanding October 24, 2018
Common stock, $1-2/3 par value	4,707,244,168

FORM 10-Q
CROSS-REFERENCE INDEX

PART I	Financial Information	
Item 1.	Financial Statements	Page
	Consolidated Statement of Income	69
	Consolidated Statement of Comprehensive Income	70
	Consolidated Balance Sheet	71
	Consolidated Statement of Changes in Equity	72
	Consolidated Statement of Cash Flows	76
	Notes to Financial Statements	
	1 – Summary of Significant Accounting Policies	77
	2 – Business Combinations	80
	3 – Cash, Loan and Dividend Restrictions	81
	4 – Trading Activities	82
	5 – Available-for-Sale and Held-to-Maturity Debt Securities	84
	6 – Loans and Allowance for Credit Losses	91
	7 – Equity Securities	108
	8 – Other Assets	110
	9 – Securitizations and Variable Interest Entities	111
	10 – Mortgage Banking Activities	119
	11 – Intangible Assets	122
	12 – Guarantees, Pledged Assets and Collateral, and Other Commitments	124
	13 – Legal Actions	128
	14 – Derivatives	132
	15 – Fair Values of Assets and Liabilities	142
	16 – Preferred Stock	162
	17 – Revenue from Contracts with Customers	165
	18 – Employee Benefits	169
	19 – Earnings Per Common Share	170
	20 – Other Comprehensive Income	171
	21 – Operating Segments	173
	22 – Regulatory and Agency Capital Requirements	174
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations (Financial Review)	
	Summary Financial Data	2
	Overview	3
	Earnings Performance	8
	Balance Sheet Analysis	23
	Off-Balance Sheet Arrangements	26
	Risk Management	27
	Capital Management	56
	Regulatory Matters	63
	Critical Accounting Policies	64
	Current Accounting Developments	65
	Forward-Looking Statements	66
	Risk Factors	67
	Glossary of Acronyms	175
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	50
Item 4.	Controls and Procedures	68

PART II Other Information

Item 1.	Legal Proceedings	176
Item 1A.	Risk Factors	176
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	176
Item 6.	Exhibits	177
Signature		178

PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW
Summary Financial Data

($ in millions, except per share amounts)	Quarter ended Sep 30, 2018	Jun 30, 2018	Sep 30, 2017	% Change Sep 30, 2018 from Jun 30, 2018	Sep 30, 2017	Nine months ended Sep 30, 2018	Sep 30, 2017	% Change
For the Period								
Wells Fargo net income	$6,007	5,186	4,542	16 %	32	$16,329	16,032	2 %
Wells Fargo net income applicable to common stock	5,453	4,792	4,131	14	32	14,978	14,814	1
Diluted earnings per common share	1.13	0.98	0.83	15	36	3.07	2.94	4
Profitability ratios (annualized):								
Wells Fargo net income to average assets (ROA)	1.27 %	1.10	0.93	15	37	1.15 %	1.11	4
Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders' equity (ROE)	12.04	10.60	8.96	14	34	11.08	10.97	1
Return on average tangible common equity (ROTCE) (1)	14.33	12.62	10.66	14	34	13.19	13.11	1
Efficiency ratio (2)	62.7	64.9	65.7	(3)	(5)	65.4	62.8	4
Total revenue	$21,941	21,553	21,849	2	—	$65,428	66,339	(1)
Pre-tax pre-provision profit (PTPP) (3)	8,178	7,571	7,498	8	9	22,641	24,655	(8)
Dividends declared per common share	0.43	0.39	0.39	10	10	1.210	1.150	5
Average common shares outstanding	4,784.0	4,865.8	4,948.6	(2)	(3)	4,844.8	4,982.1	(3)
Diluted average common shares outstanding	4,823.2	4,899.8	4,996.8	(2)	(3)	4,885.0	5,035.4	(3)
Average loans	$939,462	944,079	952,343	—	(1)	$944,813	957,581	(1)
Average assets	1,876,283	1,884,884	1,938,461	—	(3)	1,892,209	1,932,201	(2)
Average total deposits	1,266,378	1,271,339	1,306,356	—	(3)	1,278,185	1,302,273	(2)
Average consumer and small business banking deposits (4)	743,503	754,047	755,094	(1)	(2)	751,030	758,443	(1)
Net interest margin	2.94 %	2.93	2.86	—	3	2.90 %	2.88	1
At Period End								
Debt securities (5)	$472,283	475,495	474,710	(1)	(1)	$472,283	474,710	(1)
Loans	942,300	944,265	951,873	—	(1)	942,300	951,873	(1)
Allowance for loan losses	10,021	10,193	11,078	(2)	(10)	10,021	11,078	(10)

Goodwill	26,425	26,429	26,581	—	(1)	26,425	26,581	(1)
Equity securities (5)	61,755	57,505	54,981	7	12	61,755	54,981	12
Assets	1,872,981	1,879,700	1,934,880	—	(3)	1,872,981	1,934,880	(3)
Deposits	1,266,594	1,268,864	1,306,706	—	(3)	1,266,594	1,306,706	(3)
Common stockholders' equity	176,934	181,386	181,920	(2)	(3)	176,934	181,920	(3)
Wells Fargo stockholders' equity	198,741	205,188	205,722	(3)	(3)	198,741	205,722	(3)
Total equity	199,679	206,069	206,617	(3)	(3)	199,679	206,617	(3)
Tangible common equity (1)	148,391	152,580	152,694	(3)	(3)	148,391	152,694	(3)
Capital ratios (6):								
Total equity to assets	10.66%	10.96	10.68	(3)	—	10.66%	10.68	—
Risk-based capital:								
Common Equity Tier 1	11.91	11.98	12.10	(1)	(2)	11.91	12.10	(2)
Tier 1 capital	13.63	13.83	13.95	(1)	(2)	13.63	13.95	(2)
Total capital	16.79	16.98	17.21	(1)	(2)	16.79	17.21	(2)
Tier 1 leverage	9.22	9.51	9.27	(3)	(1)	9.22	9.27	(1)
Common shares outstanding	4,711.6	4,849.1	4,927.9	(3)	(4)	4,711.6	4,927.9	(4)
Book value per common share (7)	$37.55	37.41	36.92	—	2	$37.55	36.92	2
Tangible book value per common share (1)(7)	31.49	31.47	30.99	—	2	31.49	30.99	2
Team members (active, full-time equivalent)	261,700	264,500	268,000	(1)	(2)	261,700	268,000	(2)

(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 securities, 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) Financial information for the prior periods of 2017 has been revised to reflect the impact of the adoption in first quarter 2018 of Accounting Standards Update (ASU) 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which amends the presentation and accounting for certain financial instruments, including equity securities. See Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report for more information.

(6) The risk-based capital ratios were calculated under the lower of Standardized or Advanced Approach determined pursuant to Basel III. Beginning January 1, 2018, the requirements for calculating common equity tier 1 and tier 1 capital, along with risk-weighted assets, became fully phased-in; however, the requirements for calculating tier 2 and total capital are still in accordance with Transition Requirements. See the “Capital Management” section and Note 22 (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.

2

Overview (continued)

This Quarterly Report, including the Financial Review and the Financial Statements and related Notes, contains forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results may differ materially from our forward-looking statements due to several factors. Factors that could cause our actual results to differ materially from our forward-looking statements are described in this Report, including in the "Forward-Looking Statements" section, and in the "Risk Factors" and "Regulation and Supervision" sections of our Annual Report on Form 10-K for the year ended December 31, 2017 (2017 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 definitions of terms used throughout this Report.

Financial Review[1]

Overview

Wells Fargo & Company is a diversified, community-based financial services company with $1.87 trillion in assets. Founded in 1852 and headquartered in San Francisco, we provide banking, investment, and mortgage products and services, as well as consumer and commercial finance, through 7,950 locations, 13,000 ATMs, digital (online, mobile and social), and contact centers (phone, email and correspondence), and we have offices in 37 countries and territories to support customers who conduct business in the global economy. With approximately 262,000 active, full-time equivalent team members, we serve one in three households in the United States and ranked No. 26 on Fortune's 2018 rankings of America's largest corporations. We ranked fourth in assets and third in the market value of our common stock among all U.S. banks at September 30, 2018.

We use our Vision, Values and Goals to guide us toward growth and success. Our vision is to satisfy our customers' financial needs and help them succeed financially. We aspire to create deep and enduring relationships with our customers by providing them with an exceptional experience and by understanding their needs and delivering the most relevant products, services, advice, and guidance.

We have five primary values, which are based on our vision and guide the actions we take. First, we place customers at the center of everything we do. We want to exceed customer expectations and build relationships that last a lifetime. Second, we value and support our people as a competitive advantage and strive to attract, develop, motivate, and retain the best team members. Third, we strive for the highest ethical standards of integrity, transparency, and principled performance. Fourth, we value and promote diversity and inclusion in all aspects of business and at all levels. Fifth, we look to each of our team members to be a leader in establishing, sharing, and communicating our vision for our customers, communities, team members, and shareholders. 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.

1 Financial information for the prior periods of 2017 has been revised to reflect our adoption in first quarter 2018 of Accounting Standards Update (ASU) 2016-01 Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. See Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report for more information.

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

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- Customer service and advice – provide exceptional service and guidance to our customers to help them succeed financially.
- Team member engagement – be a company where people feel included, valued, and supported; everyone is respected; and we work as a team.
- Innovation – create lasting value for our customers and increased efficiency for our operations through innovative thinking, industry-leading technology, and a willingness to test and learn.
- Risk management – set the global standard in managing all forms of risk.
- Corporate citizenship – make a positive contribution to communities through philanthropy, advancing diversity and inclusion, creating economic opportunity, and promoting environmental sustainability.
- Shareholder value – deliver long-term value for shareholders.

Federal Reserve Board Consent Order Regarding Governance Oversight and Compliance and Operational Risk Management

On February 2, 2018, the Company entered into a consent order with the Board of Governors of the Federal Reserve System (FRB). As required by the consent order, the Board submitted to the FRB a plan to further enhance the Board's governance and oversight of the Company, and the Company submitted to the FRB a plan to further improve the Company's compliance and operational risk management program. The consent order also requires the Company, following the FRB's acceptance and approval of the plans and the Company's adoption and implementation of the plans, to complete third-party reviews of the enhancements and improvements provided for in the plans. Until these third-party reviews are complete and the plans are approved and implemented to the satisfaction of the FRB, the Company's total consolidated assets will be limited to the level as of December 31, 2017. Compliance with this asset cap will be measured on a two-quarter daily average basis to allow for management of temporary fluctuations. The Company has had constructive dialogue with, and has received detailed feedback from, the FRB regarding the plans. In order to have enough time to incorporate this feedback into the plans in a thoughtful manner and to complete the required third-party reviews, which were initially due September 30, 2018, the Company is planning to operate under the asset cap through the first part of 2019. A second third-party review must also be conducted to assess the efficacy and sustainability of the improvements. As of the end of third quarter 2018, our total consolidated assets, as calculated

pursuant to the requirements of the consent order, were below our level of total assets as of December 31, 2017.

Consent Orders with the Bureau of Consumer Financial Protection (BCFP - formerly known as the Consumer Financial Protection Bureau) and Office of the Comptroller of the Currency (OCC) Regarding Compliance Risk Management Program, Automobile Collateral Protection Insurance Policies, and Mortgage Interest Rate Lock Extensions

On April 20, 2018, the Company entered into consent orders with the BCFP and OCC to pay an aggregate of $1 billion in civil money penalties to resolve matters regarding the Company’s compliance risk management program and past practices involving certain automobile collateral protection insurance policies and certain mortgage interest rate lock extensions. As required by the consent orders, the Company submitted to the BCFP and OCC an enterprise-wide compliance risk management plan and a plan to enhance the Company's internal audit program with respect to federal consumer financial law and the terms of the consent orders. In addition, as required by the consent orders, the Company submitted for non-objection plans to remediate customers affected by the automobile collateral protection insurance and mortgage interest rate lock matters, as well as a plan for the management of remediation activities conducted by the Company.

Retail Sales Practices Matters

As we have previously reported, in September 2016 we announced settlements with the BCFP, the OCC, and the Office of the Los Angeles City Attorney, and entered into consent orders with the BCFP and the OCC, in connection with allegations that some of our retail customers received products and services they did not request. As a result, it remains our top priority to rebuild trust through a comprehensive action plan that includes making things right for our customers, team members, and other stakeholders, and building a better Company for the future.

Our priority of rebuilding trust has included numerous actions focused on identifying potential financial harm and customer remediation. The Board and management are conducting company-wide reviews of sales practices issues. These reviews are ongoing. In August 2017, a third-party consulting firm completed an expanded data-driven review of retail banking accounts opened from January 2009 to September 2016 to identify financial harm stemming from potentially unauthorized accounts. We have completed financial remediation for the customers identified through the expanded account analysis. Additionally, customer outreach under the $142 million class-action lawsuit settlement concerning improper retail sales practices (Jabbari v. Wells Fargo Bank, N.A.) into which the Company entered to provide further remediation to customers, concluded in June 2018 and the period for customers to submit claims closed on July 7, 2018. The settlement administrator will pay claims following the calculation of compensatory damages and favorable resolution of pending appeals in the case.

For additional information regarding sales practices matters, including related legal matters, see the “Risk Factors” section in our 2017 Form 10-K and Note 13 (Legal Actions) to Financial Statements in this Report.

Overview (continued)

Additional Efforts to Rebuild Trust

Our priority of rebuilding trust has also included an effort to identify other areas or instances where customers may have experienced financial harm. We are working with our regulatory agencies in this effort, and we have accrued for the reasonably estimable remediation costs related to these matters, which amounts may change based on additional facts and information, as well as ongoing reviews and communications with our regulators. As part of this effort, we are focused on the following key areas:

- Automobile Lending Business The Company is reviewing practices concerning the origination, servicing, and/or collection of consumer automobile loans, including matters related to certain insurance products. For example:
  In July 2017, the Company announced it would remediate customers who may have been financially harmed due to issues related to automobile collateral protection insurance (CPI) policies purchased through a third-party vendor on their behalf (based on an understanding that the borrowers did not have physical damage insurance coverage on their automobiles as required during the term of their automobile loans). The practice of placing CPI had been previously discontinued by the Company. Commencing in August 2017, the Company began sending refund checks and/or letters to affected customers through which they may claim or otherwise receive remediation compensation for policies placed between October 15, 2005, and September 30, 2016. During third quarter 2018, as a result of enhancing our remediation plan to provide greater payments and increasing the population of potentially affected customers, the Company accrued an additional $241 million for remediation activities for this matter.
  The Company has identified certain issues related to the unused portion of guaranteed automobile protection waiver or insurance agreements between the dealer and, by assignment, the lender, which will result in refunds to customers in certain states.
- Mortgage Interest Rate Lock Extensions In October 2017, the Company announced plans to reach out to all home lending customers who paid fees for mortgage rate lock extensions requested from September 16, 2013, through February 28, 2017, and to provide refunds, with interest, to customers who believe they should not have paid those fees. The plan to issue refunds follows an internal review that determined a rate lock extension policy implemented in September 2013 was, at times, not consistently applied, resulting in some borrowers being charged fees in cases where the Company was primarily responsible for the delays that made the extensions necessary. Effective March 1, 2017, the Company changed how it manages the mortgage rate lock extension process by establishing a centralized review team that reviews all rate lock extension requests for consistent application of the policy. Although the Company believes a substantial number of the rate lock extension fees during the period in question were appropriately charged under its policy, due to our customer-oriented remediation approach, we have issued refunds and interest to substantially all of our customers who paid rate lock extension fees during the period in question. While our remediation plan remains subject to regulatory approval, we believe we have substantially completed the remediation process.
- Add-on Products The Company is reviewing practices

related to certain consumer "add-on" products, including identity theft and debt protection products that were subject to an OCC consent order entered into in June 2015, as well as home and automobile warranty products, and memberships in discount programs. The products were sold to customers through a number of distribution channels and, in some cases, were acquired by the Company in connection with the purchase of loans. Sales of certain of these products have been discontinued over the past few years primarily due to decisions made in the normal course of business, and by mid-2017, the Company had ceased selling any of them to consumers. We are providing remediation where we identify affected customers, and may also provide refunds to customers who purchased certain products. The review of the Company's historical practices with respect to these products is ongoing, focusing on, among other topics, sales practices, adequacy of disclosures, customer servicing, and volume and type of customer complaints.

- Consumer Deposit Account Freezing/Closing The Company is reviewing procedures regarding the freezing (and, in many cases, closing) of consumer deposit accounts after the Company detected suspected fraudulent activity (by third-parties or account holders) that affected those accounts. This review is ongoing.
- Review of Certain Activities Within Wealth and Investment Management A review of certain activities within Wealth and Investment Management (WIM) being conducted by the Board, in response to inquiries from federal

government agencies, is assessing whether there have been inappropriate referrals or recommendations, including with respect to rollovers for 401(k) plan participants, certain alternative investments, or referrals of brokerage customers to the Company's investment and fiduciary services business. The review is ongoing.

- Fiduciary and Custody Account Fee Calculations The Company is reviewing fee calculations within certain fiduciary and custody accounts in its investment and fiduciary services business, which is part of the wealth management business within WIM. The Company has determined that there have been instances of incorrect fees being applied to certain assets and accounts, resulting in both overcharges and undercharges to customers. These issues include the incorrect set-up and maintenance in the system of record of the values associated with certain assets. Systems, operations, and account-level reviews are underway to determine the extent of any assets and accounts affected, and root cause analyses are being performed with the assistance of third parties. These reviews are ongoing and, as a result of its reviews to date, the Company has suspended the charging of fees on some assets and accounts, has notified the affected customers, and is continuing its analysis of those assets and accounts. The review of customer accounts is ongoing to determine the extent of any additional necessary remediation, including with respect to additional accounts not yet reviewed, which may lead to additional accruals and fee suspensions.
- Foreign Exchange Business The Company has substantially completed an assessment, with the assistance of a third party, of its policies, practices, and procedures in its foreign exchange (FX) business. The business is in the process of revising and implementing new policies, practices, and procedures, including those related to pricing. The Company's review of affected customers is ongoing to determine the extent of any additional remediation for

5

customers that may have received pricing inconsistent with commitments made to those customers.

- Mortgage Loan Modifications An internal review of the Company’s use of a mortgage loan modification underwriting tool identified a calculation error regarding foreclosure attorneys’ fees affecting certain accounts that were in the foreclosure process between April 13, 2010, and October 2, 2015, when the error was corrected. A subsequent expanded review identified related errors regarding the maximum allowable foreclosure attorneys’ fees permitted for certain accounts that were in the foreclosure process between March 15, 2010, and April 30, 2018, when new controls were implemented. Similar to the initial calculation error, these errors caused an overstatement of the attorneys’ fees that were included for purposes of determining whether a customer qualified for a mortgage loan modification or repayment plan pursuant to the requirements of government-sponsored enterprises (such as Fannie Mae and Freddie Mac), the Federal Housing Administration (FHA), and the U.S. Department of Treasury's Home Affordable Modification Program (HAMP). Customers were not actually charged the incorrect attorneys’ fees. As a result of these errors, taken together and subject to final validation, approximately 870 customers were incorrectly denied a loan modification or were not offered a loan modification or repayment plan in cases where they otherwise would have qualified. In approximately 545 of these instances, after the loan modification was denied or the customer was deemed ineligible to be offered a loan modification or repayment plan, a foreclosure was completed. The Company has contacted a substantial majority of the approximately 870 affected customers to provide remediation and the option also to pursue no-cost mediation with an independent mediator. Attempts to contact the remaining affected customers are ongoing. Also, the Company’s review of these matters is ongoing, including a review of its mortgage loan modification tools.

To the extent issues are identified, we will continue to assess any customer harm and provide remediation as appropriate. This effort to identify other instances in which customers may have experienced harm is ongoing, and it is possible that we may identify other areas of potential concern. For more information, including related legal and regulatory risk, see the “Risk Factors” section in our 2017 Form 10-K and Note 13 (Legal Actions) to Financial Statements in this Report.

Overview (continued)

Financial Performance

Wells Fargo net income was $6.0 billion in third quarter 2018 with diluted earnings per common share (EPS) of $1.13, compared with $4.5 billion and $0.83, respectively, a year ago. Diluted earnings per common share for third quarter 2018 was reduced by $0.03 per share as a result of the elimination of the discount recorded on our Non-Cumulative Perpetual Class A Preferred Stock, Series J, which was redeemed during the third quarter. Also in third quarter 2018:

- revenue was $21.9 billion, up $92 million compared with a year ago, with net interest income up $123 million, or 1%, and noninterest income down $31 million;
- average loans were $939.5 billion, down $12.9 billion, or 1%, from a year ago;
- average deposits were $1.3 trillion, down $40.0 billion, or 3%, from a year ago;
- return on assets (ROA) of 1.27% and return on equity (ROE) of 12.04%, were up from 0.93% and 8.96%, respectively, a year ago;
- our credit results improved with a net charge-off rate of 0.29% (annualized) of average loans in third quarter 2018, compared with 0.30% a year ago;
- nonaccrual loans of $7.1 billion were down $1.6 billion, or 18%, from a year ago; and
- we returned $8.9 billion to shareholders through common stock dividends and net share repurchases, which was more than double the $4.0 billion we returned in third quarter 2017 and the 13th consecutive quarter of returning more than $3 billion.

Balance Sheet and Liquidity

Despite the asset cap placed on us from the consent order with the FRB, our balance sheet remained strong during third quarter 2018 with strong credit quality and solid levels of liquidity and capital. Our total assets were $1.87 trillion at September 30, 2018. Cash and other short-term investments decreased $53.0 billion from December 31, 2017, reflecting lower deposit balances. Debt securities were $472.3 billion at September 30, 2018, a decrease of $1.1 billion from December 31, 2017, driven by runoff and sales in the available-for-sale portfolio, partially offset by an increase in debt securities held for trading. Loans were down $14.5 billion, or 2%, from December 31, 2017, predominantly due to a decline in automobile and junior lien mortgage loans.

Average deposits in third quarter 2018 were $1.27 trillion, down $40.0 billion from third quarter 2017. The decline was driven by a decrease in commercial deposits from financial institutions, which includes actions the Company took in the first half of 2018 in response to the asset cap, partially offset by higher interest-bearing checking deposits. Our average deposit cost in third quarter 2018 was 47 basis points, up 21 basis points from a year ago, primarily driven by an increase in Wholesale Banking and Wealth and Investment Management deposit rates.

Credit Quality

Solid overall credit results continued in third quarter 2018 as losses remained low and we continued to originate high quality loans, reflecting our long-term risk focus. Net charge-offs were $680 million, or 0.29% (annualized) of average loans, in third quarter 2018, compared with $717 million a year ago (0.30%). The decrease in net charge-offs in third quarter 2018, compared with a year ago, was predominantly driven by lower losses in the automobile portfolio.

Our commercial portfolio net charge-offs were $152 million, or 12 basis points of average commercial loans, in third quarter

2018, compared with net charge-offs of $113 million, or 9 basis points, a year ago. Net consumer credit losses decreased to 47 basis points (annualized) of average consumer loans in third quarter 2018 from 53 basis points (annualized) in third quarter 2017. Approximately 83% of the consumer first mortgage loan portfolio outstanding at September 30, 2018, was originated after 2008, when more stringent underwriting standards were implemented.

The allowance for credit losses as of September 30, 2018, decreased $1.2 billion compared with a year ago and decreased $1.0 billion from December 31, 2017. We had a $100 million release in the allowance for credit losses in third quarter 2018, compared with no release a year ago. The allowance coverage for total loans was 1.16% at

September 30, 2018, compared with 1.27% a year ago and 1.25% at December 31, 2017. The allowance covered 4.1 times annualized third quarter net charge-offs, compared with 4.3 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 $580 million in third quarter 2018, down from $717 million a year ago, reflecting an improvement in our outlook for 2017 hurricane-related losses, as well as continued improvement in residential real estate and lower loan balances.

Nonperforming assets decreased $410 million, or 5%, from June 30, 2018, the 10th consecutive quarter of decreases, with improvement in the consumer and commercial real estate portfolios. Nonperforming assets were 0.80% of total loans, the lowest level since the merger with Wachovia in 2008. Nonaccrual loans decreased $433 million from the prior quarter primarily due to a decrease in real estate 1-4 family first mortgage nonaccruals. Foreclosed assets were up $23 million from the prior quarter.

Capital

Our financial performance in third quarter 2018 allowed us to maintain a solid capital position, with total equity of $199.7 billion at September 30, 2018, compared with $208.1 billion at December 31, 2017. We returned $8.9 billion to shareholders in third quarter 2018 through common stock dividends and net share repurchases, more than double the amount we returned in third quarter 2017. 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 163%. We continued to reduce our common shares outstanding through the repurchase of 146.5 million common shares in the quarter. We entered into a $1 billion forward repurchase contract with an unrelated third party in October 2018 that is expected to settle in first quarter 2019 for approximately 19 million common shares. We expect to reduce our common shares outstanding through share repurchases throughout the remainder of 2018.

We believe an important measure of our capital strength is the Common Equity Tier 1 (CET1) ratio under Basel III, fully phased-in, which was 11.91% at September 30, 2018, flat compared with December 31, 2017, but well above our internal target of 10%. 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 2018 was $6.0 billion ($1.13 diluted earnings per common share), compared with $4.5 billion ($0.83 diluted per share) for third quarter 2017. Third quarter 2018 included the redemption of our Series J Preferred Stock on September 17, 2018, which reduced
diluted EPS by $0.03 per share as a result of eliminating the purchase accounting discount recorded on these shares at the time of the Wachovia acquisition. Net income in third quarter 2018 included net discrete income tax expense of $168 million primarily related to the re-measurement of our initial estimates for the impacts of the Tax Cuts & Jobs Act recognized in fourth quarter 2017. Third quarter 2018 results benefited from the lower U.S. federal statutory income tax rate. Net income for the first nine months of 2018 was $16.3 billion, compared with $16.0 billion for the same period a year ago. The increase in net income in the first nine months of 2018, compared with the same period a year ago, resulted from a $107 million increase in net interest income, a $654 million decrease in our provision for credit losses, and a $1.9 billion decline in income tax expense reflecting the lower U.S. federal statutory income tax rate in 2018, partially offset by a $1.0 billion decrease in noninterest income, and a $1.1 billion increase in noninterest expense. In the first nine months of 2018, net interest income represented 57% of revenue, compared with 56% for the same period a year ago. Noninterest income was $28.1 billion in the first nine months of 2018, representing 43% of revenue, compared with $29.1 billion (44%) in the first nine months of 2017.

Revenue, the sum of net interest income and noninterest income, was $21.9 billion in third quarter 2018, compared with $21.8 billion in the same period a year ago. The increase in revenue in third quarter 2018, compared with the same period a year ago, was due to an increase in net interest income, partially offset by a decrease in noninterest income. Revenue for the first nine months of 2018 was $65.4 billion, compared with $66.3 billion for the first nine months of 2017. The decline in revenue in the first nine months of 2018, compared with the same period a year ago, was substantially due to a decline in noninterest income.

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 reflect income from taxable and tax-exempt loans and debt and equity securities based on a 21% and 35% federal statutory tax rate for the periods ended September 30, 2018 and 2017, respectively.

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 on a taxable-equivalent basis was $12.7 billion and $37.8 billion in the third quarter and first nine months of 2018, respectively, compared with $12.8 billion and $38.2 billion for the same periods a year ago.

The decrease in net interest income in the third quarter of 2018, compared with the same period a year ago, was driven by:

- loan and deposit runoff;
- lower loan swap income due to unwinding the receive-fixed loan swap portfolio;
- lower tax-equivalent net interest income from updated tax-equivalent factors reflecting new tax law; and
- higher premium amortization;

partially offset by:

- the net repricing benefit of higher interest rates;
- higher variable income; and
- higher benefit from hedge ineffectiveness accounting results.

The decrease in net interest income in the first nine months of 2018, compared with the same period a year ago, was driven by:

- loan and deposit runoff;
- lower loan swap income due to unwinding the receive-fixed loan swap portfolio;
- lower tax-equivalent net interest income from updated tax-equivalent factors reflecting new tax law;
- higher premium amortization; and
- lower benefit from hedge ineffectiveness accounting results;

partially offset by

- the net repricing benefit of higher interest rates;, and
- higher variable income.

Net interest margin on a taxable-equivalent basis was 2.94% and 2.90% in the third quarter and first nine months of 2018, respectively, compared to 2.86% and 2.88% for the same periods a year ago.
The increase in net interest margin in the third quarter of 2018, compared with the same period a year ago, was driven by:

- the net repricing benefit of higher interest rates;
- loan and deposit runoff;
- higher variable income; and
- higher benefit from hedge ineffectiveness accounting results,

partially offset by:

- lower loan swap income due to unwinding the receive-fixed loan swap portfolio;
- lower tax-equivalent net interest income from updated tax equivalent factors reflecting new tax law; and
- higher premium amortization.

The increase in net interest margin in the first nine months of 2018, compared with the same period a year ago, was driven by:

- the net repricing benefit of higher interest rates; and
- higher variable income;

partially offset by:

- lower loan swap income due to unwinding the receive-fixed loan swap portfolio;
- lower tax-equivalent net interest income from updated tax equivalent factors reflecting new tax law;
- loan and deposit runoff;
- higher premium amortization; and
- lower benefit from hedge ineffectiveness accounting results.

Average earning assets decreased $54.4 billion and $36.1 billion in the third quarter and first nine months of 2018, respectively, compared with the same periods a year ago. Also, compared with the same periods a year ago:

Earnings Performance (continued)

- average loans decreased 12.9 billion and $12.8 billion in the third quarter and first nine months of 2018, respectively;
- average interest-earning deposits decreased $56.9 billion and $47.7 billion in the third quarter and first nine months of 2018, respectively;
- average federal funds sold and securities purchased under resale agreements increased $9.3 billion and $5.1 billion in the third quarter and first nine months of 2018, respectively;
- average debt securities increased $10.3 billion and $16.3 billion in the third quarter and first nine months of 2018, respectively;
- average equity securities increased $2.1 billion and $2.9 billion in the third quarter and first nine months of 2018, respectively; and
- other earning assets decreased $4.0 billion in third quarter 2018 and increased $1.0 billion in the first nine months of 2018.

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 were $1.27 trillion and $1.28 trillion in the third quarter and first nine months of 2018, respectively, compared with $1.31 trillion and $1.30 trillion in the same periods a year ago, and represented 135% of average loans in both the third quarter and first nine months of 2018, compared with 137% in third quarter 2017 and 136% in the first nine months of 2017. Average deposits were 73% of average earning assets in both the third quarter and first nine months of 2018, flat compared with the same periods a year ago. The average deposit cost for third quarter 2018 was 47 basis points, up 7 basis points from the prior quarter and 21 basis points from a year ago, primarily driven by an increase in Wholesale Banking and Wealth and Investment Management deposit rates.

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

	Quarter ended September 30,							
	2018				2017			
(in millions)	Average balance	Yields/ rates		Interest income/ expense	Average balance	Yields/ rates		Interest income/ expense
Earning assets								
Interest-earning deposits with banks (3)	$148,565	1.93	%	$721	205,489	1.21	%	$629
Federal funds sold and securities purchased under resale agreements (3)	79,931	1.93		390	70,640	1.14		203
Debt securities (4):								
Trading debt securities	84,481	3.45		730	76,627	3.21		616
Available-for-sale debt securities:								
Securities of U.S. Treasury and federal agencies	6,421	1.65		27	14,529	1.31		48
Securities of U.S. states and political subdivisions (7)	46,615	3.76		438	52,500	4.08		535
Mortgage-backed securities:								
Federal agencies	155,525	2.77		1,079	139,781	2.58		903
Residential and commercial (7)	7,318	4.68		85	11,013	5.44		149
Total mortgage-backed securities	162,843	2.86		1,164	150,794	2.79		1,052
Other debt securities (7)	46,353	4.39		512	47,592	3.73		447
Total available-for-sale debt securities (7)	262,232	3.26		2,141	265,415	3.13		2,082
Held-to-maturity debt securities:								
Securities of U.S. Treasury and federal agencies	44,739	2.18		246	44,708	2.18		246
Securities of U.S. states and political subdivisions	6,251	4.33		68	6,266	5.44		85
Federal agency and other mortgage-backed securities	95,298	2.27		539	88,272	2.26		498
Other debt securities	106	5.61		2	1,488	3.05		12
Total held-to-maturity debt securities	146,394	2.33		855	140,734	2.38		841
Total debt securities (7)	493,107	3.02		3,726	482,776	2.93		3,539
Mortgage loans held for sale (5)(7)	19,343	4.33		210	22,923	3.79		217
Loans held for sale (5)	2,619	5.28		35	1,383	4.39		15
Commercial loans:								
Commercial and industrial – U.S.	273,814	4.22		2,915	270,091	3.81		2,590
Commercial and industrial – Non U.S. (7)	60,884	3.63		556	57,738	2.89		422
Real estate mortgage	121,284	4.35		1,329	129,087	3.83		1,245
Real estate construction	23,276	5.05		296	24,981	4.18		263
Lease financing (7)	19,512	4.69		229	19,155	4.59		219
Total commercial loans	498,770	4.24		5,325	501,052	3.76		4,739
Consumer loans:								
Real estate 1-4 family first mortgage	284,133	4.07		2,891	278,371	4.03		2,809
Real estate 1-4 family junior lien mortgage	35,863	5.50		496	41,916	4.95		521
Credit card	36,893	12.77		1,187	35,657	12.41		1,114
Automobile	46,963	5.20		616	56,746	5.34		764
Other revolving credit and installment	36,840	6.78		630	38,601	6.31		615
Total consumer loans	440,692	5.26		5,820	451,291	5.14		5,823
Total loans (5)	939,462	4.72		11,145	952,343	4.41		10,562
Equity securities	37,902	2.98		283	35,846	2.12		191
Other	4,702	1.47		16	8,656	0.90		20
Total earning assets (7)	$1,725,631	3.81	%	$16,526	1,780,056	3.44	%	$15,376

Funding sources								
Deposits:								
Interest-bearing checking	$51,177	1.01	%	$131	48,278	0.57	%	$69
Market rate and other savings	693,937	0.35		614	681,187	0.17		293
Savings certificates	20,586	0.62		32	21,806	0.31		16
Other time deposits (7)	87,752	2.35		519	66,046	1.51		251
Deposits in foreign offices	53,933	1.50		203	124,746	0.76		240
Total interest-bearing deposits (7)	907,385	0.66		1,499	942,063	0.37		869
Short-term borrowings	105,472	1.74		463	99,193	0.91		226
Long-term debt (7)	220,654	3.02		1,667	243,507	2.28		1,392
Other liabilities	27,108	2.40		164	24,851	1.74		109
Total interest-bearing liabilities (7)	1,260,619	1.20		3,793	1,309,614	0.79		2,596
Portion of noninterest-bearing funding sources (7)	465,012	—		—	470,442	—		—
Total funding sources (7)	$1,725,631	0.87		3,793	1,780,056	0.58		2,596
Net interest margin and net interest income on a taxable-equivalent basis (6)(7)		2.94	%	$12,733		2.86	%	$12,780
Noninterest-earning assets								
Cash and due from banks	$18,356				18,456			
Goodwill	26,429				26,600			
Other (7)	105,867				113,349			
Total noninterest-earning assets (7)	$150,652				158,405			
Noninterest-bearing funding sources								
Deposits	$358,993				364,293			
Other liabilities (7)	53,845				56,831			
Total equity (7)	202,826				207,723			
Noninterest-bearing funding sources used to fund earning assets (7)	(465,012)				(470,442)			
Net noninterest-bearing funding sources (7)	$150,652				158,405			
Total assets (7)	$1,876,283				1,938,461			

(1) Our average prime rate was 5.01% and 4.25% for the quarters ended September 30, 2018 and 2017, respectively and 4.78% and 4.03% for the first nine months of 2018 and 2017, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 2.34% and 1.31% for the quarters ended September 30, 2018 and 2017, respectively, and 2.20% and 1.20% for the first nine months of 2018 and 2017, respectively.

(2) Yields/rates and amounts include the effects of hedge and risk management activities associated with the respective asset and liability categories.

(3) Financial information for the prior periods has been revised to reflect the impact of the adoption of Accounting Standards Update (ASU) 2016-18 – Statement of Cash Flows (Topic 230): Restricted Cash in which we changed the presentation of our cash and cash equivalents to include both cash and due from banks as well as interest-earning deposits with banks, which are inclusive of any restricted cash.

(4) 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.

(in millions)	Nine months ended September 30, 2018 Average balance	Yields/ rates	Interest income/ expense	2017 Average balance	Yields/ rates	Interest income/ expense
Earning assets						
Interest-earning deposits with banks (3)	$158,480	1.71 %	$2,029	206,161	1.01 %	$1,557
Federal funds sold and securities purchased under resale agreements (3)	79,368	1.69	1,005	74,316	0.91	505
Debt securities (4):						
Trading debt securities	81,307	3.38	2,062	72,080	3.16	1,709
Available-for-sale debt securities:						
Securities of U.S. Treasury and federal agencies	6,424	1.66	80	19,182	1.48	212
Securities of U.S. states and political subdivisions (7)	47,974	3.68	1,323	52,748	3.97	1,569
Mortgage-backed securities:						
Federal agencies	156,298	2.75	3,220	142,748	2.60	2,782
Residential and commercial (7)	8,140	4.54	277	12,671	5.44	517
Total mortgage-backed securities (7)	164,438	2.84	3,497	155,419	2.83	3,299
Other debt securities (7)	47,146	4.14	1,462	48,727	3.70	1,351
Total available-for-sale debt securities (7)	265,982	3.19	6,362	276,076	3.11	6,431
Held-to-maturity debt securities:						
Securities of U.S. Treasury and federal agencies	44,731	2.19	733	44,701	2.19	733
Securities of U.S. states and political subdivisions	6,255	4.34	204	6,270	5.35	251
Federal agency and other mortgage-backed securities	93,699	2.32	1,632	74,525	2.38	1,329
Other debt securities	460	4.02	14	2,531	2.48	47
Total held-to-maturity debt securities	145,145	2.38	2,583	128,027	2.46	2,360
Total debt securities (7)	492,434	2.98	11,007	476,183	2.94	10,500
Mortgage loans held for sale (5)(7)	18,849	4.15	587	20,869	3.77	590
Loans held for sale (5)	2,706	5.28	107	1,485	3.47	38
Commercial loans:						
Commercial and industrial – U.S.	273,711	4.08	8,350	272,621	3.70	7,547
Commercial and industrial – Non U.S. (7)	60,274	3.46	1,559	56,512	2.83	1,197
Real estate mortgage	123,804	4.22	3,910	130,931	3.69	3,615
Real estate construction	23,783	4.82	857	24,949	4.00	747
Lease financing (7)	19,349	4.82	700	19,094	4.78	684
Total commercial loans	500,921	4.10	15,376	504,107	3.66	13,790
Consumer loans:						
Real estate 1-4 family first mortgage	283,814	4.05	8,613	276,330	4.04	8,380
Real estate 1-4 family junior lien mortgage	37,308	5.31	1,484	43,589	4.77	1,557
Credit card	36,416	12.73	3,467	35,322	12.19	3,219
Automobile	48,983	5.18	1,899	59,105	5.41	2,392
Other revolving credit and installment	37,371	6.62	1,851	39,128	6.15	1,801
Total consumer loans	443,892	5.21	17,314	453,474	5.11	17,349
Total loans (5)	944,813	4.62	32,690	957,581	4.34	31,139
Equity securities	38,322	2.57	738	35,466	2.16	575
Other	5,408	1.38	56	4,383	0.83	28

Total earning assets (7)	$1,740,380	3.70	%	$48,219	1,776,444	3.38	%	$44,932
Funding sources								
Deposits:								
Interest-bearing checking	$66,364	0.89	%	$441	49,134	0.43	%	$156
Market rate and other savings	683,279	0.28		1,416	682,780	0.13		664
Savings certificates	20,214	0.46		70	22,618	0.30		50
Other time deposits (7)	82,175	2.16		1,331	59,414	1.41		625
Deposits in foreign offices	66,590	1.20		599	123,553	0.64		587
Total interest-bearing deposits (7)	918,622	0.56		3,857	937,499	0.30		2,082
Short-term borrowings	103,696	1.51		1,173	97,837	0.69		505
Long-term debt (7)	223,485	2.93		4,901	251,114	2.03		3,813
Other liabilities	27,743	2.14		446	20,910	1.97		309
Total interest-bearing liabilities (7)	1,273,546	1.09		10,377	1,307,360	0.69		6,709
Portion of noninterest-bearing funding sources (7)	466,834			—	469,084	—		—
Total funding sources (7)	$1,740,380	0.80		10,377	1,776,444	0.50		6,709
Net interest margin and net interest income on a taxable-equivalent basis (6)(7)		2.90	%	$37,842		2.88	%	$38,223
Noninterest-earning assets								
Cash and due from banks	$18,604				18,443			
Goodwill	26,463				26,645			
Other (7)	106,762				110,669			
Total noninterest-earning assets (7)	$151,829				155,757			
Noninterest-bearing funding sources								
Deposits	$359,563				364,774			
Other liabilities (7)	54,088				55,032			
Total equity (7)	205,012				205,035			
Noninterest-bearing funding sources used to fund earning assets (7)	(466,834)				(469,084)			
Net noninterest-bearing funding sources (7)	$151,829				155,757			
Total assets (7)	$1,892,209				1,932,201			

(5) Nonaccrual loans and related income are included in their respective loan categories.

(6) Includes taxable-equivalent adjustments of $161 million and $332 million for the quarters ended September 30, 2018 and 2017, respectively, and $491 million and $980 million for the first nine months of 2018 and 2017, respectively, predominantly related to tax-exempt income on certain loans and securities. The federal statutory tax rate utilized was 21% and 35% for periods ended September 30, 2018 and 2017, respectively.

(7) Financial information for the prior periods has been revised to reflect the impact of the adoption in fourth quarter 2017 of ASU 2017-12 – Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.

Noninterest Income

Table 2: Noninterest Income

	Quarter ended Sep 30,		%	Nine months ended Sep 30,		%
(in millions)	2018	2017	Change	2018	2017	Change
Service charges on deposit accounts	$1,204	1,276	(6)%	$3,540	3,865	(8)%
Trust and investment fees:						
Brokerage advisory, commissions and other fees	2,334	2,304	1	7,091	6,957	2
Trust and investment management	835	840	(1)	2,520	2,506	1
Investment banking	462	465	(1)	1,378	1,345	2
Total trust and investment fees	3,631	3,609	1	10,989	10,808	2
Card fees	1,017	1,000	2	2,926	2,964	(1)
Other fees:						
Charges and fees on loans	298	318	(6)	903	950	(5)
Cash network fees	121	126	(4)	367	386	(5)
Commercial real estate brokerage commissions	129	120	8	323	303	7
Letters of credit fees	72	77	(6)	223	227	(2)
Wire transfer and other remittance fees	120	114	5	357	333	7
All other fees	110	122	(10)	323	445	(27)
Total other fees	850	877	(3)	2,496	2,644	(6)
Mortgage banking:						
Servicing income, net	390	309	26	1,264	1,165	8
Net gains on mortgage loan origination/sales activities	456	737	(38)	1,286	2,257	(43)
Total mortgage banking	846	1,046	(19)	2,550	3,422	(25)
Insurance	104	269	(61)	320	826	(61)
Net gains from trading activities	158	120	32	592	543	9
Net gains on debt securities	57	166	(66)	99	322	(69)
Net gains from equity securities	416	363	15	1,494	1,207	24
Lease income	453	475	(5)	1,351	1,449	(7)
Life insurance investment income	167	152	10	493	441	12
All other	466	47	891	1,227	604	103
Total	$9,369	9,400	—	$28,077	29,095	(3)

Noninterest income was $9.37 billion and $28.1 billion in the third quarter and first nine months of 2018, respectively, compared with $9.40 billion and $29.1 billion for the same periods a year ago. This income represented 43% of revenue for both the third quarter and first nine months of 2018, compared with 43% and 44% for the same periods a year ago. The decline in noninterest income in the third quarter and first nine months of 2018, compared with the same periods a year ago, was predominantly due to lower mortgage banking income, lower insurance income due to the sale of Wells Fargo Insurance Services in fourth quarter 2017, lower service charges on deposit accounts, and lower net gains on debt securities. These decreases were partially offset by growth in trust and investment fees, higher net gains from trading and equity securities, and higher all other income. For more information on our performance obligations and the nature of services performed for certain of our revenues discussed below, see Note 17 (Revenue from Contracts with Customers) to Financial Statements in this Report.

Service charges on deposit accounts were $1.2 billion and $3.5 billion in the third quarter and first nine months of 2018, respectively, compared with $1.3 billion and $3.9 billion for the same periods a year ago. The decrease in both the third quarter and first nine months of 2018, compared with the same periods a year ago, was due to lower overdraft and monthly service fees driven by customer-friendly initiatives that help customers

minimize monthly and overdraft fees, and the impact of a higher earnings credit rate applied to commercial accounts due to increased interest rates.

Brokerage advisory, commissions and other fees were $2.33 billion and $7.1 billion in the third quarter and first nine months of 2018, respectively, compared with $2.30 billion and $7.0 billion for the same periods in 2017. The increase in both periods, compared with the same periods a year ago, was due to higher asset-based fees, partially offset by lower transactional commission revenue. Retail brokerage client assets totaled $1.6 trillion at both September 30, 2018 and 2017, with all retail brokerage services provided by our Wealth and Investment Management (WIM) operating segment. For additional information on retail brokerage client assets, see the discussion and Tables 4d and 4e in the "Operating Segment Results – Wealth and Investment Management – Retail Brokerage Client Assets" section in this Report.

Trust and investment management fee income is largely from client assets under management (AUM) for which fees are based on a tiered scale relative to market value of the assets, and client assets under administration (AUA), for which fees are generally based on the extent of services to administer the assets. Trust and investment management fees declined slightly to $835 million in third quarter 2018, from $840 million in third quarter 2017, but modestly increased to $2.52 billion in the first nine months of 2018, from $2.51 billion for the same period a

year ago, as growth in management fees for investment advice on mutual funds was partially offset by a decrease in corporate trust fees due to the sale of Wells Fargo Shareowner Services in first quarter 2018. Our AUM totaled $668.8 billion at September 30, 2018, compared with $678.7 billion at September 30, 2017, with substantially all of our AUM managed by our WIM operating segment. Additional information regarding our WIM operating segment AUM is provided in Table 4f and the related discussion in the "Operating Segment Results – Wealth and Investment Management – Trust and Investment Client Assets Under Management" section in this Report. Our AUA totaled $1.8 trillion at September 30, 2018, compared with $1.7 trillion at September 30, 2017.

Investment banking fees declined slightly to $462 million in third quarter 2018, from $465 million in third quarter 2017, but increased to $1.4 billion in the first nine months of 2018, from $1.3 billion for the same period a year ago. Both periods in 2018 reflect the impact of the new accounting standard for revenue recognition, which equally increased both investment banking fees and noninterest expense for underwriting expenses of our broker-dealer business that were previously netted against revenue but are now included in noninterest expense. In third quarter 2018, this impact was more than offset by lower loan syndication fees. In the first nine months of 2018, this impact was partially offset by lower equity originations.

Card fees were $1.0 billion and $2.9 billion in the third quarter and first nine months of 2018, respectively, compared with $1.0 billion and $3.0 billion for the same periods in 2017, reflecting the impact of the new revenue recognition accounting standard, which reduced noninterest expense and lowered card fees by an equal amount due to the netting of card payment network charges against related interchange and network revenues in card fees.

Other fees decreased to $850 million and $2.5 billion in the third quarter and first nine months of 2018, respectively, from $877 million and $2.6 billion for the same periods in 2017, predominantly driven by lower charges and fees on commercial loans, and all other fees. All other fees declined to $110 million and $323 million in the third quarter and first nine months of 2018, from $122 million and $445 million for the same periods in 2017, driven by lost fees from discontinued products.

Mortgage banking noninterest income, consisting of net servicing income and net gains on mortgage loan origination/sales activities, totaled $846 million and $2.6 billion in the third quarter and first nine months of 2018, respectively, compared with $1.0 billion and $3.4 billion for the same periods a year ago.

In addition to servicing fees, net mortgage loan servicing income includes amortization of commercial mortgage servicing rights (MSRs), changes in the fair value of residential MSRs during the period, as well as changes in the value of derivatives (economic hedges) used to hedge the residential MSRs. Net servicing income of $390 million for third quarter 2018 included a $30 million net MSR valuation gain ($531 million increase in the fair value of the MSRs and a $501 million hedge loss). Net servicing income of $309 million for third quarter 2017 included a $98 million net MSR valuation gain ($142 million decrease in the fair value of the MSRs and a $240 million hedge gain). For the first nine months of 2018, net servicing income of $1.3 billion included a $166 million net MSR valuation gain ($2.2 billion increase in the fair value of the MSRs and a $2.0 billion hedge loss), and for the first nine months of 2017, net servicing income of $1.2 billion included a $271 million net MSR valuation gain ($328 million decrease in the fair value of the MSRs and a $599 million hedge gain). The increase in net servicing income in third quarter 2018, compared with the same period a year ago,

was predominantly due to higher servicing fees. Net servicing income increased in the first nine months of 2018, compared with the same period a year ago, due to higher net servicing fees, and lower MSR value losses attributable to realization of cash flows due to higher mortgage interest rates, partially offset by lower net MSR valuation gains due to lower hedge results.

Our portfolio of mortgage loans serviced for others was $1.71 trillion at September 30, 2018, and $1.70 trillion at December 31, 2017. At September 30, 2018, the ratio of combined residential and commercial MSRs to related loans serviced for others was 1.02%, compared with 0.88% at December 31, 2017. See the "Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk" section in this Report for additional

information regarding our MSRs risks and hedging approach.
Net gains on mortgage loan origination/sales activities were $456 million and $1.3 billion in the third quarter and first nine months of 2018, respectively, compared with $737 million and $2.3 billion for the same periods a year ago. The decrease in the third quarter and first nine months of 2018, compared with the same periods a year ago, was mostly due to lower production margins and loan originations. Total mortgage loan originations were $46 billion and $139 billion for the third quarter and first nine months of 2018, respectively, compared with $59 billion and $159 billion for the same periods a year ago. The production margin on residential held-for-sale mortgage loan originations, which represents net gains on residential mortgage loan origination/sales activities divided by total residential held-for-sale mortgage loan originations, provides a measure of the profitability of our residential mortgage origination activity. Table 2a presents the information used in determining the production margin.

Table 2a: Selected Mortgage Production Data

		Quarter ended September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
Net gains on mortgage loan origination/sales activities (in millions):					
Residential	(A)	$324	546	$929	1,636
Commercial		75	81	200	263
Residential pipeline and unsold/repurchased loan management (1)		57	110	157	358
Total		$456	737	$1,286	2,257
Residential real estate originations (in billions):					
Held-for-sale	(B)	$33	44	$104	120
Held-for-investment		13	15	35	39
Total		$46	59	$139	159
Production margin on residential held-for-sale mortgage loan originations	(A)/(B)	0.97 %	1.24	0.89 %	1.37

(1) Predominantly includes the results of GNMA loss mitigation activities, interest rate management activities and changes in estimate to the liability for mortgage loan repurchase losses.

The production margin was 0.97% and 0.89% for the third quarter and first nine months of 2018, respectively, compared with 1.24% and 1.37% for the same periods in 2017. The decline in production margin in the third quarter and first nine months of 2018 was attributable to lower margins in both our retail and correspondent production channels and a shift to more correspondent origination volume, which has a lower production margin. Mortgage applications were $57 billion and $182 billion for the third quarter and first nine months of 2018, respectively, compared with $73 billion and $215 billion for the same periods a year ago. The 1-4 family first mortgage unclosed pipeline was $22 billion at September 30, 2018, compared with $29 billion at September 30, 2017. For additional information about our mortgage banking activities and results, see the "Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk" section and Note 10 (Mortgage Banking Activities) and Note 15 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.

Net gains on mortgage loan origination/sales activities include adjustments to the mortgage repurchase liability. Mortgage loans are repurchased from third parties based on standard representations and warranties, and early payment default clauses in mortgage sale contracts. For additional information about mortgage loan repurchases, see the "Risk Management – Credit Risk Management – Liability for Mortgage Loan Repurchase Losses" section and Note 10 (Mortgage Banking Activities) to Financial Statements in this Report.

Insurance income was $104 million and $320 million in the third quarter and first nine months of 2018, respectively, compared with $269 million and $826 million in the same periods a year ago. The decrease in the third quarter and first nine months of 2018, compared with the same periods a year ago, was driven by the sale of Wells Fargo Insurance Services in fourth quarter 2017.

Net gains from trading activities, which reflect unrealized changes in fair value of our trading positions and realized gains and losses, were $158 million and $592 million in the third quarter and first nine months of 2018, respectively, compared with $120 million and $543 million in the same periods a year ago. The increase in the third quarter and first nine months of 2018, compared with the same periods a year ago, was due to growth in equity trading driven by market volatility, partially offset by lower foreign exchange trading income. Net gains from trading activities do not include interest and dividend income and expense on trading securities. Those amounts are reported within interest income from debt and equity securities and other interest expense. For additional information about trading activities, see the "Risk Management – Asset/Liability Management – Market Risk-Trading Activities" section and Note 4 (Trading Activities) to Financial Statements in this Report.

Net gains on debt and equity securities totaled $473 million and $1.6 billion in the third quarter and first nine months of 2018, respectively, compared with $529 million and $1.5 billion for the same periods in 2017, after other-than-temporary impairment (OTTI) write-downs of $50 million and $325 million for the third quarter and first nine months of 2018, respectively, compared with $91 million and $293 million for the same periods in 2017. The decrease in net gains on debt and equity securities in third quarter 2018, compared with the same period a year ago, was driven by lower net gains on debt securities, partially offset by higher net gains from nonmarketable equity securities. The increase in the first nine months of 2018, compared with the same period a year ago, was predominantly driven by higher net gains from nonmarketable equity securities and $319 million of unrealized gains from the impact of the new accounting standard for financial instruments which requires any gain or loss associated with the fair value measurement of equity securities to be reflected in earnings. These increases were partially offset by lower net gains on debt securities and lower deferred compensation gains (offset in employee benefits expense). The increase in OTTI in the first nine months of 2018, compared with the same period a year ago, was predominantly driven by the impairment on the announced sale of our ownership stake in RockCreek.

Lease income was $453 million and $1.35 billion in the third quarter and first nine months of 2018, respectively, compared with $475 million and $1.45 billion for the same periods a year ago. The decrease in both periods was predominantly driven by lower rail and equipment lease income.

All other income was $466 million and $1.2 billion in the third quarter and first nine months of 2018, respectively, compared with $47 million and $604 million for the same periods a year ago. All other income includes losses on low income housing tax credit investments, foreign currency adjustments, income from investments accounted for under the equity method, hedge accounting results related to hedges of foreign currency risk, and the results of certain economic hedges, any of which can cause decreases and net losses in other income. The increase in all other income in

third quarter 2018, compared with the same period a year ago, was predominantly driven by a $638 million pre-tax gain from the sales of purchased credit-impaired Pick-a-Pay loans in third quarter 2018, partially offset by a lower benefit from hedge ineffectiveness accounting and lower income from equity method investments. The increase in all other income in the first nine months of 2018, compared with the same period a year ago, was predominantly driven by higher pre-tax gains from the sales of purchased credit-impaired Pick-a-Pay loans, and pre-tax gain from the sale of Wells Fargo Shareowner Services in second quarter 2018. These gains were partially offset by a realized loss related to the previously announced sale of certain assets and liabilities of Reliable Financial Services, Inc. (a subsidiary of Wells Fargo's automobile financing business), a lower benefit from hedge ineffectiveness accounting, and lower income from equity method investments.

Earnings Performance (continued)

Noninterest Expense

Table 3: Noninterest Expense

(in millions)	Quarter ended Sep 30, 2018	2017	% Change	Nine months ended Sep 30, 2018	2017	% Change
Salaries	$4,461	4,356	2 %	$13,289	12,960	3 %
Commission and incentive compensation	2,427	2,553	(5)	7,837	7,777	1
Employee benefits	1,377	1,279	8	4,220	4,273	(1)
Equipment	634	523	21	1,801	1,629	11
Net occupancy	718	716	—	2,153	2,134	1
Core deposit and other intangibles	264	288	(8)	794	864	(8)
FDIC and other deposit assessments	336	314	7	957	975	(2)
Operating losses	605	1,329	(54)	2,692	1,961	37
Outside professional services	761	955	(20)	2,463	2,788	(12)
Contract services (1)	593	415	43	1,576	1,228	28
Operating leases	311	347	(10)	942	1,026	(8)
Outside data processing	166	227	(27)	492	683	(28)
Travel and entertainment	141	154	(8)	450	504	(11)
Advertising and promotion	223	137	63	603	414	46
Postage, stationery and supplies	120	128	(6)	383	407	(6)
Telecommunications	90	90	—	270	272	(1)
Foreclosed assets	59	66	(11)	141	204	(31)
Insurance	26	24	8	76	72	6
All other (1)	451	450	—	1,648	1,513	9
Total	$13,763	14,351	(4)	$42,787	41,684	3

(1) The prior periods have been revised to conform with the current period presentation whereby temporary help is included in contract services rather than in all other noninterest expense.

Noninterest expense was $13.8 billion in third quarter 2018, down 4% from $14.4 billion a year ago, and $42.8 billion in the first nine months of 2018, up 3% from the same period a year ago. The decrease in third quarter 2018, compared with the same period a year ago, was predominantly due to lower operating losses, partially offset by higher equipment expense. The increase in the first nine months of 2018, compared with the same period a year ago, was substantially due to higher operating losses and personnel expenses.

Personnel expenses, which include salaries, commissions, incentive compensation, and employee benefits, were up $77 million, or 1%, in third quarter 2018, compared with the same period a year ago, and up $336 million, or 1%, in the first nine months of 2018, compared with the same period a year ago. The increase in third quarter 2018 was due to salary increases and higher benefits expense, partially offset by lower revenue related incentive compensation, the impact of the sale of Wells Fargo Insurance Services in fourth quarter 2017, and lower staffing levels. The increase in the first nine months of 2018 was due to salary increases and higher benefits expense, partially offset by the impact of the sale of Wells Fargo Insurance Services, lower staffing levels, and lower deferred compensation costs (offset in net gains from equity securities).

Outside professional and contract services expense was down $16 million, or 1%, in third quarter 2018, compared with the same period a year ago, and up $23 million, or 1%, in the first nine months of 2018, compared with the same period a year ago. The decrease in third quarter 2018 reflected lower project and technology spending on regulatory and compliance related initiatives, while the increase in the first nine months of 2018 was due to higher project and technology spending, partially offset by lower legal expense.

Outside data processing expense was down $61 million in third quarter 2018, or 27%, compared with the same period a year ago, and down $191 million in the first nine months of 2018, or 28%, compared with the same period a year ago, reflecting lower data processing expense related to the GE Capital business acquisitions and the impact of the new revenue recognition accounting standard, which reduced noninterest expense and lowered card fees by an equal amount due to the netting of card payment network charges against related interchange and network revenues in card fees.

Operating losses were down $724 million, or 54%, in third quarter 2018, compared with the same period a year ago, and up $731 million, or 37%, in the first nine months of 2018, compared with the same period a year ago. The decrease in third quarter 2018 was driven by lower litigation accruals, partially offset by higher remediation accruals for previously disclosed matters, while the increase in the first nine months of 2018 was predominantly driven by higher remediation accruals for previously disclosed matters.

Advertising and promotion expense was up $86 million, or 63%, in third quarter 2018, compared with the same period a year ago, and up $189 million, or 46%, in the first nine months of 2018, compared with the same period a year ago, in each case due to higher advertising expense, including for the “Re-Established” advertising campaign launched in second quarter 2018.

Equipment expense was up $111 million, or 21%, in third quarter 2018, compared with the same period a year ago, and up $172 million, or 11%, in the first nine months of 2018, compared with the same period a year ago, in each case due to increased computer purchases and equipment expense related to the Company's migration to Windows 10, as well as depreciation expense.

All other noninterest expense in third quarter 2018 was flat, compared with the same period a year ago, and up $135 million, or 9%, in the first nine months of 2018, compared with the same period a year ago. The increase in the first nine months of 2018 was predominantly driven by higher donations expense.
Our efficiency ratio was 62.7% in third quarter 2018, compared with 65.7% in third quarter 2017.

Income Tax Expense
Our effective income tax rate was 20.1% and 32.4% for third quarter 2018 and 2017, respectively, and was 22.3% in the first nine months of 2018, down from 29.0% in the first nine months of 2017. The effective income tax rate for third quarter 2018 included net discrete income tax expense of $168 million primarily related to the re-measurement of our initial estimates for the impacts of the Tax Cuts & Jobs Act (the Tax Act) recognized in fourth quarter 2017. The effective income tax rate for the first nine months of 2018 reflected the reduced U.S federal income tax rate as part of the Tax Act that was enacted in 2017, partially offset by discrete income tax expense items. We expect the effective income tax rate in fourth quarter 2018 to be approximately 19%, excluding the impact of any future discrete items. We continue to collect and analyze data related to provisional tax estimates recorded in fourth quarter 2017 and monitor interpretations that emerge for various provisions of the the Tax Act. We anticipate these items will be finalized upon completion of our U.S. tax filings in 2018.

Operating Segment Results
We are organized for management reporting purposes into three operating segments: Community Banking; Wholesale Banking; and WIM. These segments are defined by product type and customer segment and their results are based on our management accounting process, for which there is no comprehensive, authoritative financial accounting guidance equivalent to generally accepted accounting principles (GAAP). Effective first quarter 2018, assets and liabilities now receive a funding charge or credit that considers interest rate risk, liquidity risk, and other product characteristics on a more granular level. This methodology change affects results across all three of our reportable operating segments and operating segment results for the prior periods of 2017 have been revised to reflect this methodology change. Our previously reported consolidated financial results were not impacted by the methodology change; however, in connection with the adoption of ASU 2016-01 in first quarter 2018, certain reclassifications have occurred within noninterest income. Table 4 and the following discussion present our results by operating segment. For additional description of our operating segments, including additional financial information and the underlying management accounting process, see Note 21 (Operating Segments) to Financial Statements in this Report.
Table 4: Operating Segment Results – Highlights

(income/expense in millions,	Community Banking		Wholesale Banking		Wealth and Investment Management		Other (1)		Consolidated Company	
average balances in billions)	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Quarter ended Sep 30,										
Revenue	$11,816	11,520	7,304	7,504	4,226	4,256	(1,405)	(1,431)	21,941	21,849
Provision (reversal of provision) for credit losses	547	650	26	69	6	(1)	1	(1)	580	717
Noninterest expense	7,467	7,852	3,935	4,234	3,243	3,102	(882)	(837)	13,763	14,351
Net income (loss)	2,816	1,877	2,851	2,314	732	719	(392)	(368)	6,007	4,542
Average loans	$460.9	473.7	462.8	463.7	74.6	72.4	(58.8)	(57.5)	939.5	952.3
Average deposits	760.9	734.6	413.6	463.4	159.8	184.4	(67.9)	(76.0)	1,266.4	1,306.4
Nine months ended Sep 30,										
Revenue	$35,452	35,298	21,780	22,560	12,419	12,739	(4,223)	(4,258)	65,428	66,339
Provision (reversal of provision) for credit losses	1,249	1,919	(30)	(39)	(2)	2	6	(5)	1,223	1,877
Noninterest expense	23,459	22,399	12,132	12,437	9,894	9,377	(2,698)	(2,529)	42,787	41,684
Net income (loss)	7,225	7,466	8,361	7,541	1,891	2,095	(1,148)	(1,070)	16,329	16,032
Average loans	$465.0	476.5	464.2	466.3	74.4	71.6	(58.8)	(56.8)	944.8	957.6

Average deposits	756.4	726.8	424.4	463.7	168.2	190.6	(70.8)	(78.8)	1,278.2	1,302.3

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

Earnings Performance (continued)

Community Banking offers a complete line of diversified financial products and services for consumers and small businesses including checking and savings accounts, credit and debit cards, and automobile, student, mortgage, home equity and small business lending, as well as referrals to Wholesale Banking and WIM business partners. The Community Banking segment also includes the results of our Corporate Treasury activities net of allocations (including funds transfer pricing, capital, liquidity

and certain corporate expenses) in support of other segments and results of investments in our affiliated venture capital partnerships. We continue to wind down the personal insurance business and expect to substantially complete these activities in the first half of 2019. Table 4a provides additional financial information for Community Banking.

Table 4a: Community Banking

	Quarter ended Sep 30,			Nine months ended Sep 30,		
(in millions, except average balances which are in billions)	2018	2017	% Change	2018	2017	% Change
Net interest income	$7,338	7,154	3 %	$21,879	21,419	2 %
Noninterest income:						
Service charges on deposit accounts	700	739	(5)	1,971	2,206	(11)
Trust and investment fees:						
Brokerage advisory, commissions and other fees (1)	470	461	2	1,413	1,357	4
Trust and investment management (1)	231	225	3	684	658	4
Investment banking (2)	(17)	(13)	(31)	(27)	(60)	55
Total trust and investment fees	684	673	2	2,070	1,955	6
Card fees	925	909	2	2,650	2,703	(2)
Other fees	344	362	(5)	1,019	1,152	(12)
Mortgage banking	747	937	(20)	2,284	3,081	(26)
Insurance	21	35	(40)	65	104	(38)
Net gains (losses) from trading activities	10	(58)	117	33	(143)	123
Net gains (losses) on debt securities	1	169	(99)	(1)	455	NM
Net gains from equity securities (3)	274	270	1	1,367	960	42
Other income of the segment	772	330	134	2,115	1,406	50
Total noninterest income	4,478	4,366	3	13,573	13,879	(2)
Total revenue	11,816	11,520	3	35,452	35,298	—
Provision for credit losses	547	650	(16)	1,249	1,919	(35)
Noninterest expense:						
Personnel expense	5,414	5,026	8	16,325	15,229	7
Equipment	615	512	20	1,736	1,570	11
Net occupancy	542	531	2	1,618	1,577	3
Core deposit and other intangibles	100	112	(11)	303	336	(10)
FDIC and other deposit assessments	195	170	15	531	547	(3)
Outside professional services	335	464	(28)	1,162	1,367	(15)
Operating losses	577	1,295	(55)	2,304	1,853	24
Other expense of the segment	(311)	(258)	(21)	(520)	(80)	NM
Total noninterest expense	7,467	7,852	(5)	23,459	22,399	5
	3,802	3,018	26	10,744	10,980	(2)

Income before income tax expense and noncontrolling interests						
Income tax expense	925	1,079	(14)	3,147	3,316	(5)
Net income from noncontrolling interests (4)	61	62	(2)	372	198	88
Net income	$2,816	1,877	50	$7,225	7,466	(3)
Average loans	$460.9	473.7	(3)	$465.0	476.5	(2)
Average deposits	760.9	734.6	4	756.4	726.8	4

NM - Not meaningful

(1) Represents income on products and services for WIM customers served through Community Banking distribution channels and is eliminated in consolidation.

(2) Includes syndication and underwriting fees paid to Wells Fargo Securities which are offset in our Wholesale Banking segment.

(3) Primarily represents gains resulting from venture capital investments.

(4) Reflects results attributable to noncontrolling interests predominantly associated with the Company's consolidated venture capital investments.

Community Banking reported net income of $2.8 billion, up $939 million, or 50%, from third quarter 2017, and $7.2 billion for the first nine months of 2018, down $241 million, or 3%, compared with the same period a year ago. Revenue of $11.8 billion increased $296 million, or 3%, from third quarter 2017, and was $35.5 billion for the first nine months of 2018, an increase of $154 million, compared with the same period a year ago. The increase in revenue from third quarter 2017 was due to higher gains on the sales of PCI Pick-a-Pay mortgage loans and net interest income, partially offset by lower mortgage banking income and net gains from debt securities. The increase in revenue from the first nine months of 2017 was due to higher gains on the sales of PCI Pick-a-Pay mortgage loans, net interest income, and net gains from equity securities, partially offset by lower mortgage banking income, net gains from debt securities, and service charges on deposit accounts. Average loans of

$460.9 billion in third quarter 2018 decreased $12.8 billion, or 3%, from third quarter 2017, and average loans of $465.0 billion in the first nine months of 2018 decreased $11.5 billion, or 2%, from the first nine months of 2017. The decline in average loans for both periods was predominantly due to lower automobile loans and junior lien mortgages, partially offset by higher real estate 1-4 family first mortgages. Average deposits of $760.9 billion in third quarter 2018 increased $26.3 billion, or 4%, from third quarter 2017, and increased $29.6 billion, or 4%, from the first nine months of 2017. The number of primary consumer checking customers (customers who actively use their checking account with transactions such as debit card purchases, online bill payments, and direct deposit) as of August 2018 was up 1.7% from August 2017. Noninterest expense was $7.5 billion in third quarter 2018, down $385 million, or 5%, from third quarter 2017, and was $23.5 billion in the first nine months of

2018, up $1.1 billion, or 5%, from the first nine months of 2017. The decrease in noninterest expense from third quarter 2017 was predominantly due to lower operating losses, partially offset by higher personnel expense. The increase in noninterest expense from the first nine months of 2017 was predominantly due to higher personnel expense and operating losses. The provision for credit losses decreased $103 million from third quarter 2017 and $670 million from the first nine months of 2017, both due to continued improvement in the consumer lending portfolio compared with the same periods a year ago. Income tax expense decreased $154 million from third quarter 2017 and decreased $169 million from the first nine months of 2017, driven by the beneficial impact of the reduced U.S. federal statutory income tax

rate for 2018, partially offset by net discrete income tax expense items.

Wholesale Banking provides financial solutions to businesses across the United States and globally with annual sales generally in excess of $5 million. Products and businesses include Business Banking, Commercial Real Estate, Corporate Banking, Financial Institutions Group, Government and Institutional Banking, Middle Market Banking, Principal Investments, Treasury Management, Wells Fargo Commercial Capital, and Wells Fargo Securities. Table 4b provides additional financial information for Wholesale Banking.

Table 4b: Wholesale Banking

	Quarter ended Sep 30,			Nine months ended Sep 30,		
(in millions, except average balances which are in billions)	2018	2017	% Change	2018	2017	% Change
Net interest income	$4,726	4,763	(1)%	$13,951	14,253	(2)%
Noninterest income:						
Service charges on deposit accounts	505	538	(6)	1,569	1,658	(5)
Trust and investment fees:						
Brokerage advisory, commissions and other fees	79	65	22	224	231	(3)
Trust and investment management	112	129	(13)	335	390	(14)
Investment banking	476	479	(1)	1,401	1,407	—
Total trust and investment fees	667	673	(1)	1,960	2,028	(3)
Card fees	92	91	1	275	260	6
Other fees	504	513	(2)	1,472	1,487	(1)
Mortgage banking	101	110	(8)	269	343	(22)
Insurance	76	225	(66)	233	695	(66)
Net gains from trading activities	135	157	(14)	514	615	(16)
Net gains (losses) on debt securities	53	(5)	NM	96	(135)	171
Net gains from equity securities	50	40	25	232	92	152
Other income of the segment	395	399	(1)	1,209	1,264	(4)
Total noninterest income	2,578	2,741	(6)	7,829	8,307	(6)
Total revenue	7,304	7,504	(3)	21,780	22,560	(3)
Provision (reversal of provision) for credit losses	26	69	(62)	(30)	(39)	23
Noninterest expense:						
Personnel expense	1,302	1,607	(19)	4,224	5,012	(16)
Equipment	10	12	(17)	36	42	(14)
Net occupancy	99	106	(7)	299	322	(7)
Core deposit and other intangibles	95	102	(7)	284	310	(8)
FDIC and other deposit assessments	122	121	1	366	359	2
Outside professional services	234	301	(22)	722	830	(13)
Operating losses	(13)	22	NM	203	34	497

Other expense of the segment	2,086	1,963	6	5,998	5,528	9
Total noninterest expense	3,935	4,234	(7)	12,132	12,437	(2)
Income before income tax expense and noncontrolling interests	3,343	3,201	4	9,678	10,162	(5)
Income tax expense	475	894	(47)	1,302	2,642	(51)
Net loss from noncontrolling interests	17	(7)	343	15	(21)	171
Net income	$2,851	2,314	23	$8,361	7,541	11
Average loans	$462.8	463.7	—	$464.2	466.3	—
Average deposits	413.6	463.4	(11)	424.4	463.7	(8)

NM - Not meaningful

Wholesale Banking reported net income of $2.9 billion in third quarter 2018, up $537 million, or 23%, from third quarter 2017. In the first nine months of 2018, net income of $8.4 billion increased $820 million, or 11%, from the same period a year ago. Results for the third quarter and first nine months of 2018 benefited from the reduced U.S. federal statutory income tax rate, while the first nine months of 2017 included a discrete income tax benefit resulting from our agreement to sell Wells Fargo Insurance Services USA (WFIS). Revenue decreased $200 million, or 3%, from third quarter 2017, and $780 million, or 3%, from the first nine months of 2017, primarily due to the impact of the sale of WFIS in fourth quarter 2017, as well as lower net interest income. Net interest income decreased $37 million, or

1%, from third quarter 2017, and $302 million, or 2%, from the first nine months of 2017, as lower average loan and deposit balances and lower income on tax advantaged products were partially offset by higher interest rates. Noninterest income decreased $163 million, or 6%, from third quarter 2017, and decreased $478 million, or 6%, from the first nine months of 2017. Noninterest income decreased for both periods driven by the impact of the sale of WFIS, lower operating lease income and lower mortgage banking fees, partially offset by higher market sensitive revenue. Average loans of $462.8 billion in third quarter 2018 decreased $900 million from third quarter 2017, and average loans of $464.2 billion in the first nine months of 2018 decreased $2.1 billion from the first nine months of 2017, as

growth in commercial and industrial loans was more than offset by lower commercial real estate loans. Average deposits of $413.6 billion in third quarter 2018 decreased $49.8 billion, or 11%, from third quarter 2017, and average deposits of $424.4 billion in the first nine months of 2018 decreased $39.3 billion, or 8%, from the first nine months of 2017. The decline in average deposits for both periods was driven by actions taken in the first half of 2018 in response to the asset cap included in the FRB consent order on February 2, 2018, and declines across many businesses as commercial customers allocated more cash to higher-rate alternatives. Noninterest expense decreased $299 million, or 7%, from third quarter 2017, and decreased $305 million, or 2%, from the first nine months of 2017 on lower personnel expense primarily due to the sale of WFIS, lower variable compensation, and lower project spending, partially offset by higher regulatory, risk, cyber and technology expenses. The provision for credit losses decreased $43 million from third quarter 2017, and increased $9 million from the first nine months of 2017.

Wealth and Investment Management provides a full range of personalized wealth management, investment and retirement products and services to clients across U.S. based businesses including Wells Fargo Advisors, The Private Bank, Abbot Downing, Wells Fargo Institutional Retirement and Trust, and Wells Fargo Asset Management. We deliver financial planning, private banking, credit, investment management and fiduciary services to high-net worth and ultra-high-net worth individuals and families. We also serve clients' brokerage needs, supply retirement and trust services to institutional clients and provide investment management capabilities delivered to global institutional clients through separate accounts and the Wells Fargo Funds. Table 4c provides additional financial information for WIM.

Table 4c: Wealth and Investment Management

	Quarter ended Sep 30,			Nine months ended Sep 30,		
(in millions, except average balances which are in billions)	2018	2017	% Change	2018	2017	% Change
Net interest income	$1,102	1,177	(6)%	$3,325	3,489	(5)%
Noninterest income:						
Service charges on deposit accounts	3	3	—	12	13	(8)
Trust and investment fees:						
Brokerage advisory, commissions and other fees	2,268	2,241	1	6,896	6,741	2
Trust and investment management	727	718	1	2,201	2,137	3
Investment banking (1)	3	(1)	400	4	(2)	300
Total trust and investment fees	2,998	2,958	1	9,101	8,876	3
Card fees	1	1	—	4	4	—
Other fees	4	5	(20)	13	14	(7)
Mortgage banking	(3)	(3)	—	(8)	(7)	(14)
Insurance	19	21	(10)	55	63	(13)
Net gains from trading activities	13	21	(38)	45	71	(37)
Net gains on debt securities	3	2	50	4	2	100
Net gains (losses) from equity securities	92	53	74	(105)	155	NM
Other income of the segment	(6)	18	NM	(27)	59	NM
Total noninterest income	3,124	3,079	1	9,094	9,250	(2)

Total revenue	4,226	4,256	(1)	12,419	12,739	(3)
Provision (reversal of provision) for credit losses	6	(1)	700	(2)	2	NM
Noninterest expense:						
Personnel expense	2,010	1,984	1	6,212	6,068	2
Equipment	10	(1)	NM	31	19	63
Net occupancy	108	108	—	327	323	1
Core deposit and other intangibles	69	74	(7)	207	218	(5)
FDIC and other deposit assessments	33	38	(13)	103	117	(12)
Outside professional services	198	198	—	598	613	(2)
Operating losses	44	15	193	193	81	138
Other expense of the segment	771	686	12	2,223	1,938	15
Total noninterest expense	3,243	3,102	5	9,894	9,377	6
Income before income tax expense and noncontrolling interests	977	1,155	(15)	2,527	3,360	(25)
Income tax expense	244	433	(44)	630	1,255	(50)
Net income from noncontrolling interests	1	3	(67)	6	10	(40)
Net income	$732	719	2	$1,891	2,095	(10)
Average loans	$74.6	72.4	3	$74.4	71.6	4
Average deposits	159.8	184.4	(13)	168.2	190.6	(12)

NM – Not meaningful

(1) Includes syndication and underwriting fees paid to Wells Fargo Securities which are offset in our Wholesale Banking segment.

19

WIM reported net income of $732 million in third quarter 2018, up $13 million, or 2%, from third quarter 2017. Net income for the first nine months of 2018 was $1.9 billion, down $204 million, or 10%, from the same period a year ago. Results for the third quarter and first nine months of 2018 benefited from the lower U.S. federal statutory income tax rate. Revenue was down $30 million, or 1%, from third quarter 2017, and down $320 million, or 3%, from the first nine months of 2017, primarily due to the impairment on the sale of our ownership stake in RockCreek, and lower net interest income, partially offset by higher trust and investment fees. Net interest income decreased 6% from third quarter 2017, and 5% from the first nine months of 2017, predominantly driven by lower deposit balances. Noninterest income increased $45 million from third quarter 2017, driven by higher asset-based fees and net gains on equity securities, partially offset by lower brokerage transaction revenue. Noninterest income decreased $156 million from the first nine months of 2017, largely due to the impairment on the sale of our ownership stake in RockCreek, lower brokerage transaction revenue and deferred compensation plan investments (offset in employee benefits expense), partially offset by higher asset-based fees. Asset-based fees increased predominantly due to higher brokerage advisory account client assets driven by higher market valuations. Average loans of $74.6 billion in third quarter 2018 and $74.4 billion in the first nine months of 2018 increased 3% and 4%, respectively, from the same periods a year ago, driven by growth in nonconforming mortgage loans. Average deposits in third quarter 2018 of $159.8 billion decreased 13% from third quarter 2017. Average deposits in the first nine months of 2018 decreased 12% from the same period a year ago, as customers moved deposits into other investment alternatives. Noninterest expense was up 5% from third quarter 2017, and up

6% from the first nine months of 2017, driven by higher project and technology spending on regulatory and compliance related initiatives, higher operating losses, including remediation expense related to fee calculations within certain fiduciary and custody accounts in our wealth management business, and higher broker commissions, partially offset by lower deferred compensation plan expense (offset in net gains from equity securities). The provision for credit losses increased $7 million from third quarter 2017 and decreased $4 million from the first nine months of 2017.
The following discussions provide additional information for client assets we oversee in our retail brokerage advisory and trust and investment management business lines.

Retail Brokerage Client Assets Brokerage advisory, commissions and other fees are received for providing full-service and discount brokerage services predominantly to retail brokerage clients. Offering advisory account relationships to our brokerage clients is an important component of our broader strategy of meeting their financial needs. Although a majority of our retail brokerage client assets are in accounts that earn brokerage commissions, the fees from those accounts generally represent transactional commissions based on the number and size of transactions executed at the client's direction. Fees earned from advisory accounts are asset-based and depend on changes in the value of the client's assets as well as the level of assets resulting from inflows and outflows. A majority of our brokerage advisory, commissions and other fee income is earned from advisory accounts. Table 4d shows advisory account client assets as a percentage of total retail brokerage client assets at September 30, 2018 and 2017.

Table 4d: Retail Brokerage Client Assets

	September 30,		
($ in billions)	2018		2017
Retail brokerage client assets	$1,642.1		1,612.1
Advisory account client assets	560.5		521.8
Advisory account client assets as a percentage of total client assets	34	%	32

20

Earnings Performance (continued)

Retail Brokerage advisory accounts include assets that are financial advisor-directed and separately managed by third-party managers, as well as certain client-directed brokerage assets where we earn a fee for advisory and other services, but do not have investment discretion. These advisory accounts generate fees as a percentage of the market value of the assets, which vary across the account types based on the distinct services provided,

and are affected by investment performance as well as asset inflows and outflows. For the third quarter of 2018 and 2017, the average fee rate by account type ranged from 80 to 120 basis points. Table 4e presents retail brokerage advisory account client assets activity by account type for the third quarter and first nine months of 2018 and 2017.

Table 4e: Retail Brokerage Advisory Account Client Assets

	Quarter ended					Nine months ended				
(in billions)	Balance, beginning of period	Inflows (1)	Outflows (2)	Market impact (3)	Balance, end of period	Balance, beginning of period	Inflows (1)	Outflows (2)	Market impact (3)	Balance, end of period
September 30, 2018										
Client directed (4)	$167.5	8.4	(9.8)	5.4	171.5	170.9	26.0	(30.1)	4.7	171.5
Financial advisor directed (5)	150.0	6.9	(7.5)	7.4	156.8	147.0	22.5	(24.0)	11.3	156.8
Separate accounts (6)	147.2	6.2	(6.8)	6.0	152.6	149.1	18.6	(21.1)	6.0	152.6
Mutual fund advisory (7)	77.9	3.1	(3.5)	2.1	79.6	75.8	10.3	(9.8)	3.3	79.6
Total advisory client assets	$542.6	24.6	(27.6)	20.9	560.5	542.8	77.4	(85.0)	25.3	560.5
September 30, 2017										
Client directed (4)	$163.8	8.2	(8.9)	3.7	166.8	159.1	28.5	(30.1)	9.3	166.8
Financial advisor directed (5)	131.7	6.7	(5.2)	6.0	139.2	115.7	23.0	(17.4)	17.9	139.2
Separate accounts (6)	137.7	5.6	(5.0)	4.7	143.0	125.7	20.1	(17.2)	14.4	143.0
Mutual fund advisory (7)	69.3	3.2	(2.3)	2.6	72.8	63.3	9.9	(8.0)	7.6	72.8
Total advisory client assets	$502.5	23.7	(21.4)	17.0	521.8	463.8	81.5	(72.7)	49.2	521.8

(1) Inflows include new advisory account assets, contributions, dividends and interest.
(2) Outflows include closed advisory account assets, withdrawals, and client management fees.
(3) Market impact reflects gains and losses on portfolio investments.
(4)

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

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

(6) Professional advisory portfolios managed by Wells Fargo Asset Management or third-party asset managers. Fees are earned based on a percentage of certain client assets.

(7) Program with portfolios constructed of load-waived, no-load and institutional share class mutual funds. Fees are earned based on a percentage of certain client assets.

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 2018 and 2017.

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

	Quarter ended					Nine months ended				
(in billions)	Balance, beginning of period	Inflows (1)	Outflows (2)	Market impact (3)	Balance, end of period	Balance, beginning of period	Inflows (1)	Outflows (2)	Market impact (3)	Balance, end of period
September 30, 2018										
Assets managed by WFAM (4):										
Money market funds (5)	$ 107.7	—	(0.4)	—	107.3	108.2	—	(0.9)	—	107.3
Other assets managed	386.5	19.7	(35.2)	4.3	375.3	395.7	66.3	(91.7)	5.0	375.3
Assets managed by Wealth and Retirement (6)	183.2	7.3	(8.7)	4.0	185.8	186.2	26.8	(30.4)	3.2	185.8
Total assets under management	$ 677.4	27.0	(44.3)	8.3	668.4	690.1	93.1	(123.0)	8.2	668.4
September 30, 2017										
Assets managed by WFAM (4):										
Money market funds (5)	$ 94.7	7.7	—	—	102.4	102.6	—	(0.2)	—	102.4
Other assets managed	392.5	25.4	(31.2)	7.3	394.0	379.6	89.0	(98.8)	24.2	394.0
Assets managed by Wealth and Retirement (6)	175.6	10.1	(8.7)	4.0	181.0	168.5	29.5	(29.1)	12.1	181.0
Total assets under management	$ 662.8	43.2	(39.9)	11.3	677.4	650.7	118.5	(128.1)	36.3	677.4

(1) Inflows include new managed account assets, contributions, dividends and interest.
(2) Outflows include closed managed account assets, withdrawals and client management fees.
(3) Market impact reflects gains and losses on portfolio investments.
(4) Assets managed by WFAM consist of equity, alternative, balanced, fixed income, money market, and stable value, and include client assets that are managed or sub-advised on behalf of other Wells Fargo lines of business.
(5) Money Market funds activity is presented on a net inflow or net outflow basis, because the gross flows are not meaningful nor used by management as an indicator of performance.

(6) Includes $4.9 billion and $5.7 billion as of September 30, 2018 and 2017, respectively, of client assets invested in proprietary funds managed by WFAM.

Balance Sheet Analysis (continued)

Balance Sheet Analysis

At September 30, 2018, our assets totaled $1.87 trillion, down $78.8 billion from December 31, 2017. Asset decline was driven by declines in interest-earning deposits with banks, available-for-sale debt securities, and loans, which decreased by $51.8 billion, $13.4 billion, and $14.5 billion, respectively, from December 31, 2017. Liabilities totaled $1.7 trillion, down $70.4 billion from December 31, 2017. The decline in liabilities was due to declines in total deposits and long-term debt, which decreased by $69.4 billion and $3.7 billion, respectively, from December 31, 2017. Total equity decreased by $8.4 billion from December 31, 2017, predominantly due to a $4.7 billion decline in cumulative

other comprehensive income, a $10.6 billion increase in treasury stock, and a $1.9 billion decline in preferred stock, partially offset by a $9.3 billion increase in retained 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 22 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report.

Available-for-Sale and Held-to-Maturity Debt Securities

Table 5: Available-for-Sale and Held-to-Maturity Debt Securities

	September 30, 2018			December 31, 2017		
(in millions)	Amortized Cost	Net unrealized gain (loss)	Fair value	Amortized Cost	Net unrealized gain (loss)	Fair value
Available-for-sale	266,722	(3,758)	262,964	275,096	1,311	276,407
Held-to-maturity	144,131	(5,095)	139,036	139,335	(350)	138,985
Total (1)	$410,853	(8,853)	402,000	414,431	961	415,392

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

Table 5 presents a summary of our available-for-sale and held-to-maturity debt securities, which decreased $8.6 billion in balance sheet carrying value from December 31, 2017, largely due to net declines in federal agency mortgage-backed securities, residential mortgage-backed securities, securities of U.S. states and political subdivisions, and corporate debt securities.

The total net unrealized losses on available-for-sale debt securities were $3.8 billion at September 30, 2018, down from net unrealized gains of $1.3 billion at December 31, 2017, primarily due to higher long-term interest rates. For a discussion of our investment management objectives and practices, see the "Balance Sheet Analysis" section in our 2017 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 debt securities for other-than-temporary impairment (OTTI) quarterly or more often if a potential loss-triggering event occurs. In the first nine months of 2018, we recognized $23 million of OTTI write-downs on debt securities. 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 2017 Form 10-K and Note 5 (Available-for-Sale and Held-to-Maturity Debt Securities) to Financial Statements in this Report.

At September 30, 2018, debt securities included $54.5 billion of municipal bonds, of which 94.1% were rated "A-" or better based largely on external and, in some cases, internal ratings. Additionally, some of the debt securities in our total municipal bond portfolio are guaranteed against loss by bond insurers. These guaranteed bonds are predominantly investment grade and were generally underwritten in accordance with our own investment standards prior to the determination to purchase, without relying on the bond insurer's guarantee in making the investment decision. The credit quality of our municipal bond holdings are monitored as part of our ongoing impairment analysis.

The weighted-average expected maturity of debt securities available-for-sale was 6.2 years at September 30, 2018. The expected remaining maturity is shorter than the remaining contractual maturity for the 61% of this portfolio that is MBS because borrowers generally have the right to prepay obligations before the underlying mortgages mature. The estimated effects of a 200 basis point increase or decrease in interest rates on the fair value and the expected remaining maturity of the MBS available-for-sale portfolio are shown in Table 6.

Table 6: Mortgage-Backed Securities Available for Sale

(in billions)	Fair value	Net unrealized gain (loss)	Expected remaining maturity (in years)
At September 30, 2018			
Actual	$160.5	(4.8)	6.4
Assuming a 200 basis point:			
Increase in interest rates	142.2	(23.1)	8.4
Decrease in interest rates	173.1	7.8	3.6

The weighted-average expected maturity of debt securities held-to-maturity was 6.2 years at September 30, 2018. See Note 5 (Available-for-Sale and Held-to-Maturity Debt Securities) to Financial Statements in this Report for a summary of debt securities by security type.

Loan Portfolios

Table 7 provides a summary of total outstanding loans by portfolio segment. Total loans decreased $14.5 billion from December 31, 2017, with a decline in commercial real estate loans reflecting continued credit discipline, partially offset by growth in commercial and industrial loans. The decrease in loans also reflected paydowns, sales of 1-4 family first mortgage PCI Pick-a-

Pay loans, a continued decline in junior lien mortgage loans, reclassification of automobile loans of Reliable Financial Services, Inc. to loans held for sale, and an expected decline in automobile loans as originations were more than offset by paydowns.

Table 7: Loan Portfolios

(in millions)	September 30, 2018	December 31, 2017
Commercial	$ 501,886	503,388
Consumer	440,414	453,382
Total loans	$ 942,300	956,770
Change from prior year-end	$ (14,470)	(10,834)

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 6 (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, 2018				December 31, 2017			
(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	$104,800	208,060	25,188	338,048	105,327	201,530	26,268	333,125
Real estate mortgage	16,301	63,006	41,096	120,403	20,069	64,384	42,146	126,599
Real estate construction	9,725	12,687	1,278	23,690	9,555	13,276	1,448	24,279
Total selected loans	$130,826	283,753	67,562	482,141	134,951	279,190	69,862	484,003
Distribution of loans to changes in interest rates:								
Loans at fixed interest rates	$16,989	28,680	27,951	73,620	18,587	30,049	26,748	75,384
Loans at floating/variable interest rates	113,837	255,073	39,611	408,521	116,364	249,141	43,114	408,619
Total selected loans	$130,826	283,753	67,562	482,141	134,951	279,190	69,862	484,003

Balance Sheet Analysis (continued)

Deposits

Deposits were $1.3 trillion at September 30, 2018, down $69.4 billion from December 31, 2017, due to a decrease in commercial deposits from financial institutions and a decline in consumer and small business banking deposits. The decline in commercial deposits from financial institutions was due to actions taken in the first half of 2018 in response to the asset cap included in the consent order issued by the Board of Governors of the Federal Reserve System on February 2, 2018, and declines across many businesses as commercial customers allocated more

cash to higher-rate alternative investments. The decline in consumer and small business banking deposits was due to higher balance customers moving a portion of those balances to other cash alternatives offering higher rates. 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, 2018	% of total deposits	Dec 31, 2017	% of total deposits	% Change
Noninterest-bearing	$352,869	27 %	$373,722	28 %	(6)
Interest-bearing checking	49,517	4	51,928	4	(5)
Market rate and other savings	695,291	55	690,168	52	1
Savings certificates	21,257	2	20,415	2	4
Other time deposits	89,824	7	71,715	4	25
Deposits in foreign offices (1)	57,836	5	128,043	10	(55)
Total deposits	$1,266,594	100 %	$1,335,991	100 %	(5)

(1) Includes Eurodollar sweep balances of $29.7 billion and $80.1 billion at September 30, 2018, and December 31, 2017, 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 the "Critical Accounting Policies" section in our 2017 Form 10-K and Note 15 (Fair Values of Assets and Liabilities) to Financial Statements in this Report 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, 2018		December 31, 2017	
($ in billions)	Total balance	Level 3 (1)	Total balance	Level 3 (1)
Assets carried at fair value	$409.7	27.9	416.6	24.9
As a percentage of total assets	22 %	1	21	1
Liabilities carried at fair value	$32.6	2.0	27.3	2.0
As a percentage of total liabilities	2 %	*	2	*

* Less than 1%.

(1) Before derivative netting adjustments.

See Note 15 (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 $199.7 billion at September 30, 2018, compared with $208.1 billion at December 31, 2017. The decrease was driven by a $4.7 billion decline in cumulative other comprehensive income predominantly due to fair value adjustments to available-for-sale securities caused by an increase in long-term interest rates, a $10.6 billion increase in treasury stock, and a $1.9 billion decline in preferred stock, partially offset by a $9.3 billion increase in retained earnings net of dividends paid.

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 debt and equity 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 Debt and Equity 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 6 (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 12 (Guarantees, Pledged Assets and Collateral, and Other Commitments) to Financial Statements in this Report. We also may enter into commitments to purchase debt and equity securities to provide capital for customers' funding, liquidity or other future needs. For more information, see the “Off-Balance Sheet Arrangements – Contractual Cash Obligations” section in our 2017 Form 10-K and Note 12 (Guarantees, Pledged Assets and Collateral, and Other Commitments) 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 9 (Securitizations and Variable Interest Entities) to Financial Statements in this Report.

Guarantees and Certain Contingent Arrangements

Guarantees are contracts that contingently require us to make payments to a guaranteed party based on an event or a change in an underlying asset, liability, rate or index. Guarantees are generally in the form of standby letters of credit, securities lending and other indemnifications, written put options, recourse obligations and other types of arrangements. For more information on guarantees and certain contingent arrangements, see Note 12 (Guarantees, Pledged Assets and Collateral, and Other Commitments) 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 14 (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. Our operating lease obligations are discussed in Note 7 (Premises, Equipment, Lease Commitments and Other Assets) to Financial Statements in our 2017 Form 10-K.

Risk Management - Overview (continued)

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. We operate under a Board approved risk management framework which outlines our company-wide approach to risk management and oversight and describes the structures and practices employed to manage current and emerging risks inherent to Wells Fargo. During third quarter 2018, our Board's Risk Committee approved enhancements to our risk management framework. We believe these enhancements transform and clarify our risk management approach by emphasizing the role of risk management when setting corporate strategy and by further rationalizing and integrating certain risk management organizational, governance and reporting practices. The discussion that follows updates our discussion of risk management contained in the "Risk Management" section in our 2017 Form 10-K.

Risk Management Framework

Our risk management framework defines how we manage risk in a comprehensive, integrated and consistent manner and lays out our vision for the risk management of the organization. It reinforces each team member's personal accountability for risk management and is built on a foundation that begins with a deep understanding of the Company's processes, risks and controls. Our risk management framework also supports members of senior management in achieving the Company's strategic objectives and priorities, and it supports the Board as it carries out its risk oversight responsibilities.

The risk management framework consists of three lines of defense: (1) the front line which consists of Wells Fargo's risk-generating activities, including all activities of its four primary business groups (Consumer Banking; Wholesale Banking; Wealth and Investment Management; and Payments, Virtual Solutions & Innovation) and certain activities of its enterprise functions (Human Resources, Enterprise Finance, Technology, Legal Department, Corporate Risk, and Wells Fargo Audit Services); (2) independent risk management, which consists of our Corporate Risk function and is led by our Chief Risk Officer (CRO) who reports to the Board's Risk Committee; and (3) internal audit, which is Wells Fargo Audit Services and is led by our Chief Auditor who reports to the Board's Audit & Examination Committee. In addition to the three lines of defense, our risk management framework includes enterprise control activities, which are certain specialized activities performed within centralized enterprise functions (such as Human Resources and the Legal Department) with a focus on controlling specific risks. Key elements of our risk management framework include:

- A strong culture that emphasizes each team member's ownership and understanding of risk. We want to cultivate an environment that expects and promotes robust communication and cooperation among the three lines of defense and supports identifying, escalating and addressing current and emerging risk issues.
- A company-wide statement of risk appetite that guides business and risk leaders as they manage risk on a daily basis. The company-wide statement of risk appetite describes the nature and magnitude of risk that the Company is willing to assume in pursuit of its business and strategic objectives, consistent with capital, liquidity and other regulatory requirements.
- A risk management governance structure, including escalation requirements and a committee structure that helps provide comprehensive oversight of the risks we face.
- A company-wide risk inventory that promotes a standardized and systematic process to identify and quantify risks at the business group and enterprise level to guide strategic business decisions and capital planning efforts.
- Policies, procedures and controls which form an integrated risk management program that promotes active, prompt, and consistent identification, measurement, assessment, control, mitigation, reporting and monitoring of current and emerging risk exposures across Wells Fargo and are integrated with clear enterprise risk roles and responsibilities for the three lines of defense.
- Three lines of defense that are closely integrated, each with specific roles and responsibilities for risk management and a clear engagement model that promotes challenge and appropriate escalation of issues and information.

Board and Management-level Committee Structure

Wells Fargo’s Board committee and management-level governance committee structures are designed to ensure that key risks are identified and escalated and, if necessary, decided upon at the appropriate level of the Company. Accordingly, the structure is composed of defined escalation and reporting paths from the front line to independent risk management and management-level governance committees and, ultimately, to the Board as appropriate. Each management-level governance committee has defined escalation processes, authorities and responsibilities as outlined in each of their charters. Our Board committee and management-level governance committee structures, and the primary risk oversight responsibilities of each of those committees, is presented in Table 11.

Table 11: Board and Management-level Governance Committee Structure

Wells Fargo & Company

Board Committees and Primary Risk Oversight Responsibility

Audit & Examination Committee (1)	Finance Committee	Corporate Responsibility Committee	Risk Committee (2)	Governance & Nominating Committee	Credit Committee	Human Resources Committee
Financial, regulatory and risk reporting and controls	Interest Rate Risk Market Risk	Social and public responsibility matters	COMPANY-WIDE RISKS - Compliance - Conduct - Data - Financial Crimes - Information Security - Liquidity - Model - Operational - Reputation - Strategic - Technology	Board-level governance matters	Credit Risk	Culture, ethics, human capital management and compensation

Management-level Governance Committees (3)

Regulatory and Risk Reporting Oversight Committee	Capital Adequacy Process Committee	Enterprise Risk & Control Committee (4)	Corporate Allowance for Credit Losses Approval Governance Committee	Incentive Compensation Committee
SOX Disclosure Committee	Capital Management Committee			
	Corporate Asset and Liability Committee			

Recovery and Resolution Committee

Management Reporting Oversight Committee

(1) The Audit & Examination Committee additionally oversees the internal audit function, external auditor independence, activities, and performance, and the disclosure framework for financial, regulatory and risk reports prepared for the Board, management, and bank regulatory agencies, and assists the Board in its oversight of the Company's compliance with legal and regulatory requirements.
(2) The Risk Committee also has a compliance subcommittee and a technology subcommittee to assist it in providing oversight of those risks.
(3) Pursuant to their charters, many of the management-level governance committees have formed one or more sub-committees to address specific risk matters.
(4) Certain committees report to the Enterprise Risk & Control Committee and have dual escalation and informational reporting paths to Board committees.

Board Oversight of Risk

The business and affairs of the Company are managed under the direction of the Board, whose responsibilities include overseeing the implementation of the Company's risk management framework and the ongoing oversight and governance of the Company's risk management activities. The Board carries out its risk oversight responsibilities directly and through the work of its seven standing committees, which all report to the full Board. Each Board committee works closely with management to understand and oversee the Company's key risk exposures.

The Risk Committee oversees company-wide risks. The Board's other standing committees also have primary oversight responsibility for certain specific risk matters, as highlighted in Table 11.

The Risk Committee additionally oversees the Company's Corporate Risk function and plays an active role in approving and overseeing the Company's risk management framework. The Risk Committee and the full Board review and approve the enterprise statement of risk appetite annually, and the Risk Committee also actively monitors the risk profile relative to the approved risk appetite.

The full Board receives reports at each of its regular meetings from the Board committee chairs about committee activities, including risk oversight matters, and the Risk Committee receives periodic reports from management regarding current or emerging risk matters.

Risk Management - Overview (continued)

Management Oversight of Risk

The Company's management-level governance committees are designed to enable understanding, consideration and decision-making of significant risk and control matters at the appropriate level of the Company and by the appropriate mix of executives. Each committee has a defined set of authorities and responsibilities as set forth in its charter, and each committee has defined escalation paths and risk reporting responsibilities, including to the Board or Board committees, as appropriate.

The Company recently enhanced its management-level governance committee structure by replacing its Enterprise Risk Management Committee with an Enterprise Risk & Control Committee. The Company also integrated many of the risk-specific responsibilities of committees that previously reported to the Enterprise Risk Management Committee into new Risk & Control Committees for each business group and enterprise function. We believe these changes promote greater focus on the risks and corresponding controls within each business group and enterprise function.

The Enterprise Risk & Control Committee is co-chaired by the Company's CEO and CRO and has a direct escalation path to the Board's Risk Committee. The Enterprise Risk & Control Committee governs the management of financial risks, non-financial risks, and enterprise and other risk programs. It considers and makes decisions on risk and control matters, addresses escalated issues, actively oversees risk mitigation, and provides regular updates to the Board's Risk Committee regarding emerging risks and senior management's assessment of the effectiveness of the Company's risk management program. It also may escalate other risk and control matters to other Board committees as appropriate based on their primary risk oversight responsibilities. The Risk & Control Committee for each business group and enterprise function reports to the Enterprise Risk & Control Committee and each have a mandate that mirrors the Enterprise Risk & Control Committee but is limited to the relevant business group or enterprise function. The focus of these committees is on the risks that each group or function generates and each of these committees is responsible for managing, and on the controls each group or function is expected to have in place. Additionally, there are standalone specific risk type- or program-specific management-level risk governance committees reporting to the Enterprise Risk & Control Committee to help provide complete and comprehensive governance for certain risk areas. To supplement our management-level governance committees, additional management forums exist to support broader and deeper reviews, examinations, and discussions of enterprise wide views of risk.

While the Enterprise Risk & Control Committee and the committees that report to it serve as the focal point for the management of company-wide risk matters, the management of certain specific risk types is supported by additional management-level governance committees, which all report to at least one of the Board's standing committees.

The Corporate Risk function, which is the Company's independent risk management organization, is headed by the Company's CRO who, among other things, is responsible for setting the strategic direction and driving the execution of Wells Fargo's risk management activities. The Corporate Risk function provides senior management and the Board with an independent perspective of the level of risk to which the Company is exposed.

Corporate Risk develops our enterprise statement of risk appetite in the context of our risk management framework described above. As part of Wells Fargo's risk appetite, we maintain metrics along with associated objectives to measure and monitor the amount of risk that the Company is prepared to take.

Actual results of these metrics are reported to the Enterprise Risk & Control Committee on a quarterly basis as well as to the Board's Risk Committee. Our business groups also have business-specific risk appetite statements based on the enterprise statement of risk appetite. The metrics included in the business group statements are harmonized with the enterprise level metrics to ensure consistency where appropriate. Business lines also maintain metrics and qualitative statements that are unique to their line of business. This allows for monitoring of risk and definition of risk appetite deeper within the organization.

The Company's senior management, including the CRO and Chief Auditor, work closely with the Board's committees and provide reports and updates on an ongoing basis to those committees and the committee chairs on risk matters during and outside of regular committee meetings, as appropriate.

Operational Risk Management

Operational risk is the risk resulting from inadequate or failed controls, internal processes, people and systems, or external events. Operational risk is inherent in all Wells Fargo activities.

The Board's Risk Committee has primary oversight responsibility for all aspects of operational risk, including significant policies and programs regarding the Company's business continuity, data management, information security, privacy, technology, and third-party risk management. As part of its oversight responsibilities, the Board's Risk Committee approves operational risk appetite qualitative statements including inner and outer boundaries, reviews and approves significant operational risk policies, and oversees the Company's ongoing operational risk management program.

At the management level, the Operational Risk function, which is part of Corporate Risk, has primary oversight responsibility for operational risk. The Operational Risk function reports to the CRO and also provides periodic reporting related to operational risk to the Board's Risk Committee. In addition, the Risk & Control Committee for each business group and enterprise function reports operational risk matters to the Enterprise Risk & Control Committee.

Information security is a significant operational risk for financial institutions such as Wells Fargo, and includes the risk of losses resulting from cyber attacks. Our Board is actively engaged in the oversight of the Company's information security risk management and cyber defense programs. The Board's Risk Committee has primary oversight responsibility for information security and receives regular updates and reporting from management on information and cyber security matters, including information related to any third-party assessments of the Company's cyber program. In addition, the Risk Committee annually approves the Company's information security program which includes the cyber defense program and information security policy. In 2017, the Risk Committee also formed a Technology Subcommittee to assist it in providing oversight of technology, information security, and cyber risks as well as data governance and management. The Technology Subcommittee reports to the Risk Committee and updates are provided by the Risk Committee and the Technology Subcommittee to the full Board.

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, commit fraud, or obtain confidential, proprietary or other information. Cyber attacks have also focused on targeting online applications and services, such as online banking, as well as cloud-based services provided by

third parties, and have targeted 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 2017 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.

Compliance Risk Management

Compliance risk is the risk resulting from the failure to comply with applicable laws, regulations, rules, and other regulatory requirements, and the failure to appropriately address and limit violations of law and any associated harm to customers. Compliance risk encompasses other standards of self-regulatory organizations applicable to the banking industry as well as nonconformance with applicable internal policies and procedures.

The Board's Risk Committee has primary oversight responsibility for compliance risk. In 2017, the Risk Committee also formed a Compliance Subcommittee to assist it in providing oversight of compliance risk. The Compliance Subcommittee reports to the Risk Committee and updates are provided by the Risk Committee and the Compliance Subcommittee to the full Board.

At the management level, Wells Fargo Compliance, which is part of Corporate Risk, monitors the implementation of the Company's compliance program. Wells Fargo Compliance reports to the CRO and also provides periodic reporting related to compliance risk to the Board's Risk Committee and Compliance Subcommittee. In addition, the Risk & Control Committee for each business group and enterprise function reports compliance risk matters to the Enterprise Risk & Control Committee. We continue to enhance our oversight of operational and compliance risk management, including as required by the FRB's February 2, 2018, and the BCFP/OCC's April 20, 2018, consent orders.

Conduct Risk Management Conduct risk, a sub-category of compliance risk, is the risk resulting from inappropriate, unethical, or unlawful behavior on the part of team members or individuals acting on behalf of the Company, caused by deliberate actions or business practices.

Our Board has enhanced its oversight of conduct risk to oversee the alignment of team member conduct to the Company's risk appetite (which the Board approves annually) and culture as reflected in our Vision, Values & Goals and Code of Ethics and Business Conduct. The Board's Risk Committee has primary oversight responsibility for company-wide conduct risk, while the responsibilities of the Board's Human Resources Committee include oversight of the Company's company-wide culture, Code of Ethics and Business Conduct, conflicts of interest program, human capital management and incentive compensation risk management program.

At the management level, the Conduct Management Office has primary oversight responsibility for key elements of conduct risk, including internal investigations, sales practices oversight, complaints oversight, and ethics oversight. The Conduct

Management Office reports to the CRO and also provides periodic reporting related to conduct risk to the relevant Board committees. In addition, the Risk & Control Committee for each business group and enterprise function reports conduct risk matters to the Enterprise Risk & Control Committee.

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 Board's Credit Committee has primary oversight responsibility for credit risk. At the management level, the Corporate Credit function, which is part of Corporate Risk, has primary oversight responsibility for credit risk. The Corporate Credit function reports to the CRO and also provides periodic reporting related to credit risk to the Board's Credit Committee. In addition, the Risk & Control Committee for each business group and enterprise function reports

credit risk matters to the Enterprise Risk & Control Committee.
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 12 presents our total loans outstanding by portfolio segment and class of financing receivable.
Table 12: Total Loans Outstanding by Portfolio Segment and Class of Financing Receivable

(in millions)	Sep 30, 2018	Dec 31, 2017
Commercial:		
Commercial and industrial	$338,048	333,125
Real estate mortgage	120,403	126,599
Real estate construction	23,690	24,279
Lease financing	19,745	19,385
Total commercial	501,886	503,388
Consumer:		
Real estate 1-4 family first mortgage	284,273	284,054
Real estate 1-4 family junior lien mortgage	35,330	39,713
Credit card	37,812	37,976
Automobile	46,075	53,371
Other revolving credit and installment	36,924	38,268
Total consumer	440,414	453,382
Total loans	$942,300	956,770

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

Risk Management - Credit Risk Management (continued)

Our credit risk management oversight process is governed centrally, but provides for decentralized management and accountability by our lines of business. Our overall credit process includes comprehensive credit policies, disciplined credit underwriting, frequent and detailed risk measurement and modeling, extensive credit training programs, and a continual loan review and audit process.
A key to our credit risk management is adherence to a well-controlled underwriting process, which we believe is appropriate for the needs of our customers as well as investors who purchase the loans or securities collateralized by the loans.
Credit Quality Overview Solid credit quality continued in third quarter 2018, as our net charge-off rate remained low at 0.29% (annualized) of average total loans. We continued to benefit from improvements in the performance of our residential real estate portfolio as well as seasonally lower credit card losses, partially offset by seasonally higher automobile loan losses. For the fourth consecutive quarter all of our commercial and consumer real estate loan portfolios were in a net recovery position. In particular:

- Nonaccrual loans were $7.1 billion at September 30, 2018, down from $8.0 billion at December 31, 2017. Commercial nonaccrual loans declined to $2.3 billion at September 30, 2018, compared with $2.6 billion at December 31, 2017, and consumer nonaccrual loans declined to $4.8 billion at September 30, 2018, compared with $5.4 billion at December 31, 2017. The decline in nonaccrual loans reflected an improved housing market and credit improvement in commercial and industrial loans. Nonaccrual loans represented 0.75% of total loans at September 30, 2018, compared with 0.84% at December 31, 2017.
- Net charge-offs (annualized) as a percentage of average total loans decreased to 0.29% in both the third quarter and first nine months of 2018, compared with 0.30% in both the third quarter and first nine months of 2017. Net charge-offs (annualized) as a percentage of our average commercial and consumer portfolios were 0.12% and 0.47% in the third quarter and 0.08% and 0.52% in the first nine months of 2018, respectively, compared with 0.09% and 0.53% in the third quarter and 0.09% and 0.54% in the first nine months of 2017.
- Loans that are not government insured/guaranteed and 90 days or more past due and still accruing were $98 million and $835 million in our commercial and consumer portfolios, respectively, at September 30, 2018, compared with $49 million and $1.0 billion at December 31, 2017.
- Our provision for credit losses was $580 million and $1.2 billion in the third quarter and first nine months of 2018, respectively, compared with $717 million and $1.9 billion for the same periods a year ago.
- The allowance for credit losses totaled $11.0 billion, or 1.16% of total loans, at September 30, 2018, down from $12.0 billion, or 1.25%, at December 31, 2017.

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

PURCHASED CREDIT-IMPAIRED (PCI) LOANS Loans acquired with evidence of credit deterioration since their origination and where it is probable that we will not collect all contractually required principal and interest payments are PCI loans. Substantially all of our PCI loans were acquired in the Wachovia acquisition on December 31, 2008. PCI loans are recorded at fair value at the date of acquisition, and the historical allowance for credit losses related to these loans is not carried over. The carrying value of PCI loans at September 30, 2018, totaled $6.9 billion, compared with $12.8 billion at December 31, 2017, and $58.8 billion at December 31, 2008. The decrease from December 31, 2017, was due to the sales of $1.6 billion of Pick-a-Pay PCI loans in first quarter 2018, $1.3 billion in second quarter 2018, and $1.7 billion in third quarter 2018, as well as portfolio runoff. 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, 2018, was $4.4 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. At September 30, 2018, $419 million in

nonaccretable difference remained to absorb losses on PCI loans.

For additional information on PCI loans, see the “Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans – Pick-a-Pay Portfolio” section in this Report, Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2017 Form 10-K, and Note 6 (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, Fair Isaac Corporation (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 6 (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 segmented among special mention, substandard, doubtful and loss categories.

The commercial and industrial loans and lease financing portfolio totaled $357.8 billion, or 38% of total loans, at September 30, 2018. The annualized net charge-off rate for this portfolio was 0.17% and 0.12% in the third quarter and first nine months of 2018, respectively, compared with 0.15% for both of the same periods a year ago. At September 30, 2018, 0.46% of this portfolio was nonaccruing, compared with 0.56% at December 31, 2017, reflecting a decrease of $324 million in nonaccrual loans, predominantly due to improvement in the oil and gas portfolio. Also, $16.8 billion of the commercial and industrial loan and lease financing portfolio was internally classified as criticized in accordance with regulatory guidance at September 30, 2018, compared with $17.9 billion at December 31, 2017. The decrease in criticized loans, which also includes the decrease in nonaccrual loans, was predominantly due to improvement in the oil and gas portfolio.

Most of our commercial and industrial loans and lease financing portfolio is secured by short-term assets, such as accounts receivable, inventory and debt 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 13 provides a breakout of commercial and industrial loans and lease financing by industry, and includes $62.9 billion of foreign loans at September 30, 2018. Foreign loans totaled $21.3 billion within the investor category, $18.3 billion within the financial institutions category and $1.4 billion within the oil and gas category.

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

We provide financial institutions with a variety of relationship focused products and services, including loans supporting short-term trade finance and working capital needs. The $18.3 billion of foreign loans in the financial institutions category were predominantly originated by our Financial Institutions business.

The oil and gas loan portfolio totaled $12.2 billion, or 1% of total outstanding loans, at September 30, 2018, compared with $12.5 billion, or 1% of total outstanding loans, at December 31, 2017. Oil and gas nonaccrual loans decreased to $525 million at September 30, 2018, compared with $1.1 billion at December 31, 2017, due to improved portfolio performance.

Table 13: Commercial and Industrial Loans and Lease Financing by Industry (1)

	September 30, 2018			
(in millions)	Nonaccrual loans	Total portfolio	(2)	% of total loans
Investors	$32	71,903		8 %
Financial institutions	133	40,032		4
Cyclical retailers	176	26,149		3

Healthcare	45	16,607		2	
Food and beverage	11	16,467		2	
Real estate lessor	7	14,880		2	
Technology	8	14,635		2	
Industrial equipment	80	14,168		2	
Oil and gas	525	12,151		1	
Transportation	79	8,719		1	
Business services	27	8,219		1	
Public administration	5	7,969		1	
Other	523	105,894	(3)	9	
Total	$1,651	357,793		38	%

(1) Industry categories are based on the North American Industry Classification System and the amounts reported include foreign loans. See Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for a breakout of commercial foreign loans.

(2) Includes $45 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 $6.0 billion.

Risk Management - Credit Risk Management (continued)

COMMERCIAL REAL ESTATE (CRE) We generally subject CRE loans to individual risk assessment using our internal borrower and collateral quality ratings. Our ratings are aligned to regulatory definitions of pass and criticized categories with criticized segmented among special mention, substandard, doubtful and loss categories. The CRE portfolio, which included $7.6 billion of foreign CRE loans, totaled $144.1 billion, or 15% of total loans, at September 30, 2018, and consisted of $120.4 billion of mortgage loans and $23.7 billion of construction loans. Table 14 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, Florida and Texas, which combined represented 49% of the total CRE portfolio. By property type, the largest concentrations are office buildings at 28% and apartments at 17% of the portfolio. CRE nonaccrual loans totaled 0.4% of the CRE outstanding balance at September 30, 2018, compared with 0.4% at December 31, 2017. At September 30, 2018, we had $4.4 billion of criticized CRE mortgage loans, compared with $4.3 billion at December 31, 2017, and $271 million of criticized CRE construction loans, compared with $298 million at December 31, 2017.

Table 14: CRE Loans by State and Property Type

	September 30, 2018							
	Real estate mortgage		Real estate construction		Total			
(in millions)	Nonaccrual loans	Total portfolio	Nonaccrual loans	Total portfolio	Nonaccrual loans	Total portfolio		% of total loans
By state:								
California	$136	34,419	10	4,506	146	38,925		4 %
New York	10	10,456	—	2,595	10	13,051		1
Florida	29	7,745	3	2,202	32	9,947		1
Texas	70	7,652	—	1,648	70	9,300		1
North Carolina	33	3,793	6	865	39	4,658		*
Arizona	29	4,213	—	410	29	4,623		*
Georgia	15	3,502	—	799	15	4,301		*
Illinois	5	3,406	—	554	5	3,960		*
Washington	19	3,245	3	614	22	3,859		*
Virginia	11	2,856	—	881	11	3,737		*
Other	246	39,116	22	8,616	268	47,732	(1)	5
Total	$603	120,403	44	23,690	647	144,093		15 %
By property:								
Office buildings	$141	37,022	6	2,861	147	39,883		4 %
Apartments	13	15,907	—	7,950	13	23,857		3
Industrial/warehouse	119	15,036	1	1,674	120	16,710		2
Retail (excluding shopping center)	93	14,919	3	551	96	15,470		2
Shopping center	7	10,993	—	1,250	7	12,243		1
Hotel/motel	20	8,800	—	1,971	20	10,771		1
Mixed use properties (2)	85	6,020	6	228	91	6,248		1
Institutional	43	3,010	—	1,887	43	4,897		1
1-4 family structure	—	10	10	2,572	10	2,582		*
Agriculture	42	2,505	—	28	42	2,533		*
Other	40	6,181	18	2,718	58	8,899		1
Total	$603	120,403	44	23,690	647	144,093		15 %

*Less than 1%.

(1) Includes 40 states; no state had loans in excess of $3.5 billion.
(2) Mixed use properties are primarily owner occupied real estate, including data centers, flexible space leased to multiple tenants, light manufacturing and other specialized use properties.

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, 2018, foreign loans totaled $70.9 billion, representing approximately 8% of our total consolidated loans outstanding, compared with $70.4 billion, or approximately 7% of total consolidated loans outstanding, at December 31, 2017. Foreign loans were approximately 4% of our consolidated total assets at September 30, 2018 and at December 31, 2017.

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

We evaluate our individual country risk exposure based on our assessment of the borrower's ability to repay, which gives consideration for allowable transfers of risk such as guarantees and collateral and may be different from the reporting based on the borrower's primary address. Our largest single foreign country exposure based on our assessment of risk at September 30, 2018, was the United Kingdom, which totaled $26.8 billion, or approximately 1% of our total assets, and included $3.3 billion of sovereign claims. Our United Kingdom sovereign claims arise predominantly from deposits we have placed with the Bank of England pursuant to regulatory requirements in support of our London branch. The United Kingdom officially announced its intention to leave the European Union (Brexit) on March 29, 2017, starting the two-year negotiation process leading to its departure. We continue to conduct assessments and are executing our implementation plans to ensure we can continue to prudently serve our customers post-Brexit.

Table 15 provides information regarding our top 20 exposures by country (excluding the U.S.) and our Eurozone exposure, based on our assessment of risk, which gives consideration to the country of any guarantors and/or underlying collateral. Our exposure to Puerto Rico (considered part of U.S. exposure) is not material to our consolidated country exposure. In first quarter 2018, we entered into an agreement to sell certain assets and liabilities of our automobile financing business in Puerto Rico, which closed in third quarter 2018.

Risk Management - Credit Risk Management (continued)

Table 15: Select Country Exposures

	September 30, 2018								
	Lending (1)		Securities (2)		Derivatives and other (3)		Total exposure		
(in millions)	Sovereign	Non-sovereign	Sovereign	Non-sovereign	Sovereign	Non-sovereign	Sovereign	Non-sovereign (4)	Total
Top 20 country exposures:									
United Kingdom	$3,313	21,853	—	1,395	—	213	3,313	23,461	26,774
Canada	32	16,557	(60)	474	—	162	(28)	17,193	17,165
Cayman Islands	—	6,984	—	—	—	132	—	7,116	7,116
Germany	2,415	1,665	24	20	—	333	2,439	2,018	4,457
Ireland	—	3,926	—	155	—	42	—	4,123	4,123
China	—	2,628	(2)	401	98	26	96	3,055	3,151
Bermuda	—	2,880	—	100	—	62	—	3,042	3,042
Netherlands	—	2,412	66	270	1	27	67	2,709	2,776
India	—	2,084	—	154	—	—	—	2,238	2,238
Guernsey	—	2,211	—	2	—	2	—	2,215	2,215
Luxembourg	—	1,313	—	670	—	127	—	2,110	2,110
Brazil	—	2,049	1	(4)	—	9	1	2,054	2,055
Japan	270	1,347	4	157	—	40	274	1,544	1,818
Australia	—	1,294	—	78	—	10	—	1,382	1,382
Chile	1	1,325	—	4	—	8	1	1,337	1,338
South Korea	—	1,151	4	130	3	7	7	1,288	1,295
Switzerland	—	1,214	—	(5)	—	31	—	1,240	1,240
United Arab Emirates	—	1,083	—	28	—	2	—	1,113	1,113
Hong Kong	1	1,043	—	2	2	1	3	1,046	1,049
Mexico	—	1,024	—	13	—	1	—	1,038	1,038
Total top 20 country exposures	$6,032	76,043	37	4,044	104	1,235	6,173	81,322	87,495
Eurozone exposure:									
Eurozone countries included in Top 20 above (5)	$2,415	9,316	90	1,115	1	529	2,506	10,960	13,466
France	—	836	—	102	—	30	—	968	968
Austria	—	664	—	3	—	—	—	667	667
Spain	—	400	—	31	—	108	—	539	539
Other Eurozone exposure (6)	23	491	1	2	—	1	24	494	518
Total Eurozone exposure	$2,438	11,707	91	1,253	1	668	2,530	13,628	16,158

(1) Lending exposure includes funded loans and unfunded commitments, leveraged leases, and money market placements presented on a gross basis prior to the deduction of impairment allowance and collateral received under the terms of the credit agreements. For the countries listed above, there are $596 million in defeased leases secured significantly by U.S. Treasury and government agency securities.

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

(3) Represents counterparty exposure on foreign exchange and derivative contracts, and securities resale and lending agreements. This exposure is presented net of counterparty netting adjustments and reduced by the amount of cash collateral. It includes credit default swaps (CDS) predominantly used for market making activities in the U.S. and London based trading businesses, which sometimes results in selling and purchasing protection on the identical reference entities. Generally, we do not use market instruments such as CDS to hedge the credit risk of our investment or loan positions, although we do use them to manage risk in our trading businesses At September 30, 2018, the gross notional amount of our CDS sold that reference assets in the Top 20 or Eurozone countries was $429 million, which was offset by the notional amount of CDS purchased of $479 million. We did not have any CDS purchased or sold that reference pools of assets that contain sovereign debt or where the reference asset was solely the sovereign debt of a foreign country.

(4) For countries presented in the table, total non-sovereign exposure comprises $40.4 billion exposure to financial institutions and $43.6 billion to non-financial corporations at September 30, 2018.

(5) Consists of exposure to Germany, Ireland, Netherlands, and Luxembourg included in Top 20.

(6) Includes non-sovereign exposure to Italy, Portugal, and Greece in the amount of $120 million, $23 million and $9 million, respectively. We had no sovereign debt exposure to Greece and Portugal, and the sovereign exposure to Italy was $1 million at September 30, 2018.

REAL ESTATE 1-4 FAMILY FIRST AND JUNIOR LIEN MORTGAGE LOANS Our real estate 1-4 family first and junior lien mortgage loans, as presented in Table 16, include loans we have made to customers and retained as part of our asset/liability management strategy, the Pick-a-Pay portfolio acquired from

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

Table 16: Real Estate 1-4 Family First and Junior Lien Mortgage Loans

	September 30, 2018			December 31, 2017		
(in millions)	Balance	% of portfolio		Balance	% of portfolio	
Real estate 1-4 family first mortgage	$284,273	89	%	$284,054	88	%
Real estate 1-4 family junior lien mortgage	35,330	11		39,713	12	
Total real estate 1-4 family mortgage loans	$319,603	100	%	$323,767	100	%

The real estate 1-4 family mortgage loan portfolio includes some loans with adjustable-rate features and some with an interest-only feature as part of the loan terms. Interest-only loans were approximately 4% of total loans at both September 30, 2018, and December 31, 2017. We believe we have manageable adjustable-rate mortgage (ARM) reset risk across our owned mortgage loan portfolios. We do not offer option ARM products, nor do we offer variable-rate mortgage products with fixed payment amounts, commonly referred to within the financial services industry as negative amortizing mortgage loans. The option ARMs we do have are included in the Pick-a-Pay portfolio which was acquired from Wachovia. Since our acquisition of the Pick-a-Pay loan portfolio at the end of 2008, the option payment portion of the portfolio has reduced from 86% to 45% at September 30, 2018, as a result of our modification and loss mitigation efforts. For more information, see the “Pick-a-Pay Portfolio” section in this Report.

We continue to modify real estate 1-4 family mortgage loans to assist homeowners and other borrowers experiencing financial difficulties. For more information on our modification programs, see the “Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans” section in our 2017 Form 10-K.

Part of our credit monitoring includes tracking delinquency, current FICO scores and loan/combined loan to collateral values (LTV/CLTV) on the entire real estate 1-4 family mortgage loan portfolio. These credit risk indicators, which exclude government insured/guaranteed loans, continued to improve in third quarter 2018 on the non-PCI mortgage portfolio. Loans 30 days or more delinquent at September 30, 2018, totaled $4.2 billion, or 1% of total non-PCI mortgages, compared with $5.3 billion, or 2%, at December 31, 2017. Loans with FICO scores lower than 640 totaled $9.9 billion, or 3% of total non-PCI mortgages at September 30, 2018, compared with $11.7 billion, or 4%, at December 31, 2017. Mortgages with a LTV/CLTV greater than 100% totaled $4.3 billion at September 30, 2018, or 1% of total non-PCI mortgages, compared with $6.1 billion, or 2%, at December 31, 2017. Information regarding credit quality indicators, including PCI credit quality indicators, can be found in Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Real estate 1-4 family first and junior lien mortgage loans by state are presented in Table 17. Our real estate 1-4 family non-PCI mortgage loans to borrowers in California represented 12% of total loans at September 30, 2018, located predominantly within the larger metropolitan areas, with no single California metropolitan area consisting of more than 5% of total loans. We monitor changes in real estate values and underlying economic or market conditions for all geographic areas of our real estate 1-4 family first and junior lien mortgage portfolios as part of our

credit risk management process. Our underwriting and periodic review of loans and lines secured by residential real estate collateral includes appraisals or estimates from automated valuation models (AVMs) to support property values. Additional information about AVMs and our policy for their use can be found in Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report and the “Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans” section in our 2017 Form 10-K.

Table 17: Real Estate 1-4 Family First and Junior Lien Mortgage Loans by State

(in millions)	September 30, 2018 Real estate 1-4 family first mortgage	Real estate 1-4 family junior lien mortgage	Total real estate 1-4 family mortgage	% of total loans	
Real estate 1-4 family loans (excluding PCI):					
California	$107,382	9,498	116,880	12	%
New York	28,528	1,758	30,286	3	
New Jersey	13,694	3,243	16,937	2	
Florida	12,505	3,235	15,740	2	
Virginia	8,200	2,093	10,293	1	
Washington	9,475	778	10,253	1	
Texas	8,585	665	9,250	1	
North Carolina	5,922	1,655	7,577	1	
Pennsylvania	5,459	1,986	7,445	1	
Other (1)	64,759	10,401	75,160	8	
Government insured/ guaranteed loans (2)	12,886	—	12,886	1	
Real estate 1-4 family loans (excluding PCI)	277,395	35,312	312,707	33	
Real estate 1-4 family PCI loans	6,878	18	6,896	1	
Total	$284,273	35,330	319,603	34	%

(1) Consists of 41 states; no state had loans in excess of $6.7 billion.

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

Risk Management - Credit Risk Management (continued)

First Lien Mortgage Portfolio Our total real estate 1-4 family first lien mortgage portfolio increased $1.3 billion in third quarter 2018 as growth in nonconforming mortgage loans was partially offset by payoffs, and Pick-a-Pay PCI loan sales of $1.7 billion. In addition, $249 million of nonconforming mortgage loan originations that would have otherwise been included in this portfolio, were designated as held for sale in third quarter 2018 in anticipation of the future issuance of residential mortgage-backed securities. In the first nine months of 2018, the real estate 1-4 family first lien mortgage portfolio increased $219 million as a result of nonconforming mortgage loan growth, partially offset by payoffs and Pick-a-Pay PCI loan sales. We retained $11.7 billion and $32.2 billion in nonconforming originations, consisting of loans that exceed conventional conforming loan amount limits established by federal government-sponsored entities (GSEs) in the third quarter and first nine months of 2018, respectively.
The credit performance associated with our real estate 1-4 family first lien mortgage portfolio continued to improve in third

quarter 2018, as measured through net charge-offs and nonaccrual loans. Net charge-offs (annualized) as a percentage of average real estate 1-4 family first lien mortgage loans improved to a net recovery of 0.04% and 0.03% in the third quarter and first nine months of 2018, respectively, compared with a net recovery of 0.02% and 0.01% for the same periods a year ago. Nonaccrual loans were $3.6 billion at September 30, 2018, down $517 million from December 31, 2017. The decrease in nonaccrual loans from December 31, 2017 was driven by nonaccrual loan sales and an improving housing environment. Real estate 1-4 family first lien mortgage loans originated after 2008, which generally utilized tighter underwriting standards, comprised approximately 83% of our total real estate 1-4 family first lien mortgage portfolio as of September 30, 2018.
Table 18 shows certain delinquency and loss information for the first lien mortgage portfolio and lists the top five states by outstanding balance.
Table 18: First Lien Mortgage Portfolio Performance

	Outstanding balance		% of loans 30 days or more past due		Loss (recovery) rate (annualized) quarter ended				
(in millions)	Sep 30, 2018	Dec 31, 2017	Sep 30, 2018	Dec 31, 2017	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
California	$107,382	101,464	0.72 %	1.06	(0.05)	(0.07)	(0.07)	(0.05)	(0.09)
New York	28,528	26,624	1.30	1.65	0.04	0.09	(0.01)	—	0.05
New Jersey	13,694	13,212	2.17	2.74	(0.02)	0.02	0.08	0.09	0.15
Florida	12,505	13,083	2.74	3.95	(0.22)	(0.15)	(0.14)	(0.16)	(0.22)
Washington	9,475	8,845	0.59	0.85	(0.06)	(0.06)	(0.06)	(0.05)	(0.09)
Other	92,925	92,961	1.82	2.25	(0.03)	(0.03)	0.01	(0.02)	0.03
Total	264,509	256,189	1.33	1.78	(0.04)	(0.04)	(0.03)	(0.04)	(0.03)
Government insured/guaranteed loans	12,886	15,143							
PCI	6,878	12,722							
Total first lien mortgages	$284,273	284,054							

37

Pick-a-Pay Portfolio The Pick-a-Pay portfolio was one of the consumer residential first lien mortgage portfolios we acquired from Wachovia and a majority of the portfolio was identified as PCI loans.
The Pick-a-Pay portfolio includes loans that offer payment options (Pick-a-Pay option payment loans), and also includes loans that were originated without the option payment feature, loans that no longer offer the option feature as a result of our modification efforts since the acquisition, and loans where the customer voluntarily converted to a fixed-rate product. The Pick-a-Pay portfolio is included in the consumer real estate 1-4 family first mortgage class of loans throughout this Report. Table 19 provides balances by types of loans as of September 30, 2018. As a result of our loan modification and loss mitigation efforts, Pick-

a-Pay option payment loans have been reduced to $9.3 billion at September 30, 2018, from $99.9 billion at acquisition. Total adjusted unpaid principal balance of Pick-a-Pay PCI loans was $9.1 billion at September 30, 2018, compared with $61.0 billion at acquisition. Due to loan modification and loss mitigation efforts, the adjusted unpaid principal balance of option payment PCI loans has declined to 17% of the total Pick-a-Pay portfolio at September 30, 2018, compared with 51% at acquisition. As favorable sale opportunities arise, we may sell portions of this portfolio. We expect to close on the sale of approximately $2.5 billion of unpaid principal balance of Pick-a-Pay PCI loans in fourth quarter 2018.
Table 19: Pick-a-Pay Portfolio – Comparison to Acquisition Date

	September 30, 2018		December 31, 2017		2008	
(in millions)	Adjusted unpaid principal balance (1)	% of total	Adjusted unpaid principal balance (1)	% of total	Adjusted unpaid principal balance (1)	% of total
Option payment loans	$9,312	45 %	$10,891	36 %	$99,937	86 %
Non-option payment adjustable-rate and fixed-rate loans	3,094	15	3,771	13	15,763	14
Full-term loan modifications	8,328	40	15,366	51	—	—
Total adjusted unpaid principal balance	$20,734	100 %	$30,028	100 %	$115,700	100 %
Total carrying value	$18,498		26,038		95,315	

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

Pick-a-Pay option payment loans may have fixed or adjustable rates with payment options that include a minimum payment, an interest-only payment or fully amortizing payment (both 15 and 30 year options).
Since December 31, 2008, we have completed over 138,000 proprietary and Home Affordability Modification Program (HAMP) Pick-a-Pay loan modifications, which have resulted in over $6.1 billion of principal forgiveness. We have also provided interest rate reductions and loan term extensions to enable sustainable homeownership for our Pick-a-Pay customers. As a result of these loss mitigation programs, approximately 57% of our Pick-a-Pay PCI adjusted unpaid principal balance as of September 30, 2018 has been modified.
The predominant portion of our PCI loans is included in the Pick-a-Pay portfolio. Our cash flows expected to be collected have been favorably affected over time by lower expected defaults and losses as a result of observed and forecasted economic strengthening, particularly in housing prices, and our loan modification efforts. Since acquisition, we have reclassified $9.3 billion from the nonaccretable difference to the accretable yield. Fluctuations in the accretable yield are driven by changes in interest rate indices for variable rate PCI loans, prepayment assumptions, and expected principal and interest payments over the estimated life of the portfolio, which will be affected by the pace and degree of improvements in the U.S. economy and housing markets and projected lifetime performance resulting from loan modification activity. Changes in the projected timing of cash flow events, including loan liquidations,

prepayments, modifications and short sales, can also affect the accretable yield and the estimated weighted-average life of the portfolio.

During third quarter 2018, we sold $1.7 billion of Pick-a-Pay PCI loans that resulted in a gain of $638 million. The accretable yield balance related to our Pick-a-Pay PCI loan portfolio declined $1.3 billion during third quarter 2018, driven by realized accretion of $257 million, $638 million from the gain on the loan sales, a $516 million reduction in expected interest cash flows resulting from the loan sales, partially offset by a $107 million increase in expected interest cash flows due to slower estimated prepayments. The slower estimated prepayments resulted in increasing the estimated weighted-average life of the portfolio to approximately 5.5 years at September 30, 2018 up from 5.2 years at June 30, 2018. Due to a decrease in the amount of accretable yield relative to the longer weighted-average life, we expect the accretable yield percentage to decline from 12.02% in third quarter 2018 to approximately 11.47% for fourth quarter 2018.
For further information on the judgment involved in estimating expected cash flows for PCI loans, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2017 Form 10-K.

Risk Management - Credit Risk Management (continued)

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

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

process for junior lien mortgages that are current, but are in their revolving period, considers the inherent loss where the borrower is delinquent on the corresponding first lien mortgage loans.

Table 20 shows certain delinquency and loss information for the junior lien mortgage portfolio and lists the top five states by outstanding balance. The decrease in outstanding balances since December 31, 2017, predominantly reflects loan paydowns. As of September 30, 2018, 7% of the outstanding balance of the junior lien mortgage portfolio was associated with loans that had a combined loan to value (CLTV) ratio in excess of 100%. Of those junior lien mortgages with a CLTV ratio in excess of 100%, 2.81% were 30 days or more past due. CLTV means the ratio of the total loan balance of first lien mortgages and junior lien mortgages (including unused line amounts for credit line products) to property collateral value. The unsecured portion (the outstanding amount that was in excess of the most recent property collateral value) of the outstanding balances of these loans totaled 2% of the junior lien mortgage portfolio at September 30, 2018. For additional information on consumer loans by LTV/CLTV, see Table 6.12 in Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Table 20: Junior Lien Mortgage Portfolio Performance

	Outstanding balance		% of loans 30 days or more past due		Loss (recovery) rate (annualized) quarter ended				
(in millions)	Sep 30, 2018	Dec 31, 2017	Sep 30, 2018	Dec 31, 2017	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
California	$9,498	10,599	1.79 %	2.09	(0.51)	(0.56)	(0.42)	(0.35)	(0.46)
New Jersey	3,243	3,606	2.63	2.86	0.24	0.28	0.44	0.47	0.58
Florida	3,235	3,688	2.72	3.05	0.12	(0.05)	(0.12)	0.13	0.06
Virginia	2,093	2,358	2.00	2.34	0.16	0.30	0.25	0.15	0.33
Pennsylvania	1,986	2,210	2.35	2.37	0.18	0.13	0.06	0.11	0.47
Other	15,257	17,225	2.16	2.33	(0.05)	(0.06)	(0.05)	(0.09)	0.06
Total	35,312	39,686	2.15	2.38	(0.10)	(0.13)	(0.09)	(0.06)	—
PCI	18	27							
Total junior lien mortgages	$35,330	39,713							

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

On a monthly basis, we monitor the payment characteristics of borrowers in our first and junior lien lines of credit portfolios. In September 2018, approximately 45% of these borrowers paid only the minimum amount due and approximately 50% paid more than the minimum amount due. The rest were either delinquent or paid less than the minimum amount due. For the

borrowers with an interest only payment feature, approximately 31% paid only the minimum amount due and approximately 63% paid more than the minimum amount due.

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

Table 21 reflects the outstanding balance of our portfolio of junior lien mortgages, including lines and loans, and first lien lines segregated into scheduled end of draw or end of term periods and products that are currently amortizing, or in balloon repayment status. It excludes real estate 1-4 family first lien line reverse mortgages, which total $113 million, because they are predominantly insured by the FHA, and it excludes PCI loans, which total $35 million, because their losses were generally reflected in our nonaccretable difference established at the date of acquisition.

Table 21: Junior Lien Mortgage Line and Loan and First Lien Mortgage Line Portfolios Payment Schedule

			Scheduled end of draw / term					
(in millions)	Outstanding balance September 30, 2018	Remainder of 2018	2019	2020	2021	2022	2023 and thereafter (1)	Amortizing
Junior lien lines and loans	$ 35,312	138	514	539	1,157	4,104	17,039	11,821
First lien lines	12,084	69	185	212	523	1,946	7,110	2,039
Total (2)(3)	$ 47,396	207	699	751	1,680	6,050	24,149	13,860
% of portfolios	100 %	—	1	2	4	13	51	29

(1) Substantially all lines and loans are scheduled to convert to amortizing loans by the end of 2026, with annual scheduled amounts through that date ranging from $3.5 billion to $6.0 billion and averaging $4.8 billion per year.

(2) Junior and first lien lines are primarily interest-only during their draw period. The unfunded credit commitments for junior and first lien lines totaled $60.6 billion at September 30, 2018.

(3) Includes scheduled end-of-term balloon payments for lines and loans totaling $32 million, $202 million, $237 million, $386 million, $185 million and $62 million for 2018, 2019, 2020, 2021, 2022, and 2023 and thereafter, respectively. Amortizing lines and loans include $62 million of end-of-term balloon payments, which are past due. At September 30, 2018, $506 million, or 4% of outstanding lines of credit that are amortizing, are 30 days or more past due compared to $573 million or 2% for lines in their draw period.

CREDIT CARDS Our credit card portfolio totaled $37.8 billion at September 30, 2018, which represented 4% of our total outstanding loans. The net charge-off rate (annualized) for our credit card portfolio was 3.22% for third quarter 2018, compared with 3.08% for third quarter 2017 and 3.50% and 3.43% for the first nine months of 2018 and 2017,

respectively.

AUTOMOBILE Our automobile portfolio, predominantly composed of indirect loans, totaled $46.1 billion at September 30, 2018. The net charge-off rate (annualized) for our automobile portfolio was 1.10% for third quarter 2018, compared with 1.41% for third quarter 2017 and 1.23% and 1.12% for the first nine months of 2018 and 2017, respectively. The increase in net charge-offs in the first nine months of 2018, compared with 2017, was driven by higher severity.

OTHER REVOLVING CREDIT AND INSTALLMENT Other revolving credit and installment loans totaled $36.9 billion at September 30, 2018, and primarily included student and securities-based loans. Our private student loan portfolio totaled $11.5 billion at September 30, 2018. The net charge-off rate (annualized) for other revolving credit and installment loans was 1.44% for both third quarter 2018 and 2017 and 1.49% and 1.54% for the first nine months of 2018 and 2017, respectively.

Risk Management - Credit Risk Management (continued)

NONPERFORMING ASSETS (NONACCRUAL LOANS AND FORECLOSED ASSETS) Table 22 summarizes nonperforming assets (NPAs) for each of the last four quarters. Total NPAs decreased $410 million from second quarter 2018 to $7.6 billion. Nonaccrual loans decreased $433 million from second quarter 2018 to $7.1 billion, reflecting both lower consumer and commercial nonaccruals. Foreclosed assets of $522 million were up $23 million from second quarter 2018.

We generally place loans on nonaccrual status when:

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

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

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

	September 30, 2018			June 30, 2018			March 31, 2018			December 31, 2017		
($ in millions)	Balance	% of total loans		Balance	% of total loans		Balance	% of total loans		Balance	% of total loans	
Nonaccrual loans:												
Commercial:												
Commercial and industrial	$1,555	0.46	%	$1,559	0.46	%	$1,516	0.45	%	$1,899	0.57	%
Real estate mortgage	603	0.50		765	0.62		755	0.60		628	0.50	
Real estate construction	44	0.19		51	0.22		45	0.19		37	0.15	
Lease financing	96	0.49		80	0.41		93	0.48		76	0.39	
Total commercial	2,298	0.46		2,455	0.49		2,409	0.48		2,640	0.52	
Consumer:												
Real estate 1-4 family first mortgage (1)	3,605	1.27		3,829	1.35		4,053	1.43		4,122	1.45	
Real estate 1-4 family junior lien mortgage	984	2.79		1,029	2.82		1,087	2.87		1,086	2.73	
Automobile	118	0.26		119	0.25		117	0.24		130	0.24	
Other revolving credit and installment	48	0.13		54	0.14		53	0.14		58	0.15	
Total consumer	4,755	1.08		5,031	1.14		5,310	1.20		5,396	1.19	
Total nonaccrual loans (2)(3)(4)	7,053	0.75		7,486	0.79		7,719	0.81		8,036	0.84	
Foreclosed assets:												
Government insured/guaranteed (5)	87			90			103			120		
Non-government insured/guaranteed	435			409			468			522		
Total foreclosed assets	522			499			571			642		
Total nonperforming assets	$7,575	0.80	%	$7,985	0.85	%	$8,290	0.88	%	$8,678	0.91	%
Change in NPAs from prior quarter	$(410)			(305)			(388)			(647)		

(1) Includes mortgage loans held for sale (MLHFS) of $132 million, $133 million, $137 million, and $136 million at September 30, June 30 and March 31, 2018, and December 31, 2017, respectively.

(2)

Excludes PCI loans because they continue to earn interest income from accretable yield, independent of performance in accordance with their contractual terms.

(3) Real estate 1-4 family mortgage loans predominantly insured by the FHA or guaranteed by the VA are not placed on nonaccrual status because they are insured or guaranteed.

(4) See Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for further information on impaired loans.

(5) Consistent with regulatory reporting requirements, foreclosed real estate resulting from government insured/guaranteed loans are classified as nonperforming. However, both principal and interest related to these foreclosed real estate assets are collectible because the loans were predominantly insured by the FHA or guaranteed by the VA. Foreclosure of certain government guaranteed residential real estate mortgage loans that meet criteria specified by Accounting Standards Update (ASU) 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure, effective as of January 1, 2014, are excluded from this table and included in Accounts Receivable in Other Assets. For more information on the changes in foreclosures for government guaranteed residential real estate mortgage loans, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2017 Form 10-K.

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

Table 23: Analysis of Changes in Nonaccrual Loans

(in millions)	Quarter ended Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
Commercial nonaccrual loans					
Balance, beginning of period	$2,455	2,409	2,640	3,109	3,385
Inflows	774	726	605	617	627
Outflows:					
Returned to accruing	(122)	(43)	(113)	(126)	(97)
Foreclosures	—	—	—	(1)	(3)
Charge-offs	(191)	(133)	(119)	(139)	(173)
Payments, sales and other	(618)	(504)	(604)	(820)	(630)
Total outflows	(931)	(680)	(836)	(1,086)	(903)
Balance, end of period	2,298	2,455	2,409	2,640	3,109
Consumer nonaccrual loans					
Balance, beginning of period	5,031	5,310	5,396	5,510	5,671
Inflows (1)	599	602	738	845	887
Outflows:					
Returned to accruing	(325)	(345)	(376)	(345)	(397)
Foreclosures	(62)	(53)	(62)	(72)	(56)
Charge-offs	(65)	(86)	(88)	(94)	(109)
Payments, sales and other	(423)	(397)	(298)	(448)	(486)
Total outflows	(875)	(881)	(824)	(959)	(1,048)
Balance, end of period	4,755	5,031	5,310	5,396	5,510
Total nonaccrual loans	$7,053	7,486	7,719	8,036	8,619

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

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

While nonaccrual loans are not free of loss content, we believe exposure to loss is significantly mitigated by the following factors at September 30, 2018:

- over 99% of total commercial nonaccrual loans and 99% of total consumer nonaccrual loans are secured. Of the consumer nonaccrual loans, 97% are secured by real estate and 85% have a combined LTV (CLTV) ratio of 80% or less.
- losses of $358 million and $1.6 billion have already been recognized on 21% of commercial nonaccrual loans and 42% of consumer nonaccrual loans, respectively. Generally, when a consumer real estate loan is 120 days past due (except when required earlier by guidance issued by bank regulatory agencies), we transfer it to nonaccrual status. When the loan reaches 180 days past due, or is active or discharged in bankruptcy, it is our policy to write these loans down to net realizable value (fair value of collateral less estimated costs to sell). Thereafter, we re-evaluate each loan regularly and record additional write-downs if needed.
- 84% of commercial nonaccrual loans were current on interest, but were on nonaccrual status because the full or timely collection of interest or principal had become uncertain.
- 76% of commercial nonaccrual loans were current on both principal and interest, but will remain on nonaccrual status until the full and timely collection of principal and interest becomes certain.

- the remaining risk of loss of all nonaccrual loans has been considered and we believe is adequately covered by the allowance for loan losses.
- of $2.1 billion of consumer loans in bankruptcy or discharged in bankruptcy, and classified as nonaccrual, $1.4 billion were current.

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

Risk Management - Credit Risk Management (continued)

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

Table 24: Foreclosed Assets

(in millions)	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
Summary by loan segment					
Government insured/guaranteed	$ 87	90	103	120	137
PCI loans:					
Commercial	31	42	59	57	67
Consumer	63	61	58	62	72
Total PCI loans	94	103	117	119	139
All other loans:					
Commercial	170	134	162	207	226
Consumer	171	172	189	196	204
Total all other loans	341	306	351	403	430
Total foreclosed assets	$ 522	499	571	642	706
Analysis of changes in foreclosed assets					
Balance, beginning of period	$ 499	571	642	706	781
Net change in government insured/guaranteed (1)	(3)	(13)	(17)	(17)	(12)
Additions to foreclosed assets (2)	209	191	185	180	198
Reductions:					
Sales	(181)	(257)	(245)	(231)	(257)
Write-downs and gains (losses) on sales	(2)	7	6	4	(4)
Total reductions	(183)	(250)	(239)	(227)	(261)
Balance, end of period	$ 522	499	571	642	706

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

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

Foreclosed assets at September 30, 2018, included $317 million of foreclosed residential real estate, of which 27% is predominantly FHA insured or VA guaranteed and expected to have minimal or no loss content. The remaining foreclosed assets balance of $205 million has been written down to estimated net realizable value. Of the $522 million in foreclosed assets at September 30, 2018, 63% have been in the foreclosed assets portfolio one year or less.

TROUBLED DEBT RESTRUCTURINGS (TDRs)

Table 25: Troubled Debt Restructurings (TDRs)

(in millions)	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
Commercial:					
Commercial and industrial	$1,837	1,792	1,703	2,096	2,424
Real estate mortgage	782	904	939	901	953
Real estate construction	49	40	45	44	48
Lease financing	65	50	53	35	39
Total commercial TDRs	2,733	2,786	2,740	3,076	3,464
Consumer:					
Real estate 1-4 family first mortgage	10,967	11,387	11,782	12,080	12,617
Real estate 1-4 family junior lien mortgage	1,689	1,735	1,794	1,849	1,919
Credit Card	431	410	386	356	340
Automobile	91	81	83	87	88
Other revolving credit and installment	146	141	137	126	124
Trial modifications	163	200	198	194	183
Total consumer TDRs	13,487	13,954	14,380	14,692	15,271
Total TDRs	$16,220	16,740	17,120	17,768	18,735
TDRs on nonaccrual status	$4,298	4,454	4,428	4,801	5,218
TDRs on accrual status:					
Government insured/guaranteed	1,308	1,368	1,375	1,359	1,377
Non-government insured/guaranteed	10,614	10,918	11,317	11,608	12,140
Total TDRs	$16,220	16,740	17,120	17,768	18,735

Table 25 provides information regarding the recorded investment of loans modified in TDRs. The allowance for loan losses for TDRs was $1.3 billion and $1.6 billion at September 30, 2018, and December 31, 2017, respectively. See Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for additional information regarding TDRs. In those situations where principal is forgiven, the entire amount of such forgiveness is immediately charged off to the extent not done so prior to the modification. When we delay the timing on the repayment of a portion of principal (principal forbearance), we charge off the amount of forbearance if that amount is not considered fully collectible.

For more information on our nonaccrual policies when a restructuring is involved, see the “Risk Management – Credit Risk Management – Troubled Debt Restructurings (TDRs)” section in our 2017 Form 10-K.
Table 26 provides an analysis of the changes in TDRs. Loans modified more than once are reported as TDR inflows only in the period they are first modified. Other than resolutions such as foreclosures, sales and transfers to held for sale, we may remove loans held for investment from TDR classification, but only if they have been refinanced or restructured at market terms and qualify as a new loan.

Risk Management - Credit Risk Management (continued)

Table 26: Analysis of Changes in TDRs

	Quarter ended				
(in millions)	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
Commercial TDRs					
Balance, beginning of quarter	$2,786	2,740	3,076	3,464	3,736
Inflows (1)(2)	588	481	321	412	333
Outflows					
Charge-offs	(92)	(41)	(63)	(65)	(74)
Foreclosures	(13)	—	—	(1)	(2)
Payments, sales and other (2)(3)	(536)	(394)	(594)	(734)	(529)
Balance, end of quarter	2,733	2,786	2,740	3,076	3,464
Consumer TDRs					
Balance, beginning of quarter	13,954	14,380	14,692	15,271	15,850
Inflows (1)	414	467	487	395	461
Outflows					
Charge-offs	(56)	(56)	(54)	(52)	(51)
Foreclosures	(116)	(133)	(131)	(135)	(146)
Payments, sales and other (3)	(672)	(706)	(618)	(798)	(811)
Net change in trial modifications (4)	(37)	2	4	11	(32)
Balance, end of quarter	13,487	13,954	14,380	14,692	15,271
Total TDRs	$16,220	16,740	17,120	17,768	18,735

(1) Inflows include loans that modify, even if they resolve within the period, as well as gross advances on term loans that modified in a prior period and net advances on revolving commercial TDRs that modified in a prior period.

(2) Information for the quarter ended June 30, 2018 has been revised to offset payments and advances (i.e. inflows) on revolving commercial TDRs, for consistent presentation of this activity for all periods.

(3) Other outflows include normal amortization/accretion of loan basis adjustments and loans transferred to held-for-sale. It also includes $5 million and $6 million of loans refinanced or restructured at market terms and qualifying as new loans and removed from TDR classification for the quarters ended March 31, 2018 and September 30, 2017, respectively, while no loans were removed from TDR classification for the quarters ended September 30 and June 30, 2018, and December 31, 2017.

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

LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING

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

Excluding insured/guaranteed loans, loans 90 days or more past due and still accruing at September 30, 2018, were down $130 million, or 12%, from December 31, 2017, due to payoffs, modifications and other loss mitigation activities and credit

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

Loans 90 days or more past due and still accruing whose repayments are predominantly insured by the FHA or guaranteed by the VA for mortgages were $8.3 billion at September 30, 2018, down from $10.9 billion at December 31, 2017, due to an improvement in delinquencies in the portfolio as well as a higher volume of loan modifications.

Table 27 reflects non-PCI loans 90 days or more past due and still accruing by class for loans not government insured/guaranteed. For additional information on delinquencies by loan class, see Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

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

(in millions)	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
Total (excluding PCI (1)):	$ 9,209	9,464	10,753	11,997	10,227
Less: FHA insured/VA guaranteed (2)(3)	8,276	8,622	9,786	10,934	9,266
Total, not government insured/guaranteed	$ 933	842	967	1,063	961
By segment and class, not government insured/guaranteed:					
Commercial:					
Commercial and industrial	$ 42	23	40	26	27
Real estate mortgage	56	26	23	23	11
Real estate construction	—	—	1	—	—
Total commercial	98	49	64	49	38
Consumer:					
Real estate 1-4 family first mortgage (3)	129	133	164	219	190
Real estate 1-4 family junior lien mortgage (3)	32	33	48	60	49
Credit card	460	429	473	492	475
Automobile	108	105	113	143	111
Other revolving credit and installment	106	93	105	100	98
Total consumer	835	793	903	1,014	923
Total, not government insured/guaranteed	$ 933	842	967	1,063	961

(1) PCI loans totaled $567 million, $811 million, $1.0 billion, $1.4 billion, and $1.4 billion at September 30, June 30 and March 31, 2018, and December 31 and September 30, 2017, respectively.

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

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

Risk Management - Credit Risk Management (continued)

NET CHARGE-OFFS

Table 28: Net Charge-offs

	Quarter ended									
	Sep 30, 2018		Jun 30, 2018		Mar 31, 2018		Dec 31, 2017		Sep 30, 2017	
($ in millions)	Net loan charge-offs	% of avg. loans(1)	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)
Commercial:										
Commercial and industrial	$148	0.18 %	$58	0.07 %	$85	0.10 %	$118	0.14 %	$125	0.15 %
Real estate mortgage	(1)	—	—	—	(15)	(0.05)	(10)	(0.03)	(3)	(0.01)
Real estate construction	(2)	(0.04)	(6)	(0.09)	(4)	(0.07)	(3)	(0.05)	(15)	(0.24)
Lease financing	7	0.14	15	0.32	12	0.25	10	0.20	6	0.12
Total commercial	152	0.12	67	0.05	78	0.06	115	0.09	113	0.09
Consumer:										
Real estate 1-4 family first mortgage	(25)	(0.04)	(23)	(0.03)	(18)	(0.03)	(23)	(0.03)	(16)	(0.02)
Real estate 1-4 family junior lien mortgage	(9)	(0.10)	(13)	(0.13)	(8)	(0.09)	(7)	(0.06)	1	—
Credit card	299	3.22	323	3.61	332	3.69	336	3.66	277	3.08
Automobile	130	1.10	113	0.93	208	1.64	188	1.38	202	1.41
Other revolving credit and installment	133	1.44	135	1.44	149	1.60	142	1.46	140	1.44
Total consumer	528	0.47	535	0.49	663	0.60	636	0.56	604	0.53
Total	$680	0.29 %	$602	0.26 %	$741	0.32 %	$751	0.31 %	$717	0.30 %

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

Table 28 presents net charge-offs for third quarter 2018 and the previous four quarters. Net charge-offs in third quarter 2018 were $680 million (0.29% of average total loans outstanding) compared with $717 million (0.30%) in third quarter 2017.

The increase in commercial net charge-offs from third quarter 2017 was due to higher commercial and industrial loan charge-offs and lower recoveries. Our commercial real estate portfolios were in a net recovery position. Total net charge-offs decreased from the prior year across all consumer portfolios, except for the credit card portfolio, which had a slight increase.

ALLOWANCE FOR CREDIT LOSSES The allowance for credit losses, which consists of the allowance for loan losses and the allowance for unfunded credit commitments, is management's estimate of credit losses inherent in the loan portfolio and unfunded credit commitments at the balance sheet date, excluding loans carried at fair value. The detail of the changes in the allowance for credit losses by portfolio segment (including charge-offs and recoveries by loan class) is in Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

We apply a disciplined process and methodology to establish our allowance for credit losses each quarter. This process takes into consideration many factors, including historical and forecasted loss trends, loan-level credit quality ratings and loan grade-specific characteristics. The process involves subjective and complex judgments. In addition, we review a variety of credit metrics and trends. These credit metrics and trends, however, do not solely determine the amount of the allowance as we use several analytical tools. Our estimation approach for the commercial portfolio reflects the estimated probability of default in accordance with the borrower's financial strength, and the severity of loss in the event of default, considering the quality of any underlying collateral. Probability of default and severity at the time of default are statistically derived through historical observations of defaults and losses after default within each credit risk rating. Our estimation approach for the consumer portfolio uses forecasted losses that represent our best estimate of inherent loss based on historical experience, quantitative and other mathematical techniques. For additional information on our allowance for credit losses, see the "Critical Accounting Policies – Allowance for Credit Losses" section in our 2017 Form 10-K and Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

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

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

(in millions)	Sep 30, 2018 ACL	Loans as % of total loans		Dec 31, 2017 ACL	Loans as % of total loans		Dec 31, 2016 ACL	Loans as % of total loans		Dec 31, 2015 ACL	Loans as % of total loans		Dec 31, 2014 ACL	Loans as % of total loans	
Commercial:															
Commercial and industrial	$3,759	36	%	$3,752	35	%	$4,560	34	%	$4,231	33	%	$3,506	32	%
Real estate mortgage	1,281	13		1,374	13		1,320	14		1,264	13		1,576	13	
Real estate construction	1,228	2		1,238	3		1,294	2		1,210	3		1,097	2	
Lease financing	300	2		268	2		220	2		167	1		198	1	
Total commercial	6,568	53		6,632	53		7,394	52		6,872	50		6,377	48	
Consumer:															
Real estate 1-4 family first mortgage	827	30		1,085	30		1,270	29		1,895	30		2,878	31	
Real estate 1-4 family junior lien mortgage	493	4		608	4		815	5		1,223	6		1,566	7	
Credit card	1,959	4		1,944	4		1,605	4		1,412	4		1,271	4	
Automobile	546	5		1,039	5		817	6		529	6		516	6	
Other revolving credit and installment	563	4		652	4		639	4		581	4		561	4	
Total consumer	4,388	47		5,328	47		5,146	48		5,640	50		6,792	52	
Total	$10,956	100	%	$11,960	100	%	$12,540	100	%	$12,512	100	%	$13,169	100	%

	Sep 30, 2018		Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Components:						
Allowance for loan losses	$10,021		11,004	11,419	11,545	12,319
Allowance for unfunded credit commitments	935		956	1,121	967	850
Allowance for credit losses	$10,956		11,960	12,540	12,512	13,169
Allowance for loan losses as a percentage of total loans	1.06	%	1.15	1.18	1.26	1.43
Allowance for loan losses as a percentage of total net charge-offs (1)	371		376	324	399	418
Allowance for credit losses as a percentage of total loans	1.16		1.25	1.30	1.37	1.53
Allowance for credit losses as a percentage of total nonaccrual loans	155		149	121	110	103

(1) Total net charge-offs are annualized for quarter ended September 30, 2018.

In addition to the allowance for credit losses, there was $419 million at September 30, 2018, and $474 million at December 31, 2017 of nonaccretable difference to absorb losses for PCI loans, which totaled $6.9 billion at September 30, 2018. The allowance for credit losses is lower than otherwise would have been required without PCI loan accounting. As a result of PCI loans, certain ratios of the Company may not be directly comparable with credit-related metrics for other financial institutions. Additionally, loans purchased at fair value, including loans from the GE Capital business acquisitions in 2016, generally reflect a lifetime credit loss adjustment and therefore do not initially require additions to the allowance as is typically associated with loan growth. For additional information on PCI loans, see the "Risk Management – Credit Risk Management – Purchased Credit-Impaired Loans" section and Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

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

The allowance for credit losses decreased $1.0 billion, or 8%, from December 31, 2017, due to an improvement in our outlook for 2017 hurricane-related losses, as well as continued improvement in residential real estate and lower loan balances. Total provision for credit losses was $580 million in third quarter 2018, compared with $717 million in third quarter 2017, reflecting the same changes mentioned above for the allowance for credit losses.

We believe the allowance for credit losses of $11.0 billion at September 30, 2018, was appropriate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, at that date. The entire allowance is available to absorb credit losses inherent in the total loan portfolio. The allowance for credit losses is subject to change and reflects existing factors as of the date of determination, including economic or market conditions and ongoing internal and external examination processes. Due to the sensitivity of the allowance for credit losses to changes in the economic and business environment, it is possible that we will incur incremental credit losses not anticipated as of the balance sheet date. Future allowance levels will be based on a variety of factors, including

loan growth, portfolio performance and general economic conditions. Our process for determining the allowance for credit losses is discussed in the "Critical Accounting Policies – Allowance for Credit Losses" section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2017 Form 10-K.

LIABILITY FOR MORTGAGE LOAN REPURCHASE LOSSES

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

Because we typically retain the servicing for the mortgage loans we sell or securitize, we believe the quality of our residential mortgage loan servicing portfolio provides helpful information in evaluating our repurchase liability. Of the $1.5 trillion in the residential mortgage loan servicing portfolio at September 30, 2018, 96% was current and less than 1% was subprime at origination. Our combined delinquency and foreclosure rate on this portfolio was 4.32% at September 30, 2018, compared with 5.14% at December 31, 2017. One percent of this portfolio is private label securitizations for which we originated the loans and, therefore, have some repurchase risk.

The overall level of unresolved repurchase demands and mortgage insurance rescissions outstanding at September 30, 2018, was $62 million, representing 294 loans, down from a year ago both in number of outstanding loans and in total dollar balances. The decrease was predominantly due to private investor demands which we resolved in third quarter 2018.

Our liability for mortgage repurchases, included in "Accrued expenses and other liabilities" in our consolidated balance sheet, represents our best estimate of the probable loss that we expect to incur for various representations and warranties in the contractual provisions of our sales of mortgage loans. The liability was $178 million at September 30, 2018, and $181 million at December 31, 2017. In third quarter 2018, we recorded a provision of $1 million predominantly due to loan sales, which decreased net gains on mortgage loan origination/sales activities, compared with a release of $6 million in third quarter 2017. We incurred net losses on repurchased loans and investor reimbursements totaling $2 million in third quarter 2018 and $3 million in third quarter 2017.

Because of the uncertainty in the various estimates underlying the mortgage repurchase liability, there is a range of losses in excess of the recorded mortgage repurchase liability that are reasonably possible. The estimate of the range of possible loss for representations and warranties does not represent a probable loss, and is based on currently available information, significant judgment, and a number of assumptions that are subject to change. The high end of this range of reasonably possible losses exceeded our recorded liability by $201 million at September 30, 2018, and was determined based upon modifying the assumptions (particularly to assume significant changes in investor repurchase demand practices) used in our best estimate of probable loss to reflect what we believe to be the high end of reasonably possible adverse assumptions.

For additional information on our repurchase liability, see the "Risk Management – Credit Risk Management – Liability For Mortgage Loan Repurchase Losses" section in our 2017 Form 10-K and Note 10 (Mortgage Banking Activities) to Financial Statements in this Report.

RISKS RELATING TO SERVICING ACTIVITIES In addition to servicing loans in our portfolio, we act as servicer and/or master servicer of residential mortgage loans included in GSE-guaranteed mortgage securitizations, GNMA-guaranteed mortgage securitizations of FHA-insured/VA-guaranteed mortgages and private label mortgage securitizations, as well as for unsecuritized loans owned by institutional investors. In connection with our servicing activities, we could become subject to consent orders and settlement agreements with federal and state regulators for alleged servicing issues and practices. In general, these can require us to provide customers with loan modification relief, refinancing relief, and foreclosure prevention and assistance, as well as can impose certain monetary penalties on us.

For additional information about the risks related to our servicing activities, see the "Risk Management – Credit Risk Management – Risks Relating to Servicing Activities" section in our 2017 Form 10-K.

Asset/Liability Management

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

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

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

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

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

Our most recent simulations estimate net interest income sensitivity over the next two years under a range of both lower and higher interest rates. Measured impacts from standardized ramps (gradual changes) and shocks (instantaneous changes) are summarized in Table 30, indicating net interest income sensitivity relative to the Company's base net interest income

plan. Ramp scenarios assume interest rates move gradually in parallel across the yield curve relative to the base scenario in year one, and the full amount of the ramp is held as a constant differential to the base scenario in year two. The following describes the simulation assumptions for the scenarios presented in Table 30:

- Simulations are dynamic and reflect anticipated growth across assets and liabilities.
- Other macroeconomic variables that could be correlated with the changes in interest rates are held constant.
- Mortgage prepayment and origination assumptions vary across scenarios and reflect only the impact of the higher or lower interest rates.
- Our base scenario deposit forecast incorporates mix changes consistent with the base interest rate trajectory. Deposit mix is modeled to be the same as in the base scenario across the alternative scenarios. In higher interest rate scenarios, customer activity that shifts balances into higher-yielding products could reduce expected net interest income.

- We hold the size of the projected debt and equity securities portfolios constant across scenarios.

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

		Lower Rates	Higher Rates	
($ in billions)	Base	100 bps Ramp Parallel Decrease	100 bps Instantaneous Parallel Increase	200 bps Ramp Parallel Increase
First Year of Forecasting Horizon				
Net Interest Income Sensitivity to Base Scenario	$	(1.0) - (0.5)	0.8 - 1.3	0.8 - 1.3
Key Rates at Horizon End				
Fed Funds Target	3.00 %	2.00	4.00	5.00
10-year CMT (1)	3.47	2.47	4.47	5.47
Second Year of Forecasting Horizon				
Net Interest Income Sensitivity to Base Scenario	$	(1.9) - (1.4)	1.2 - 1.7	2.0 - 2.5
Key Rates at Horizon End				
Fed Funds Target	3.00 %	2.00	4.00	5.00
10-year CMT (1)	3.81	2.81	4.81	5.81

(1) U.S. Constant Maturity Treasury Rate

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

Interest rate sensitive noninterest income also results from changes in earnings credit for non-interest bearing deposits that reduce treasury management deposit service fees. Furthermore, for the trading portfolio, interest rate changes may result in net interest income compression (generally as interest rates rise) or expansion (generally as interest rates fall) that does not reflect the offsetting effects of certain economic hedges. Instead, as a result of GAAP requirements, the effects of such economic hedges are recorded in noninterest income.

Asset/Liability Management (continued)

We use the debt securities portfolio and exchange-traded and over-the-counter (OTC) interest rate derivatives to hedge our interest rate exposures. See the “Balance Sheet Analysis – Available-for-Sale and Held-to-Maturity Debt Securities” section in this Report for more information on the use of the available-for-sale and held-to-maturity securities portfolios. The notional or contractual amount, credit risk amount and fair value of the derivatives used to hedge our interest rate risk exposures as of September 30, 2018, and December 31, 2017, are presented in Note 14 (Derivatives) to Financial Statements in this Report. We use derivatives for asset/liability management in two main ways:

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

MORTGAGE BANKING INTEREST RATE AND MARKET RISK We originate, fund and service mortgage loans, which subjects us to various risks, including credit, liquidity and interest rate risks. For more information on mortgage banking interest rate and market risk, see the “Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk” section in our 2017 Form 10-K.

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

The total carrying value of our residential and commercial MSRs was $17.4 billion at September 30, 2018, and $15.0 billion at December 31, 2017. The weighted-average note rate on our portfolio of loans serviced for others was 4.29% at September 30, 2018, and 4.23% at December 31, 2017. The carrying value of our total MSRs represented 1.02% of mortgage loans serviced for others at September 30, 2018, and 0.88% of mortgage loans serviced for others at December 31, 2017.

MARKET RISK Market risk is the risk of loss in the trading book associated with adverse changes in market risk factors such as interest rates, credit spreads, foreign exchange rates, equity, and commodity prices. The Finance Committee of our Board reviews the acceptable market risk appetite for our trading activities.

MARKET RISK – TRADING ACTIVITIES We engage in trading activities to accommodate the investment and risk management activities of our customers and to execute economic hedging to manage certain balance sheet risks. These trading activities predominantly occur within our Wholesale Banking businesses and to a lesser extent other divisions of the Company. Debt securities held for trading, equity securities held for trading, trading loans and trading derivatives are financial instruments used in our trading activities, and all are carried at fair value. Income earned on the financial instruments used in our trading activities include net interest income, changes in fair value and realized gains and losses. Net interest income earned from our trading activities is reflected in the interest income and interest expense components of our income statement. Changes in fair value of the financial instruments used in our trading activities are reflected in net gains on trading activities, a component of noninterest income in our income statement. For more information on the financial instruments used in our trading activities and the income from these trading activities, see Note 4 (Trading Activities) to Financial Statements in this Report.

The Company uses value-at-risk (VaR) metrics complemented with sensitivity analysis and stress testing in measuring and monitoring market risk. VaR is a statistical risk measure used to estimate the potential loss from adverse moves in the financial markets. For more information, see the “Risk Management – Asset/Liability Management – Market Risk – Trading Activities” section in our 2017 Form 10-K.

Trading VaR is the measure used to provide insight into the market risk exhibited by the Company’s trading positions. The
Company calculates Trading VaR for risk management purposes to establish line of business and Company-wide risk limits. Trading VaR is calculated based on all trading positions on our balance sheet.

Table 31 shows the Company's Trading General VaR by risk category. As presented in Table 31, average Company Trading General VaR was $12 million for the quarter ended September 30, 2018, compared with $15 million for the quarter ended June 30, 2018, and $15 million for the quarter ended

September 30, 2017. The decrease in average Company Trading General VaR for the quarter ended September 30, 2018, compared with the quarter ended June 30, 2018, was mainly driven by changes in portfolio composition.

Table 31: Trading 1-Day 99% General VaR by Risk Category

	Quarter ended											
	September 30, 2018				June 30, 2018				September 30, 2017			
(in millions)	Period end	Average	Low	High	Period end	Average	Low	High	Period end	Average	Low	High
Company Trading General VaR Risk Categories												
Credit	$13	17	11	55	17	18	15	20	18	26	18	35
Interest rate	18	18	6	52	18	17	11	24	7	13	7	20
Equity	5	5	4	7	8	7	5	16	13	11	9	14
Commodity	2	1	1	2	1	1	1	1	2	1	1	2
Foreign exchange	0	1	0	1	0	0	0	1	0	1	0	1
Diversification benefit (1)	(25)	(30)			(29)	(28)			(22)	(37)		
Company Trading General VaR	$13	12			15	15			18	15		

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

Market Risk Governance, Measurement, Monitoring and Model Risk Management We employ a well-defined and structured market risk governance process and market risk measurement process, which incorporates VaR measurements combined with sensitivity analysis and stress testing to help us monitor our market risk. These monitoring measurements require the use of market risk models, which we govern by our Corporate Model Risk policies and procedures. For more information on our governance, measurement, monitoring, and model risk management practices, see the "Risk Management – Asset/Liability Management – Market Risk – Trading Activities" section in our 2017 Form 10-K.

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

In conjunction with the March 2008 initial public offering (IPO) of Visa, Inc. (Visa), we received approximately 20.7 million shares of Visa Class B common stock, the class which was apportioned to member banks of Visa at the time of the IPO. To manage our exposure to Visa and realize the value of the appreciated Visa shares, we incrementally sold these shares

through a series of sales, thereby eliminating this position as of September 30, 2015. As part of these sales, we agreed to compensate the buyer for any additional contributions to a litigation settlement fund for the litigation matters associated with the Class B shares we sold. Our exposure to this retained litigation risk has been updated quarterly and is reflected on our balance sheet. For additional information about the associated litigation matters, see the "Interchange Litigation" section in Note 13 (Legal Actions) to Financial Statements in this Report.

As part of our business to support our customers, we trade public equities, listed/OTC equity derivatives and convertible bonds. We have parameters that govern these activities. We also have marketable equity securities that include investments relating to our venture capital activities. We manage these marketable equity securities within capital risk limits approved by management and the Board and monitored by Corporate ALCO and the Market Risk Committee. The fair value changes in these marketable equity securities are recognized in net income. For more information, see Note 7 (Equity Securities) to Financial Statements in this Report.

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

Asset/Liability Management (continued)

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

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

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

Liquidity Coverage Ratio As of September 30, 2018, the consolidated Company and Wells Fargo Bank, N.A. were above

the minimum LCR requirement of 100%, which is calculated as HQLA divided by projected net cash outflows, as each is defined under the LCR rule. Table 32 presents the Company’s quarterly average values for the daily-calculated LCR and its components calculated pursuant to the LCR rule requirements.

Table 32: Liquidity Coverage Ratio

(in millions, except ratio)	Average for Quarter ended September 30, 2018	
HQLA (1)(2)	$ 366,558	
Projected net cash outflows	295,813	
LCR	124	%

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

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

Liquidity Sources We maintain liquidity in the form of cash, cash equivalents and unencumbered high-quality, liquid debt securities. These assets make up our primary sources of liquidity which are presented in Table 33. Our primary sources of liquidity are substantially the same in composition as HQLA under the LCR rule; however, our primary sources of liquidity will generally exceed HQLA calculated under the LCR rule due to the applicable haircuts to HQLA and the exclusion of excess HQLA at our subsidiary insured depository institutions required under the LCR rule.

Our cash is predominantly on deposit with the Federal Reserve. Debt securities included as part of our primary sources of liquidity are comprised of U.S. Treasury and federal agency debt, and mortgage-backed securities issued by

federal agencies within our debt securities portfolio. We believe these debt securities provide quick sources of liquidity through sales or by pledging to obtain financing, regardless of market conditions. Some of these debt securities are within the held-to-maturity portion of our debt securities portfolio and as such are not intended for sale but may be pledged to obtain financing. Some of the legal entities within our consolidated group of companies are subject to various regulatory, tax, legal and other restrictions that can limit the transferability of their funds. We believe we maintain adequate liquidity for these entities in consideration of such funds transfer restrictions.

Table 33: Primary Sources of Liquidity

	September 30, 2018			December 31, 2017		
(in millions)	Total	Encumbered	Unencumbered	Total	Encumbered	Unencumbered
Interest-earning deposits with banks	$140,732	—	140,732	192,580	—	192,580
Debt securities of U.S. Treasury and federal agencies	49,855	953	48,902	51,125	964	50,161
Mortgage-backed securities of federal agencies (1)	242,166	30,161	212,005	246,894	46,062	200,832
Total	$432,753	31,114	401,639	490,599	47,026	443,573

(1) Included in encumbered debt securities at September 30, 2018, were debt securities with a fair value of $534 million which were purchased in September 2018, but settled in October 2018.

In addition to our primary sources of liquidity shown in Table 33, liquidity is also available through the sale or financing of other debt securities including trading and/or available-for-sale debt securities, as well as through the sale, securitization or financing of loans, to the extent such debt securities and loans are not encumbered. In addition, other debt securities in our held-to-maturity portfolio, to the extent not encumbered, may be pledged to obtain financing.

Deposits have historically provided a sizable source of relatively low-cost funds. Deposits were 134% of total loans at September 30, 2018 and 140% at December 31, 2017.

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

Table 34 shows selected information for short-term borrowings, which generally mature in less than 30 days.

Table 34: Short-Term Borrowings

(in millions)	Quarter ended Sep 30 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
Balance, period end					
Federal funds purchased and securities sold under agreements to repurchase	$92,418	89,307	80,916	88,684	79,824
Commercial paper	—	—	—	—	—
Other short-term borrowings	13,033	15,189	16,291	14,572	13,987
Total	$105,451	104,496	97,207	103,256	93,811
Average daily balance for period					
Federal funds purchased and securities sold under agreements to repurchase	$92,141	89,138	86,535	88,197	81,980
Commercial paper	—	—	—	—	4
Other short-term borrowings	13,331	14,657	15,244	13,945	17,209
Total	$105,472	103,795	101,779	102,142	99,193
Maximum month-end balance for period					
Federal funds purchased and securities sold under agreements to repurchase (1)	$92,531	92,103	88,121	91,604	83,260
Commercial paper (2)	—	—	—	—	11
Other short-term borrowings (3)	14,270	15,272	16,924	14,948	18,301

(1) Highest month-end balance in each of the last five quarters was in July, May and January 2018, and November and August 2017.

(2) There were no month-end balances in third, second and first quarter 2018, and fourth quarter 2017; highest month-end balance in remaining quarter was in July 2017.

(3) Highest month-end balance in each of the last five quarters was in July, May and January 2018, and November and July 2017.

Long-Term Debt We issue long-term debt in a variety of maturities and currencies to achieve cost-efficient funding and to maintain an appropriate maturity profile. Long-term debt of $221.3 billion at September 30, 2018, decreased $3.7 billion from December 31, 2017. We issued $10.1 billion and $31.4 billion of

long-term debt in the third quarter and first nine months of 2018, respectively. Table 35 provides the aggregate carrying value of long-term debt maturities (based on contractual payment dates) for the remainder of 2018 and the following years thereafter, as of September 30, 2018.

Table 35: Maturity of Long-Term Debt

(in millions)	September 30, 2018 Remaining 2018	2019	2020	2021	2022	Thereafter	Total
Wells Fargo & Company (Parent Only)							
Senior notes	$153	6,683	13,335	17,766	17,748	51,116	106,801
Subordinated notes	581	—	—	—	—	24,667	25,248
Junior subordinated notes	—	—	—	—	—	1,562	1,562
Total long-term debt - Parent	$734	6,683	13,335	17,766	17,748	77,345	133,611
Wells Fargo Bank, N.A. and other bank entities (Bank)							
Senior notes	$8,999	32,617	12,495	14,938	40	2,928	72,017
Subordinated notes	—	—	—	—	—	5,125	5,125
Junior subordinated notes	—	—	—	—	—	350	350
Securitizations and other bank debt	1,068	1,250	1,374	299	164	2,738	6,893
Total long-term debt - Bank	$10,067	33,867	13,869	15,237	204	11,141	84,385

Other consolidated subsidiaries							
Senior notes	$769	1,148	—	958	—	379	3,254
Securitizations and other bank debt	73	—	—	—	—	—	73
Total long-term debt - Other consolidated subsidiaries	$842	1,148	—	958	—	379	3,327
Total long-term debt	$11,643	41,698	27,204	33,961	17,952	88,865	221,323

Parent In February 2017, the Parent filed a registration statement with the SEC for the issuance of senior and subordinated notes, preferred stock and other securities. The Parent's ability to issue debt and other securities under this registration statement is limited by the debt issuance authority granted by the Board. As of September 30, 2018, the Parent was authorized by the Board to issue up to $180 billion in

outstanding long-term debt. The Parent's long-term debt issuance authority granted by the Board includes debt issued to affiliates and others. At September 30, 2018, the Parent had available $37.0 billion in long-term debt issuance authority. During the first nine months of 2018, the Parent issued $1.2 billion of senior notes, of which $888 million were registered with the SEC. The Parent's short-term debt issuance

authority granted by the Board was limited to debt issued to affiliates, and was revoked by the Board at management's request in January 2018.
The Parent's proceeds from securities issued were used for general corporate purposes, and, unless otherwise specified in the applicable prospectus or prospectus supplement, we expect the proceeds from securities issued in the future will be used for the same purposes. Depending on market conditions, we may purchase our outstanding debt securities from time to time in privately negotiated or open market transactions, by tender offer, or otherwise.

Wells Fargo Bank, N.A. As of September 30, 2018, Wells Fargo Bank, N.A. was authorized by its board of directors to issue $100 billion in outstanding short-term debt and $175 billion in outstanding long-term debt and had available $99.6 billion in short-term debt issuance authority and $101.7 billion in long-term debt issuance authority. In April 2018, Wells Fargo Bank, N.A. established a new $100 billion bank note program under which, subject to any other debt outstanding under the limits described above, it may issue $50 billion in outstanding short-term senior notes and $50 billion in outstanding long-term senior or subordinated notes. At September 30, 2018, Wells Fargo Bank, N.A. had remaining issuance capacity under the new bank note program of $50.0 billion in short-term senior notes and $43.0 billion in long-term senior or subordinated notes. During the first nine months of 2018, Wells Fargo Bank, N.A. issued $14.3 billion of unregistered senior notes, including $1.0 billion of senior redeemable floating rate notes issued in September 2018 with an interest rate indexed to the new Secured Overnight Financing Rate (SOFR) published by the Federal Reserve Bank of New York, and $6.0 billion of which were issued under a prior bank note program. SOFR is an alternative to LIBOR and is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities. It is expected that a transition away from the widespread use of LIBOR to alternative benchmark rates will occur over the course of the next few years. Accordingly, the FASB recently issued a pronouncement that includes SOFR, among others, as a permitted benchmark interest rate for the application of hedge accounting. See the "Risk

Factors" section in our 2017 Form 10-K for additional information regarding the potential impact of a benchmark rate, such as LIBOR, or other referenced financial metric being significantly changed, replaced or discontinued.
In addition, during the first nine months of 2018, Wells Fargo Bank, N.A. executed advances of $17.7 billion with the Federal Home Loan Bank of Des Moines, and as of September 30, 2018, Wells Fargo Bank, N.A. had outstanding advances of $45.9 billion across the Federal Home Loan Bank System. Furthermore, in October 2018, Wells Fargo Bank, N.A. issued $3.3 billion of unregistered senior notes under the new bank note program and executed $6.5 billion in Federal Home Loan Bank advances.

Credit Ratings Investors in the long-term capital markets, as well as other market participants, generally will consider, among other factors, a company's debt rating in making investment decisions. Rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, the level and quality of earnings, and rating agency assumptions regarding the probability and extent of federal financial assistance or support for certain large financial institutions. Adverse changes in these factors could result in a reduction of our credit rating; however, our debt securities do not contain credit rating covenants.
During third quarter 2018, our ratings were affirmed by S&P Global Ratings, confirmed by DBRS, Inc. (DBRS), and affirmed by Fitch Ratings, Inc. Both the Parent and Wells Fargo Bank, N.A. remain among the highest-rated financial firms in the U.S.
See the "Risk Factors" section in our 2017 Form 10-K for additional information regarding our credit ratings and the potential impact a credit rating downgrade would have on our liquidity and operations, as well as Note 14 (Derivatives) to Financial Statements in this Report for information regarding additional collateral and funding obligations required for certain derivative instruments in the event our credit ratings were to fall below investment grade.
The credit ratings of the Parent and Wells Fargo Bank, N.A. as of September 30, 2018, are presented in Table 36.

Table 36: Credit Ratings as of September 30, 2018

	Wells Fargo & Company		Wells Fargo Bank, N.A.	
	Senior debt	Short-term borrowings	Long-term deposits	Short-term borrowings
Moody's	A2	P-1	Aa1	P-1
S&P Global Ratings	A-	A-2	A+	A-1
Fitch Ratings, Inc.	A+	F1	AA	F1+
DBRS	AA(low)	R-1(middle)	AA	R-1(high)

FEDERAL HOME LOAN BANK MEMBERSHIP The Federal Home Loan Banks (the FHLBs) are a group of cooperatives that lending institutions use to finance housing and economic development in local communities. We are a member of the FHLBs based in Dallas, Des Moines and San Francisco. Each member of the FHLBs is required to maintain a minimum investment in capital stock of the applicable FHLB. The board of directors of each FHLB can increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of

the Federal Housing Finance Agency. Because the extent of any obligation to increase our investment in any of the FHLBs depends entirely upon the occurrence of a future event, potential future payments to the FHLBs are not determinable.

Capital Management
We have an active program for managing capital through a comprehensive process for assessing the Company's overall capital adequacy. Our objective is to maintain capital at an amount commensurate with our risk profile and risk tolerance objectives, and to meet both regulatory and market expectations. We primarily fund our capital needs through the retention of earnings net of both dividends and share repurchases, as well as through the issuance of preferred stock and long and short-term debt. Retained earnings increased $9.3 billion from December 31, 2017, predominantly from Wells Fargo net income of $16.3 billion, less common and preferred stock dividends of $7.1 billion. During third quarter 2018, we issued 9.0 million shares of common stock. During third quarter 2018, we repurchased 146.5 million shares of common stock in open market transactions and from employee benefit plans, at a cost of $8.4 billion. We entered into a $1 billion forward repurchase contract with an unrelated third party in October 2018 that is expected to settle in first quarter 2019 for approximately 19 million common shares. For additional information about our forward repurchase agreements, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.
On September 17, 2018, we redeemed all of our 8.00% Non-Cumulative Perpetual Class A Preferred Stock, Series J, at a redemption price equal to $1,000 per share.

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

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

- a minimum Common Equity Tier 1 (CET1) ratio of 9.0%, comprised of a 4.5% minimum requirement plus a capital conservation buffer of 2.5% and for us, as a global systemically important bank (G-SIB), a capital surcharge to be calculated annually, which is 2.0% based on our year-end 2016 data;
- a minimum tier 1 capital ratio of 10.5%, comprised of a 6.0% minimum requirement plus the capital conservation buffer of 2.5% and the G-SIB capital surcharge of 2.0%;
- a minimum total capital ratio of 12.5%, comprised of a 8.0% minimum requirement plus the capital conservation buffer of 2.5% and the G-SIB capital surcharge of 2.0%;
- a potential countercyclical buffer of up to 2.5% to be added to the minimum capital ratios, which is currently not in effect but could be imposed by regulators at their discretion if it is determined that a period of excessive credit growth is contributing to an increase in systemic risk;
- a minimum tier 1 leverage ratio of 4.0%; and
- a minimum supplementary leverage ratio (SLR) of 5.0% (comprised of a 3.0% minimum requirement plus a supplementary leverage buffer of 2.0%) for large and internationally active bank holding companies (BHCs).

We were required to comply with the final Basel III capital rules beginning January 2014, with certain provisions subject to phase-in periods. Beginning January 1, 2018, the requirements for calculating CET1 and tier 1 capital, along with RWAs, became fully phased-in. However, the requirements for calculating tier 2 and total capital are still in accordance with Transition Requirements. The entire Basel III capital rules are scheduled to be fully phased in by the end of 2021. The Basel III capital rules contain two frameworks for calculating capital requirements, a Standardized Approach, which replaced Basel I, and an Advanced Approach applicable to certain institutions, including Wells Fargo. Accordingly, in the assessment of our capital adequacy, we must report the lower of our CET1, tier 1 and total capital ratios calculated under the Standardized Approach and under the Advanced Approach.
On April 10, 2018, the FRB issued a proposed rule that would add a stress capital buffer and a stress leverage buffer to the minimum capital and tier 1 leverage ratio requirements. The buffers would be calculated based on the decrease

in a financial institution's risk-based capital and tier 1 leverage ratios under the supervisory severely adverse scenario in CCAR, plus four quarters of planned common stock dividends. The stress capital buffer would replace the 2.5% capital conservation buffer under the Standardized Approach, whereas the stress leverage buffer would be added to the current 4% minimum tier 1 leverage ratio.
Because the Company has been designated as a G-SIB, we are also subject to the FRB's rule implementing the additional capital surcharge of between 1.0-4.5% on G-SIBs. Under the rule, we must annually calculate our surcharge under two methods and use the higher of the two surcharges. The first method (method one) considers our size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity, consistent with the methodology developed by the BCBS and the Financial Stability Board (FSB). The second (method two) uses similar inputs, but replaces substitutability with use of short-term wholesale funding and will generally result in higher surcharges than the BCBS methodology. The phase-in period for the G-SIB surcharge began on January 1, 2016 and will become fully effective on January 1, 2019. Based on year-end 2016 data, our 2018 G-SIB surcharge under method two is 2.0% of the Company's RWAs, which is the higher of method one and method two. Because the G-SIB surcharge is calculated annually based on data that can differ over time, the amount of the surcharge is subject to change in future years.
Under the Standardized Approach (fully phased-in), our CET1 ratio of 11.91% exceeded the minimum of 9.0% by 291 basis points at September 30, 2018.
The tables that follow provide information about our risk- based capital and related ratios as calculated under Basel III capital guidelines. For banking industry regulatory reporting purposes, we continue to report our tier 2 and total capital in accordance with Transition Requirements but are managing our capital based on a fully phased-in calculation. For information about our capital requirements calculated in accordance with Transition Requirements, see Note 22 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report.
Table 37 summarizes our CET1, tier 1 capital, total capital, risk-weighted assets and capital ratios on a fully phased-in basis

Capital Management (continued)

at September 30, 2018 and December 31, 2017. As of September 30, 2018, our CET1, tier 1, and total capital ratios were lower using RWAs calculated under the Standardized Approach.

Table 37: Capital Components and Ratios (Fully Phased-In) (1)

(in millions, except ratios)		September 30, 2018			December 31, 2017		
		Advanced Approach	Standardized Approach		Advanced Approach	Standardized Approach	
Common Equity Tier 1	(A)	$148,855	148,855		154,022	154,022	
Tier 1 Capital	(B)	170,342	170,342		177,466	177,466	
Total Capital	(C)	200,921	209,229		208,395	218,159	
Risk-Weighted Assets	(D)	1,189,464	1,250,215		1,225,939	1,285,563	
Common Equity Tier 1 Capital Ratio	(A)/(D)	12.51 %	11.91	*	12.56	11.98	*
Tier 1 Capital Ratio	(B)/(D)	14.32	13.63	*	14.48	13.80	*
Total Capital Ratio	(C)/(D)	16.90	16.73	*	17.00	16.97	*

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

(1) Beginning January 1, 2018, the requirements for calculating CET1 and tier 1 capital, along with RWAs, became fully phased-in. However, the requirements for calculating tier 2 and total capital are still in accordance with Transition Requirements. Accordingly, fully phased-in total capital amounts and ratios are considered non-GAAP financial measures that are used by management, bank regulatory agencies, investors and analysts to assess and monitor the Company's capital position. See Table 38 for information regarding the calculation and components of CET1, tier 1 capital, total capital and RWAs, as well as the corresponding reconciliation of our fully phased-in regulatory capital amounts to GAAP financial measures.

Table 38 provides information regarding the calculation and composition of our risk-based capital under the Advanced and Standardized Approaches at September 30, 2018 and December 31, 2017.

Table 38: Risk-Based Capital Calculation and Components

	September 30, 2018		December 31, 2017	
(in millions)	Advanced Approach	Standardized Approach	Advanced Approach	Standardized Approach
Total equity	$199,679	199,679	208,079	208,079
Adjustments:				
Preferred stock	(23,482)	(23,482)	(25,358)	(25,358)
Additional paid-in capital on ESOP preferred stock	(105)	(105)	(122)	(122)
Unearned ESOP shares	1,780	1,780	1,678	1,678
Noncontrolling interests	(938)	(938)	(1,143)	(1,143)
Total common stockholders' equity	176,934	176,934	183,134	183,134
Adjustments:				
Goodwill	(26,425)	(26,425)	(26,587)	(26,587)
Certain identifiable intangible assets (other than MSRs)	(826)	(826)	(1,624)	(1,624)
Other assets (1)	(2,121)	(2,121)	(2,155)	(2,155)
Applicable deferred taxes (2)	829	829	962	962
Investment in certain subsidiaries and other	464	464	292	292
Common Equity Tier 1 (Fully Phased-In)	148,855	148,855	154,022	154,022
Effect of Transition Requirements (3)	—	—	743	743
Common Equity Tier 1 (Transition Requirements)	$148,855	148,855	154,765	154,765
Common Equity Tier 1 (Fully Phased-In)	$148,855	148,855	154,022	154,022
Preferred stock	23,482	23,482	25,358	25,358
Additional paid-in capital on ESOP preferred stock	105	105	122	122
Unearned ESOP shares	(1,780)	(1,780)	(1,678)	(1,678)
Other	(320)	(320)	(358)	(358)
Total Tier 1 capital (Fully Phased-In) (A)	170,342	170,342	177,466	177,466
Effect of Transition Requirements (3)	—	—	743	743
Total Tier 1 capital (Transition Requirements)	$170,342	170,342	178,209	178,209
Total Tier 1 capital (Fully Phased-In)	$170,342	170,342	177,466	177,466
Long-term debt and other instruments qualifying as Tier 2	28,097	28,097	28,994	28,994
Qualifying allowance for credit losses (4)	2,648	10,956	2,196	11,960
Other	(166)	(166)	(261)	(261)
Total Tier 2 capital (Fully Phased-In) (B)	30,579	38,887	30,929	40,693
Effect of Transition Requirements	695	695	1,195	1,195
Total Tier 2 capital (Transition Requirements)	$31,274	39,582	32,124	41,888

Total qualifying capital (Fully Phased-In)	(A)+(B)	$200,921	209,229	208,395	218,159
Total Effect of Transition Requirements		695	695	1,938	1,938
Total qualifying capital (Transition Requirements)		$201,616	209,924	210,333	220,097
Risk-Weighted Assets (RWAs) (5)(6):					
Credit risk		$825,336	1,205,475	890,171	1,249,395
Market risk		44,740	44,740	36,168	36,168
Operational risk		319,388	N/A	299,600	N/A
Total RWAs (Fully Phased-In) (3)		$1,189,464	1,250,215	1,225,939	1,285,563

(1) Represents goodwill and other intangibles on nonmarketable equity securities, which are included in other assets.

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

(3) Beginning January 1, 2018, the requirements for calculating CET1 and tier 1 capital, along with RWAs, became fully phased-in, so the effect of the transition requirements was $0 at September 30, 2018.

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

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

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

Capital Management (continued)

Table 39 presents the changes in Common Equity Tier 1 under the Advanced Approach for the nine months ended September 30, 2018.

Table 39: Analysis of Changes in Common Equity Tier 1

(in millions)	
Common Equity Tier 1 (Fully Phased-In) at December 31, 2017	$ 154,022
Net income applicable to common stock	14,978
Common stock dividends	(5,873)
Common stock issued, repurchased, and stock compensation-related items	(11,075)
Goodwill	162
Certain identifiable intangible assets (other than MSRs)	798
Other assets (1)	34
Applicable deferred taxes (2)	(133)
Investment in certain subsidiaries and other	(4,058)
Change in Common Equity Tier 1	(5,167)
Common Equity Tier 1 (Fully Phased-In) at September 30, 2018	$ 148,855

(1) Represents goodwill and other intangibles on nonmarketable equity securities, which are included in other assets.

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

Table 40 presents net changes in the components of RWAs under the Advanced and Standardized Approaches for the nine months ended September 30, 2018.

Table 40: Analysis of Changes in RWAs

(in millions)	Advanced Approach	Standardized Approach
RWAs (Fully Phased-In) at December 31, 2017	$ 1,225,939	1,285,563
Net change in credit risk RWAs	(64,835)	(43,920)
Net change in market risk RWAs	8,572	8,572
Net change in operational risk RWAs	19,788	—
Total change in RWAs	(36,475)	(35,348)
RWAs (Fully Phased-In) at September 30, 2018	$ 1,189,464	1,250,215

TANGIBLE COMMON EQUITY We also evaluate our business based on certain ratios that utilize tangible common equity. Tangible common equity is a non-GAAP financial measure and represents total equity less preferred equity, noncontrolling interests, and goodwill and certain identifiable intangible assets (including goodwill and intangible assets associated with certain of our nonmarketable equity securities, but excluding mortgage servicing rights), net of applicable deferred taxes. These tangible common equity ratios are as follows:

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

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

The methodology of determining tangible common equity may differ among companies. Management believes that tangible book value per common share and return on average tangible common equity, which utilize tangible common equity, are useful financial measures because they enable investors and others to assess the Company's use of equity. Table 41 provides a reconciliation of these non-GAAP financial measures to GAAP financial measures.

Table 41: Tangible Common Equity

		Balance at period end			Average balance				
		Quarter ended			Quarter ended			Nine months ended	
(in millions, except ratios)		Sep 30, 2018	Jun 30, 2018	Sep 30, 2017	Sep 30, 2018	Jun 30, 2018	Sep 30, 2017	Sep 30, 2018	Sep 30, 2017
Total equity		$199,679	206,069	206,617	202,826	206,067	207,723	205,012	205,035
Adjustments:									
Preferred stock		(23,482)	(25,737)	(25,576)	(24,219)	(26,021)	(25,780)	(25,459)	(25,600)
Additional paid-in capital on ESOP preferred stock		(105)	(116)	(130)	(115)	(129)	(136)	(132)	(142)
Unearned ESOP shares		1,780	2,051	1,904	2,026	2,348	2,114	2,292	2,226
Noncontrolling interests		(938)	(881)	(895)	(892)	(919)	(926)	(936)	(931)
Total common stockholders' equity	(A)	176,934	181,386	181,920	179,626	181,346	182,995	180,777	180,588
Adjustments:									
Goodwill		(26,425)	(26,429)	(26,581)	(26,429)	(26,444)	(26,600)	(26,463)	(26,645)
Certain identifiable intangible assets (other than MSRs)		(826)	(1,091)	(1,913)	(958)	(1,223)	(2,056)	(1,221)	(2,314)
Other assets (1)		(2,121)	(2,160)	(2,282)	(2,083)	(2,271)	(2,231)	(2,195)	(2,163)
Applicable deferred taxes (2)		829	874	1,550	845	889	1,579	889	1,650
Tangible common equity	(B)	$148,391	152,580	152,694	151,001	152,297	153,687	151,787	151,116
Common shares outstanding	(C)	4,711.6	4,849.1	4,927.9	N/A	N/A	N/A	N/A	N/A
Net income applicable to common stock (3)	(D)	N/A	N/A	N/A	$5,453	4,792	4,131	14,978	14,814
Book value per common share	(A)/(C)	$37.55	37.41	36.92	N/A	N/A	N/A	N/A	N/A
Tangible book value per common share	(B)/(C)	31.49	31.47	30.99	N/A	N/A	N/A	N/A	N/A
Return on average common stockholders' equity (ROE) (annualized)	(D)/(A)	N/A	N/A	N/A	12.04 %	10.60	8.96	11.08	10.97
Return on average tangible common equity (ROTCE) (annualized)	(D)/(B)	N/A	N/A	N/A	14.33	12.62	10.66	13.19	13.11

(1) Represents goodwill and other intangibles on nonmarketable equity securities, which are included in other assets.
(2) Applicable deferred taxes relate to goodwill and other intangible assets. They were determined by applying the combined federal statutory rate and composite state income tax rates to the difference between book and tax basis of the respective goodwill and intangible assets at period end.
(3) Quarter ended net income applicable to common stock is annualized for the respective ROE and ROTCE ratios.

Capital Management (continued)

SUPPLEMENTARY LEVERAGE RATIO In April 2014, federal banking regulators finalized a rule that enhances the SLR requirements for BHCs, like Wells Fargo, and their insured depository institutions. The SLR consists of Tier 1 capital divided by the Company's total leverage exposure. Total leverage exposure consists of the total average on-balance sheet assets, plus off-balance sheet exposures, such as undrawn commitments and derivative exposures, less amounts permitted to be deducted from Tier 1 capital. The rule, which became effective on January 1, 2018, requires a covered BHC to maintain a SLR of at least 5.0% (comprised of the 3.0% minimum requirement plus a supplementary leverage buffer of 2.0%) to avoid restrictions on capital distributions and discretionary bonus payments. The rule also requires that all of our insured depository institutions maintain a SLR of 6.0% under applicable regulatory capital adequacy guidelines. In April 2018, the FRB and OCC proposed rules (the "Proposed SLR Rules") that would replace the 2% supplementary leverage buffer with a buffer equal to one-half of the firm's G-SIB capital surcharge. The Proposed SLR Rules would similarly tailor the current 6% SLR requirement for our insured depository institutions. At September 30, 2018, our SLR for the Company was 7.8% calculated under the Advanced Approach capital framework. Based on our review, our current leverage levels would exceed the applicable requirements for each of our insured depository institutions as well. See Table 42 for information regarding the calculation and components of the SLR.

Table 42: Supplementary Leverage Ratio

(in millions, except ratio)	Quarter ended September 30, 2018	
Tier 1 capital	$170,342	
Total average assets	1,876,283	
Less: deductions from Tier 1 capital (1)	28,983	
Total adjusted average assets	1,847,300	
Adjustments:		
Derivative exposures (2)	69,619	
Repo-style transactions (3)	3,330	
Other off-balance sheet exposures (4)	253,371	
Total adjustments	326,320	
Total leverage exposure	$2,173,620	
Supplementary leverage ratio	7.8	%

(1) Amounts permitted to be deducted from Tier 1 capital primarily include goodwill and other intangible assets, net of associated deferred tax liabilities.

(2) Represents adjustments for off balance sheet derivative exposures, and derivative collateral netting as defined for supplementary leverage ratio determination purposes.

(3) Adjustments for repo-style transactions represent counterparty credit risk for all repo-style transactions where Wells Fargo & Company is the principal (i.e., principal counterparty facing the client).

(4) Adjustments for other off-balance sheet exposures represent the notional amounts of all off-balance sheet exposures (excluding off balance sheet exposures associated with derivative and repo-style transactions) less the adjustments for conversion to credit equivalent amounts under the regulatory capital rule.

OTHER REGULATORY CAPITAL MATTERS In December 2016, the FRB finalized rules to address the amount of equity and unsecured long-term debt a U.S. G-SIB must hold to improve its resolvability and resiliency, often referred to as Total Loss Absorbing Capacity (TLAC). Under the rules, which become effective on January 1, 2019, U.S. G-SIBs will be required to have a minimum TLAC amount (consisting of CET1 capital and additional tier 1 capital issued directly by the top-tier or covered BHC plus eligible external long-term debt) equal to the greater of (i) 18% of RWAs and (ii) 7.5% of total leverage exposure (the

denominator of the SLR calculation). Additionally, U.S. G-SIBs will be required to maintain (i) a TLAC buffer equal to 2.5% of RWAs plus the firm's applicable G-SIB capital surcharge calculated under method one plus any applicable

countercyclical buffer that will be added to the 18% minimum and (ii) an external TLAC leverage buffer equal to 2.0% of total leverage exposure that will be added to the 7.5% minimum, in order to avoid restrictions on capital distributions and discretionary bonus payments. The rules will also require U.S. G-SIBs to have a minimum amount of eligible unsecured long-term debt equal to the greater of (i) 6.0% of RWAs plus the firm's applicable G-SIB capital surcharge calculated under method two and (ii) 4.5% of the total leverage exposure. In addition, the rules will impose certain restrictions on the operations and liabilities of the top-tier or covered BHC in order to further facilitate an orderly resolution, including prohibitions on the issuance of short-term debt to external investors and on entering into derivatives and certain other types of financial contracts with external counterparties. While the rules permit permanent grandfathering of a significant portion of otherwise ineligible long-term debt that was issued prior to December 31, 2016, long-term debt issued after that date must be fully compliant with the eligibility requirements of the rules in order to count toward the minimum TLAC amount. As a result of the rules, we will need to issue additional long-term debt to remain compliant with the requirements. Under the Proposed SLR Rules, the 2% external TLAC leverage buffer would be replaced with a buffer equal to one-half of the firm's G-SIB capital surcharge. Additionally, the Proposed SLR Rules would modify the leverage component for calculating the minimum amount of eligible unsecured long-term debt from 4.5% of total leverage exposure to 2.5% of total leverage exposure plus one-half of the firm's G-SIB capital surcharge. As of September 30, 2018, we estimate that our eligible external TLAC as a percentage of total risk-weighted assets was 23.50% compared with an expected January 1, 2019 required minimum of 22.0%. Similar to the risk-based capital requirements, we determine minimum required TLAC based on the greater of RWAs determined under the Standardized and Advanced approaches.
In addition, as discussed in the "Risk Management – Asset/ Liability Management – Liquidity and Funding – Liquidity Standards" section in this Report, federal banking regulators have issued a final rule regarding the U.S. implementation of the Basel III LCR and a proposed rule regarding the NSFR.

Capital Planning and Stress Testing
Our planned long-term capital structure is designed to meet regulatory and market expectations. We believe that our long-term targeted capital structure enables us to invest in and grow our business, satisfy our customers' financial needs in varying environments, access markets, and maintain flexibility to return capital to our shareholders. Our long-term targeted capital structure also considers capital levels sufficient to exceed capital requirements including the G-SIB surcharge. Accordingly, based on the final Basel III capital rules under the lower of the Standardized or Advanced Approaches CET1 capital ratios, we currently target a long-term CET1 capital ratio at or in excess of 10%, which includes a 2% G-SIB surcharge. Our capital targets are subject to change based on various factors, including changes to the regulatory capital framework and expectations for large banks promulgated by bank regulatory agencies, planned capital actions, changes in our risk profile and other factors.
Under the FRB's capital plan rule, large BHCs are required to submit capital plans annually for review to determine if the FRB has any objections before making any capital distributions. The

rule requires updates to capital plans in the event of material changes in a BHC's risk profile, including as a result of any significant acquisitions. The FRB assesses the overall financial condition, risk profile, and capital adequacy of BHCs while considering both quantitative and qualitative factors when evaluating capital plans.
Our 2018 capital plan, which was submitted on April 4, 2018, as part of CCAR, included a comprehensive capital outlook supported by an assessment of expected sources and uses of capital over a given planning horizon under a range of expected and stress scenarios. As part of the 2018 CCAR, the FRB also generated a supervisory stress test, which assumed a sharp decline in the economy and significant decline in asset pricing using the information provided by the Company to estimate performance. The FRB reviewed the supervisory stress results both as required under the Dodd-Frank Act using a common set of capital actions for all large BHCs and by taking into account the Company's proposed capital actions. The FRB published its supervisory stress test results as required under the Dodd-Frank Act on June 21, 2018. On June 28, 2018, the FRB notified us that it did not object to our capital plan included in the 2018 CCAR.
Federal banking regulators require stress tests to evaluate whether an institution has sufficient capital to continue to operate during periods of adverse economic and financial conditions. These stress testing requirements set forth the timing and type of stress test activities large BHCs and banks must undertake as well as rules governing stress testing controls, oversight and disclosure requirements. The rules also limit a large BHC's ability to make capital distributions to the extent its actual capital issuances were less than amounts indicated in its capital plan. As required under the FRB's stress testing rule, we must submit a mid-cycle stress test based on second quarter data and scenarios developed by the Company. We submitted the results of the mid-cycle stress test to the FRB and disclosed a summary of the results in October 2018. In October 2018, the FRB proposed a rule that would, among other things, eliminate the mid-cycle stress test requirement for banks beginning in 2020.

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

In January 2018, the Board authorized the repurchase of 350 million shares of our common stock. At September 30, 2018, we had remaining authority to repurchase approximately 188 million shares, subject to regulatory and legal conditions. In October 2018, the Board authorized the repurchase of an additional 350 million shares of our common stock. For more information about share repurchases during third quarter 2018, see Part II, Item 2 in this Report.
Historically, our policy has been to repurchase shares under the "safe harbor" conditions of Rule 10b-18 of the Securities Exchange Act of 1934 including a limitation on the daily volume of repurchases. Rule 10b-18 imposes an additional daily volume limitation on share repurchases during a pending merger or acquisition in which shares of our stock will constitute some or all of the consideration. Our management may determine that during a pending stock merger or acquisition when the safe harbor would otherwise be available, it is in our best interest to repurchase shares in excess of this additional daily volume limitation. In such cases, we intend to repurchase shares in compliance with the other conditions of the safe harbor, including the standing daily volume limitation that applies whether or not there is a pending stock merger or acquisition.
In connection with our participation in the Capital Purchase Program (CPP), a part of the Troubled Asset Relief Program (TARP), we issued to the U.S. Treasury Department warrants to purchase 110,261,688 shares of our common stock with an original exercise price of $34.01 per share. The Board authorized the repurchase by the Company of up to $1 billion of the warrants. At September 30, 2018, there were 11,071,127 warrants outstanding, exercisable at an adjusted exercise price of $33.592 per share, and $452 million of unused warrant repurchase

authority. Because the original expiration date was not a business day, the warrants expired on October 29, 2018. As of the close of business on October 29, 2018, 110,646 unexercised warrants expired, and the holders of the unexercised warrants are no longer entitled to receive any shares of our common stock.

Regulatory Matters (continued)

Regulatory Matters

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

The following supplements our discussion of the significant regulations and regulatory oversight initiatives that have affected or may affect our business contained in the “Regulatory Matters” and “Risk Factors” sections in our 2017 Form 10-K and the “Regulatory Matters” section in our 2018 First and Second Quarter Reports on Form 10-Q.

CONSENT ORDERS WITH THE BCFP AND OCC REGARDING COMPLIANCE RISK MANAGEMENT PROGRAM, AUTOMOBILE COLLATERAL PROTECTION INSURANCE POLICIES, AND MORTGAGE INTEREST RATE LOCK EXTENSIONS On April 20, 2018, the Company entered into consent orders with the BCFP and OCC to pay an aggregate of $1 billion in civil money penalties to resolve matters regarding the Company's compliance risk management program and past practices involving certain automobile collateral protection insurance policies and certain mortgage interest rate lock extensions. As required by the consent orders, the Company submitted to the BCFP and OCC an enterprise-wide compliance risk management plan and a plan to enhance the Company's internal audit program with respect to federal consumer financial law and the terms of the consent orders. In addition, as required by the consent orders, the Company submitted for non-objection plans to remediate customers affected by the automobile collateral protection insurance and mortgage interest rate lock matters, as well as a plan for the management of remediation activities conducted by the Company.

Critical Accounting Policies

Our significant accounting policies (see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2017 Form 10-K) are fundamental to understanding our results of operations and financial condition because they require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. Five of these policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. These policies govern:

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

Management and the Board's Audit and Examination Committee have reviewed and approved these critical accounting policies. These policies are described further in the “Financial Review – Critical Accounting Policies” section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2017 Form 10-K.

Current Accounting Developments (continued)

Current Accounting Developments

Table 43 provides the significant accounting updates applicable to us that have been issued by the FASB but are not yet effective.

Table 43: Current Accounting Developments – Issued Standards

Standard	Description	Effective date and financial statement impact
Accounting Standard Update (ASU or Update) 2018-16 - Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes	The Update expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting. The Update adds the OIS rate based on SOFR as a U.S. benchmark interest rate to facilitate the LIBOR to SOFR transition and provide sufficient lead time for entities to prepare for changes to interest rate risk hedging strategies for both risk management and hedge accounting purposes.	The guidance is effective in first quarter 2019. The standard will have no impact upon adoption, but will once the market for SOFR derivatives develops over time and is used to hedge the Company's fixed-rate financial instruments and forecasted issuances or purchases of fixed-rate financial instruments.
ASU 2018-12 – Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts	The Update requires all features in long-duration insurance contracts that meet the definition of a market risk benefit to be measured at fair value through earnings with changes in fair value attributable to own credit risk recognized in other comprehensive income. Currently, two measurement models exist for these features, fair value and insurance accrual. The Update requires the use of a standardized discount rate and routine updates for insurance assumptions used in valuing the liability for future policy benefits for traditional long-duration contracts. The Update also simplifies the amortization of deferred acquisition costs.	The guidance is effective on January 1, 2021. Certain of our variable annuity reinsurance products meet the definition of market risk benefits and will be measured at fair value as of the earliest period presented. The cumulative effect of changes in own credit risk will be recognized in the beginning balance of accumulated other comprehensive income. The cumulative effect of the difference between fair value and carrying value, excluding the effect of own credit, will be recognized in the opening balance of retained earnings. Changes to the liability for future policy benefits for traditional long-duration contracts and deferred acquisition costs will be applied to all outstanding contracts on the basis of their existing carrying amounts at the beginning of the earliest period presented. The impact of the Update on our consolidated financial statements is still being evaluated.
ASU 2017-08 – Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities	The Update changes the accounting for certain purchased callable debt securities held at a premium to shorten the amortization period for the premium to the earliest call date rather than to the maturity date. Accounting for purchased callable debt securities held at a discount does not change. The discount would continue to amortize to the maturity date.	We expect to adopt the guidance in first quarter 2019 using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. Our debt securities portfolio includes holdings of available-for-sale (AFS) and held-to-maturity (HTM) callable debt securities held at a premium, which primarily consist of obligations of U.S. states and political subdivisions. At adoption, based upon our

		current portfolio composition, the guidance is expected to result in a cumulative effect reduction to retained earnings estimated to range from $500 to 600 million, which will be primarily offset with a corresponding increase to other comprehensive income related to AFS securities. The impact of the Update on our consolidated financial statements will be affected by our portfolio composition at the time of adoption, which may change between the most recent balance sheet date and the adoption date, as well as the finalization of necessary system enhancements. After adoption, the guidance will reduce interest income prior to the call date because the premium will be amortized over a shorter time period.
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The Update changes the accounting for credit losses on loans and debt securities. For loans and held-to-maturity debt securities, the Update requires a current expected credit loss (CECL) approach to determine the allowance for credit losses. CECL requires loss estimates for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts. Also, the Update eliminates the existing guidance for PCI loans, but requires an allowance for purchased financial assets with more than insignificant deterioration since origination. In addition, the Update modifies the other-than-temporary impairment model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.	The guidance is effective in first quarter 2020 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption is permitted beginning in first quarter 2019, we do not expect to elect that option. We are evaluating the impact of the Update on our consolidated financial statements, including the development and implementation of models to estimate losses. We expect the Update will result in an increase in the allowance for credit losses with an expected increase for longer duration consumer portfolios such as real estate 1-4 family mortgage loans and an expected decrease for commercial loans given short contractual maturities with conditional renewal options. In addition, we will be required to recognize an allowance for debt securities. The amount of the expected increase will be affected by the portfolio composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

Standard	Description	Effective date and financial statement impact
ASU 2016-02 – Leases (Topic 842)	The Update requires lessees to recognize operating leases on the balance sheet with lease liabilities and related right-of-use assets based on the present value of future lease payments. Lessor accounting activities are largely unchanged from existing lease accounting. The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification.	We expect to adopt the guidance in first quarter 2019 using the optional transition method without restating 2018 and 2017 financial statements with comparable amounts. At adoption, we expect to have a cumulative effect adjustment of approximately $140 million to increase retained earnings related to deferred gains on our prior sale-leaseback transactions. The calculation of our operating lease right-of-use assets and liabilities, for approximately 7,000 leases, are expected to be $5 billion and $5.6 billion, respectively, and will continue to be refined as we complete our implementation process. We do not expect material changes to the timing of expense recognition on our operating leases or the recognition and measurement of our lessor accounting. While the increase to our consolidated total assets related to operating lease right-of-use assets will increase our risk-weighted assets and decrease our capital ratios, we do not expect these changes to be material.

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

- ASU 2018-15 – Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)
- ASU 2018-14 – Compensation – Retirement Benefits – Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans
- ASU 2018-13 – Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement
- ASU 2018-09 – Codification Improvements
- ASU 2017-04 – Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

Forward-Looking Statements

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

Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the

forward-looking statements. We caution you, therefore, against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. While there is no assurance that any list of risks and uncertainties or risk factors is complete, important factors that could cause actual results to differ materially from those in the forward-looking statements include the following, without limitation:

- current and future economic and market conditions, including the effects of declines in housing prices, high unemployment rates, U.S. fiscal debt, budget and tax matters (including the impact of the Tax Cuts & Jobs Act), geopolitical matters, and any slowdown in global economic growth;
- our capital and liquidity requirements (including under regulatory capital standards, such as the Basel III capital standards) and our ability to generate capital internally or raise capital on favorable terms;
- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on our revenue and businesses, including the Dodd-Frank Act and other legislation and regulation relating to bank products and services;
- the extent of our success in our loan modification efforts, as well as the effects of regulatory requirements or guidance regarding loan modifications;
- the amount of mortgage loan repurchase demands that we receive and our ability to satisfy any such demands without having to repurchase loans related thereto or otherwise

Forward-Looking Statements (continued)

indemnify or reimburse third parties, and the credit quality of or losses on such repurchased mortgage loans;

- negative effects relating to our mortgage servicing and foreclosure practices, as well as changes in industry standards or practices, regulatory or judicial requirements, penalties or fines, increased servicing and other costs or obligations, including loan modification requirements, or delays or moratoriums on foreclosures;
- our ability to realize any efficiency ratio or expense target as part of our expense management initiatives, including as a result of business and economic cyclicality, seasonality, changes in our business composition and operating environment, growth in our businesses and/or acquisitions, and unexpected expenses relating to, among other things, litigation and regulatory matters;
- the effect of the current interest rate environment or changes in interest rates on our net interest income, net interest margin and our mortgage originations, mortgage servicing rights and mortgage loans held for sale;
- significant turbulence or a disruption in the capital or financial markets, which could result in, among other things, reduced investor demand for mortgage loans, a reduction in the availability of funding or increased funding costs, and declines in asset values and/or recognition of other-than-temporary impairment on securities held in our debt securities and equity securities portfolios;
- the effect of a fall in stock market prices on our investment banking business and our fee income from our brokerage, asset and wealth management businesses;
- negative effects from the retail banking sales practices matter and from other instances where customers may have experienced financial harm, including on our legal, operational and compliance costs, our ability to engage in certain business activities or offer certain products or services, our ability to keep and attract customers, our ability to attract and retain qualified team members, and our reputation;
- resolution of regulatory matters, litigation, or other legal actions, which may result in, among other things, additional costs, fines, penalties, restrictions on our business activities, reputational harm, or other adverse consequences;
- a failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors or other service providers, including as a result of cyber attacks;
- the effect of changes in the level of checking or savings account deposits on our funding costs and net interest margin;
- fiscal and monetary policies of the Federal Reserve Board; and
- the other risk factors and uncertainties described under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017.

In addition to the above factors, we also caution that the amount and timing of any future common stock dividends or repurchases will depend on the earnings, cash requirements and financial condition of the Company, market conditions, capital requirements (including under Basel capital standards), common stock issuance requirements, applicable law and regulations (including federal securities laws and federal banking regulations), and other factors deemed relevant by the Company’s Board of Directors, and may be subject to regulatory approval or conditions.
For more information about factors that could cause actual results to differ materially from our expectations, refer to our reports filed with the Securities and Exchange Commission, including the discussion under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission and available on its website at www.sec.gov.
Any forward-looking statement made by us speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Forward-looking Non-GAAP Financial Measures. From time to time management may discuss forward-looking non-GAAP financial measures, such as forward-looking estimates or targets for return on average tangible common equity. We are unable to provide a reconciliation of forward-looking non-GAAP financial measures to their most directly comparable GAAP financial measures because we are unable to provide, without unreasonable effort, a meaningful or accurate calculation or estimation of amounts that would be necessary for the reconciliation due to the

complexity and inherent difficulty in forecasting and quantifying future amounts or when they may occur. Such unavailable information could be significant to future results.

Risk Factors

An investment in the Company involves risk, including the possibility that the value of the investment could fall substantially and that dividends or other distributions on the investment could be reduced or eliminated. For a discussion of risk factors that could adversely affect our financial results and condition, and the value of, and return on, an investment in the Company, we refer you to the “Risk Factors” section in our 2017 Form 10-K.

Controls and Procedures

Disclosure Controls and Procedures

The Company’s management evaluated the effectiveness, as of September 30, 2018, of the Company’s disclosure controls and procedures. The Company’s chief executive officer and chief financial officer participated in the evaluation. Based on this evaluation, the Company’s chief executive officer and chief financial officer concluded that the Company’s disclosure controls and procedures were effective as of September 30, 2018.

Internal Control Over Financial Reporting

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. No change occurred during third quarter 2018 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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

	Quarter ended September 30,		Nine months ended September 30,	
(in millions, except per share amounts)	2018	2017	2018	2017
Interest income				
Debt securities (1)(2)	$3,595	3,253	$10,603	9,652
Mortgage loans held for sale (2)	210	217	587	590
Loans held for sale (1)	35	15	107	38
Loans	11,116	10,522	32,607	31,021
Equity securities (1)	280	186	732	560
Other interest income (1)	1,128	851	3,090	2,090
Total interest income (2)	16,364	15,044	47,726	43,951
Interest expense				
Deposits (2)	1,499	869	3,857	2,082
Short-term borrowings	462	226	1,171	503
Long-term debt (2)	1,667	1,391	4,901	3,813
Other interest expense	164	109	446	309
Total interest expense (2)	3,792	2,595	10,375	6,707
Net interest income (2)	12,572	12,449	37,351	37,244
Provision for credit losses	580	717	1,223	1,877
Net interest income after provision for credit losses	11,992	11,732	36,128	35,367
Noninterest income				
Service charges on deposit accounts	1,204	1,276	3,540	3,865
Trust and investment fees	3,631	3,609	10,989	10,808
Card fees	1,017	1,000	2,926	2,964
Other fees	850	877	2,496	2,644
Mortgage banking	846	1,046	2,550	3,422
Insurance	104	269	320	826
Net gains from trading activities (1)	158	120	592	543
Net gains on debt securities (3)	57	166	99	322
Net gains from equity securities (1)(4)	416	363	1,494	1,207
Lease income	453	475	1,351	1,449
Other (2)	633	199	1,720	1,045
Total noninterest income (2)	9,369	9,400	28,077	29,095
Noninterest expense				
Salaries	4,461	4,356	13,289	12,960
Commission and incentive compensation	2,427	2,553	7,837	7,777
Employee benefits	1,377	1,279	4,220	4,273
Equipment	634	523	1,801	1,629
Net occupancy	718	716	2,153	2,134
Core deposit and other intangibles	264	288	794	864
FDIC and other deposit assessments	336	314	957	975
Other	3,546	4,322	11,736	11,072
Total noninterest expense	13,763	14,351	42,787	41,684
Income before income tax expense (2)	7,598	6,781	21,418	22,778
Income tax expense (2)	1,512	2,181	4,696	6,559
Net income before noncontrolling interests (2)	6,086	4,600	16,722	16,219
Less: Net income from noncontrolling interests	79	58	393	187

Wells Fargo net income (2)	$6,007	4,542	$16,329	16,032
Less: Preferred stock dividends and other	554	411	1,351	1,218
Wells Fargo net income applicable to common stock (2)	$5,453	4,131	$14,978	14,814
Per share information				
Earnings per common share (2)	$1.14	0.83	$3.09	2.97
Diluted earnings per common share (2)	1.13	0.83	3.07	2.94
Average common shares outstanding	4,784.0	4,948.6	4,844.8	4,982.1
Diluted average common shares outstanding	4,823.2	4,996.8	4,885.0	5,035.4

(1) Financial information for the prior periods has been revised to reflect the impact of the adoption in first quarter 2018 of Accounting Standards Update (ASU) 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. See Note 1 (Summary of Significant Accounting Policies) for more information.

(2) Financial information for the prior period has been revised to reflect the impact of the adoption of ASU 2017-12 – Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, effective January 1, 2017.

(3) Total other-than-temporary impairment (OTTI) losses (reversal of losses) were $0 million and $5 million for third quarter 2018 and 2017, respectively. Of total OTTI, losses of $5 million and $7 million were recognized in earnings, and losses (reversal of losses) of $(5) million and $(2) million were recognized as non-credit-related OTTI in other comprehensive income for third quarter 2018 and 2017, respectively. Total OTTI losses were $14 million and $54 million for the first nine months of 2018 and 2017, respectively. Of total OTTI, losses of $23 million and $107 million were recognized in earnings, and losses (reversal of losses) of $(9) million and $(53) million were recognized as non-credit-related OTTI in other comprehensive income for the first nine months of 2018 and 2017, respectively.

(4) Includes OTTI losses of $45 million and $84 million for third quarter 2018 and 2017, respectively, and $302 million and $186 million for the first nine months of 2018 and 2017, respectively.

The accompanying notes are an integral part of these statements.

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

	Quarter ended September 30,		Nine months ended September 30,	
(in millions)	2018	2017	2018	2017
Wells Fargo net income (1)	$6,007	4,542	16,329	16,032
Other comprehensive income (loss), before tax:				
Debt securities (2):				
Net unrealized gains (losses) arising during the period	(1,468)	891	(5,528)	2,825
Reclassification of net (gains) losses to net income	51	(200)	168	(522)
Derivatives and hedging activities (1):				
Net unrealized gains (losses) arising during the period	(24)	104	(416)	18
Reclassification of net (gains) losses to net income	79	(105)	216	(460)
Defined benefit plans adjustments:				
Net actuarial and prior service gains arising during the period	—	11	6	4
Amortization of net actuarial loss, settlements and other to net income	29	41	90	120
Foreign currency translation adjustments:				
Net unrealized gains (losses) arising during the period	(9)	39	(94)	86
Other comprehensive income (loss), before tax (1)	(1,342)	781	(5,558)	2,071
Income tax (expense) benefit related to other comprehensive income (1)	330	(289)	1,346	(753)
Other comprehensive income (loss), net of tax (1)	(1,012)	492	(4,212)	1,318
Less: Other comprehensive loss from noncontrolling interests	—	(34)	(1)	(29)
Wells Fargo other comprehensive income (loss), net of tax (1)	(1,012)	526	(4,211)	1,347
Wells Fargo comprehensive income (1)	4,995	5,068	12,118	17,379
Comprehensive income from noncontrolling interests	79	24	392	158
Total comprehensive income (1)	$5,074	5,092	12,510	17,537

(1) Financial information for the prior period has been revised to reflect the impact of the adoption of ASU 2017-12 – Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, effective January 1, 2017.

(2) The quarter and nine months ended September 30, 2017, includes net unrealized gains (losses) arising during the period from equity securities of $(13) million and $113 million and reclassification of net (gains) losses to net income related to equity securities of $(106) million and $(323) million, respectively. With the adoption in first quarter 2018 of ASU 2016-01, the quarter and nine months ended September 30, 2018, reflects net unrealized gains (losses) arising during the period and reclassification of net (gains) losses to net income from only debt securities.

The accompanying notes are an integral part of these statements.

Wells Fargo & Company and Subsidiaries
Consolidated Balance Sheet

(in millions, except shares)	Sep 30, 2018	Dec 31, 2017
Assets	(Unaudited)	
Cash and due from banks	$18,791	23,367
Interest-earning deposits with banks (1)	140,732	192,580
Total cash, cash equivalents, and restricted cash (1)	159,523	215,947
Federal funds sold and securities purchased under resale agreements (1)	83,471	80,025
Debt securities:		
Trading, at fair value (2)	65,188	57,624
Available-for-sale, at fair value (2)	262,964	276,407
Held-to-maturity, at cost (fair value $139,036 and $138,985)	144,131	139,335
Mortgage loans held for sale (includes $13,885 and $16,116 carried at fair value) (3)	19,225	20,070
Loans held for sale (includes $1,266 and $1,023 carried at fair value) (2)	1,765	1,131
Loans (includes $286 and $376 carried at fair value) (3)	942,300	956,770
Allowance for loan losses	(10,021)	(11,004)
Net loans	932,279	945,766
Mortgage servicing rights:		
Measured at fair value	15,980	13,625
Amortized	1,414	1,424
Premises and equipment, net	8,802	8,847
Goodwill	26,425	26,587
Derivative assets	11,811	12,228
Equity securities (includes $38,322 and $39,227 carried at fair value) (2)	61,755	62,497
Other assets (2)	78,248	90,244
Total assets (4)	$1,872,981	1,951,757
Liabilities		
Noninterest-bearing deposits	$352,869	373,722
Interest-bearing deposits	913,725	962,269
Total deposits	1,266,594	1,335,991
Short-term borrowings	105,451	103,256
Derivative liabilities	8,586	8,796
Accrued expenses and other liabilities	71,348	70,615
Long-term debt	221,323	225,020
Total liabilities (5)	1,673,302	1,743,678
Equity		
Wells Fargo stockholders' equity:		
Preferred stock	23,482	25,358
Common stock – $1-2/3 par value, authorized 9,000,000,000 shares; issued 5,481,811,474 shares	9,136	9,136
Additional paid-in capital	60,738	60,893
Retained earnings	154,576	145,263
Cumulative other comprehensive income (loss)	(6,873)	(2,144)
Treasury stock – 770,250,428 shares and 590,194,846 shares	(40,538)	(29,892)
Unearned ESOP shares	(1,780)	(1,678)
Total Wells Fargo stockholders' equity	198,741	206,936
Noncontrolling interests	938	1,143
Total equity	199,679	208,079
Total liabilities and equity	$1,872,981	1,951,757

(1) Financial information has been revised to reflect the impact of the adoption in first quarter 2018 of ASU 2016-18 – Statement of Cash Flows (Topic 230): Restricted Cash in which we changed the presentation of our cash and cash equivalents to include both cash and due from banks as well as interest-earning deposits with banks, which are inclusive of any restricted cash. See Note 1 (Summary of Significant Accounting Policies) for more information.

(2) Financial information for the prior period has been revised to reflect the impact of the adoption in first quarter 2018 of ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. See Note 1 (Summary of Significant Accounting Policies) for more information.

(3) Parenthetical amounts represent assets and liabilities for which we are required to carry at fair value or have elected the fair value option.

(4) Our consolidated assets at September 30, 2018, and December 31, 2017, include the following assets of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs: Cash and due from banks, $112 million and $116 million; Interest-earning deposits with banks, $8 million and $371 million; Debt securities, $0 million at both period ends; Net loans, $12.7 billion and $12.5 billion; Derivative assets, $0 million at both period ends; Equity securities, $61 million and $306 million; Other assets, $210 million and $342 million; and Total assets, $13.1 billion and $13.6 billion, respectively.

(5) Our consolidated liabilities at September 30, 2018, and December 31, 2017, include the following VIE liabilities for which the VIE creditors do not have recourse to Wells Fargo: Derivative liabilities, $0 million and $5 million; Accrued expenses and other liabilities, $154 million and $132 million; Long-term debt, $871 million and $1.5 billion; and Total liabilities, $1.0 billion and $1.6 billion, respectively.

The accompanying notes are an integral part of these statements.

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

	Preferred stock		Common stock	
(in millions, except shares)	Shares	Amount	Shares	Amount
Balance June 30, 2018	12,055,984	$25,737	4,849,067,854	$9,136
Adoption of accounting standard related to reclassification of certain tax effects from cumulative other comprehensive income (1)				
Net income				
Other comprehensive income (loss), net of tax				
Noncontrolling interests				
Common stock issued			4,131,347	
Common stock repurchased			(146,487,043)	
Preferred stock redeemed (2)	(2,150,375)	(1,995)		
Preferred stock issued to ESOP				
Preferred stock released by ESOP				
Preferred stock converted to common shares	(260,257)	(260)	4,848,888	
Common stock warrants repurchased/exercised				
Preferred stock issued				
Common stock dividends				
Preferred stock dividends				
Stock incentive compensation expense				
Net change in deferred compensation and related plans				
Net change	(2,410,632)	(2,255)	(137,506,808)	—
Balance September 30, 2018	9,645,352	$23,482	4,711,561,046	$9,136
Balance June 30, 2017	12,104,127	$25,785	4,966,770,050	$9,136
Net income (3)				
Other comprehensive income (loss), net of tax (3)				
Noncontrolling interests				
Common stock issued			6,345,864	
Common stock repurchased			(49,022,535)	
Preferred stock redeemed	—	—		
Preferred stock issued to ESOP				
Preferred stock released by ESOP				
Preferred stock converted to common shares	(208,344)	(209)	3,777,769	
Common stock warrants repurchased/exercised				
Preferred stock issued				
Common stock dividends				
Preferred stock dividends				
Stock incentive compensation expense				
Net change in deferred compensation and related plans				
Net change (3)	(208,344)	(209)	(38,898,902)	—
Balance September 30, 2017 (3)	11,895,783	$25,576	4,927,871,148	$9,136

(1) Represents the reclassification from other comprehensive income to retained earnings as a result of the adoption of ASU 2018-02 - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, in the third quarter of 2018. For additional information, see Note 1.
(2) Represents the impact of the redemption of preferred stock, series J, in third quarter 2018.
(3) Financial information for the prior period has been revised to reflect the impact of the adoption of ASU 2017-12 – Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, effective

January 1, 2017.

						Quarter ended September 30,	
			Wells Fargo stockholders' equity				
Additional paid-in capital	Retained earnings	Cumulative other comprehensive income	Treasury stock	Unearned ESOP shares	Total Wells Fargo stockholders' equity	Noncontrolling interests	Total equity
59,644	150,803	(5,461)	(32,620)	(2,051)	205,188	881	206,069
	400	(400)			—		—
	6,007				6,007	79	6,086
		(1,012)			(1,012)	—	(1,012)
					—	(22)	(22)
(58)			214		156		156
1,000			(8,382)		(7,382)		(7,382)
	(155)				(2,150)		(2,150)
					—		—
(11)				271	260		260
6			254		—		—
(36)					(36)		(36)
					—		—
18	(2,080)				(2,062)		(2,062)
	(399)				(399)		(399)
202					202		202
(27)			(4)		(31)		(31)
1,094	3,773	(1,412)	(7,918)	271	(6,447)	57	(6,390)
60,738	154,576	(6,873)	(40,538)	(1,780)	198,741	938	199,679
60,689	139,366	(2,148)	(25,675)	(2,119)	205,034	915	205,949
	4,542				4,542	58	4,600
		526			526	(34)	492
					—	(44)	(44)
(61)			315		254		254
—			(2,601)		(2,601)		(2,601)
—					—		—
					—		—
(6)				215	209		209
20			189		—		—
(19)					(19)		(19)
					—		—
12	(1,948)				(1,936)		(1,936)
	(411)				(411)		(411)
135					135		135
(11)			—		(11)		(11)
70	2,183	526	(2,097)	215	688	(20)	668
60,759	141,549	(1,622)	(27,772)	(1,904)	205,722	895	206,617

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

	Preferred stock		Common stock	
(in millions, except shares)	Shares	Amount	Shares	Amount
Balance December 31, 2017	11,677,235	$25,358	4,891,616,628	$9,136
Cumulative effect from change in accounting policies (1)				
Balance January 1, 2018	11,677,235	$25,358	4,891,616,628	$9,136
Adoption of accounting standard related to reclassification of certain tax effects from cumulative other comprehensive income (2)				
Net income				
Other comprehensive income (loss), net of tax				
Noncontrolling interests				
Common stock issued			34,391,135	
Common stock repurchased			(232,826,228)	
Preferred stock redeemed (3)	(2,150,375)	(1,995)		
Preferred stock issued to ESOP	1,100,000	1,100		
Preferred stock released by ESOP				
Preferred stock converted to common shares	(981,508)	(981)	18,379,511	
Common stock warrants repurchased / exercised				
Preferred stock issued	—	—		
Common stock dividends				
Preferred stock dividends				
Stock incentive compensation expense				
Net change in deferred compensation and related plans				
Net change	(2,031,883)	(1,876)	(180,055,582)	—
Balance September 30, 2018	9,645,352	$23,482	4,711,561,046	$9,136
Balance December 31, 2016	11,532,712	$24,551	5,016,109,326	$9,136
Cumulative effect from change in hedge accounting (4)				
Balance January 1, 2017	11,532,712	$24,551	5,016,109,326	$9,136
Net income (5)				
Other comprehensive income (loss), net of tax (5)				
Noncontrolling interests				
Common stock issued			45,738,310	
Common stock repurchased			(145,143,692)	
Preferred stock redeemed	—	—		
Preferred stock issued to ESOP	950,000	950		
Preferred stock released by ESOP				
Preferred stock converted to common shares	(614,529)			