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

1

PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW
Summary Financial Data

	Quarter ended			% Change Sep 30, 2018 from		Nine months ended		
($ in millions, except per share amounts)	Sep 30, 2018	Jun 30, 2018	Sep 30, 2017	Jun 30, 2018	Sep 30, 2017	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.

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:

•

- 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

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.

	Nine months 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)	$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.

13

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