WELLS FARGO & COMPANY/MN
Form 10-Q
May 04, 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 March 31, 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes 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 (Do not check if a smaller reporting company)	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 April 25, 2018
Common stock, $1-2/3 par value	4,872,873,834

FORM 10-Q
CROSS-REFERENCE INDEX

PART I	Financial Information	
Item 1.	Financial Statements	Page
	Consolidated Statement of Income	63
	Consolidated Statement of Comprehensive Income	64
	Consolidated Balance Sheet	65
	Consolidated Statement of Changes in Equity	66
	Consolidated Statement of Cash Flows	68
	Notes to Financial Statements	
	1 – Summary of Significant Accounting Policies	69
	2 – Business Combinations	72
	3 – Cash, Loan and Dividend Restrictions	73
	4 – Trading Activities	74
	5 – Available-for-Sale and Held-to-Maturity Debt Securities	76
	6 – Loans and Allowance for Credit Losses	83
	7 – Equity Securities	99
	8 – Other Assets	101
	9 – Securitizations and Variable Interest Entities	102
	10 – Mortgage Banking Activities	109
	11 – Intangible Assets	112
	12 – Guarantees, Pledged Assets and Collateral, and Other Commitments	114
	13 – Legal Actions	118
	14 – Derivatives	122
	15 – Fair Values of Assets and Liabilities	131
	16 – Preferred Stock	148
	17 – Revenue from Contracts with Customers	151
	18 – Employee Benefits	154
	19 – Earnings Per Common Share	155
	20 – Other Comprehensive Income	156
	21 – Operating Segments	158
	22 – Regulatory and Agency Capital Requirements	159
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations (Financial Review)	
	Summary Financial Data	2
	Overview	3
	Earnings Performance	6
	Balance Sheet Analysis	19
	Off-Balance Sheet Arrangements	22
	Risk Management	23
	Capital Management	49
	Regulatory Matters	56
	Critical Accounting Policies	57
	Current Accounting Developments	58
	Forward-Looking Statements	59
	Risk Factors	61
	Glossary of Acronyms	160
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	43
Item 4.	Controls and Procedures	62

PART II	Other Information	
Item 1.	Legal Proceedings	161
Item 1A.	Risk Factors	161
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	161
Item 6.	Exhibits	162
Signature		163

1

PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW
Summary Financial Data

($ in millions, except per share amounts)	Quarter ended Mar 31, 2018		Dec 31, 2017	Mar 31, 2017	% Change Mar 31, 2018 from Dec 31, 2017		Mar 31, 2017	
For the Period								
Wells Fargo net income	$5,136		6,151	5,634	(17	)%	(9	)
Wells Fargo net income applicable to common stock	4,733		5,740	5,233	(18	)	(10	)
Diluted earnings per common share	0.96		1.16	1.03	(17	)	(7	)
Profitability ratios (annualized):								
Wells Fargo net income to average assets (ROA)	1.09	%	1.26	1.18	(13	)	(8	)
Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders' equity (ROE)	10.58		12.47	11.96	(15	)	(12	)
Return on average tangible common equity (ROTCE) (1)	12.62		14.85	14.35	(15	)	(12	)
Efficiency ratio (2)	68.6		76.2	62.0	(10	)	11	
Total revenue	$21,934		22,050	22,255	(1	)	(1	)
Pre-tax pre-provision profit (PTPP) (3)	6,892		5,250	8,463	31		(19	)
Dividends declared per common share	0.39		0.39	0.38	—		3	
Average common shares outstanding	4,885.7		4,912.5	5,008.6	(1	)	(2	)
Diluted average common shares outstanding	4,930.7		4,963.1	5,070.4	(1	)	(3	)
Average loans	$951,024		951,822	963,645	—		(1	)
Average assets	1,915,896		1,935,318	1,931,040	(1	)	(1	)
Average total deposits	1,297,178		1,311,592	1,299,191	(1	)	—	
Average consumer and small business banking deposits (4)	755,483		757,541	758,754	—		—	
Net interest margin	2.84	%	2.84	2.87	—		(1	)
At Period End								
Debt securities (5)	$472,968		473,366	456,969	—		4	
Loans	947,308		956,770	958,405	(1	)	(1	)
Allowance for loan losses	10,373		11,004	11,168	(6	)	(7	)
Goodwill	26,445		26,587	26,666	(1	)	(1	)
Equity securities (5)	58,935		62,497	56,991	(6	)	3	
Assets	1,915,388		1,951,757	1,951,501	(2	)	(2	)
Deposits	1,303,689		1,335,991	1,325,444	(2	)	(2	)
Common stockholders' equity	181,150		183,134	178,209	(1	)	2	
Wells Fargo stockholders' equity	204,952		206,936	201,321	(1	)	2	
Total equity	205,910		208,079	202,310	(1	)	2	
Tangible common equity (1)	151,878		153,730	148,671	(1	)	2	
Capital ratios (6)(7):								
Total equity to assets	10.75	%	10.66	10.37	1		4	
Risk-based capital:								
Common Equity Tier 1	11.92		12.28	11.52	(3	)	3	
Tier 1 capital	13.76		14.14	13.27	(3	)	4	
Total capital	16.92		17.46	16.41	(3	)	3	
Tier 1 leverage	9.32		9.35	9.07	—		3	
Common shares outstanding	4,873.9		4,891.6	4,996.7	—		(2	)
Book value per common share (8)	$37.17		37.44	35.67	(1	)	4	

Tangible book value per common share (1)(8)	31.16	31.43	29.75	(1)	5
Common stock price:					
High	66.31	62.24	59.99	7	11
Low	50.70	52.84	53.35	(4)	(5)
Period end	52.41	60.67	55.66	(14)	(6)
Team members (active, full-time equivalent)	265,700	262,700	272,800	1	(3)

(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 prior quarters has been revised to reflect the impact of the adoption 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 with Transition Requirements. For March 31, 2018 and December 31, 2017, the risk-based capital ratios were all lower under the Standardized Approach. The total capital ratio was lower under the Advanced Approach and the other ratios were lower under the Standardized Approach, for March 31, 2017.

(7) See the “Capital Management” section and Note 22 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report for additional information.

(8) 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 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 terms used throughout this Report.

Financial Review[1]

Overview

Wells Fargo & Company is a diversified, community-based financial services company with $1.92 trillion in assets. Founded in 1852 and headquartered in San Francisco, we provide banking, investments, mortgage, and consumer and commercial finance through 8,200 locations, 13,000 ATMs, digital (online, mobile and social), and contact centers (phone, email and correspondence), and we have offices in 42 countries and territories to support customers who conduct business in the global economy. With approximately 265,000 active, full-time equivalent team members, we serve one in three households in the United States and ranked No. 25 on Fortune's 2017 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 March 31, 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 Prior period financial information has been revised to reflect our adoption 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.

Over the past year and a half, our Board of Directors (Board) has taken, and continues to take, actions to enhance Board oversight and governance. These actions, many of which reflected results from the Board’s 2017 self-assessment, which was facilitated by a third party, and the feedback we received from our shareholders and other stakeholders, included:

- Separating the roles of Chairman of the Board and Chief Executive Officer.
- Amending Wells Fargo’s By-Laws to require that the Chairman be an independent director.
- Electing Elizabeth A. “Betsy” Duke as our new independent Board Chair, effective January 1, 2018.
- Making changes to the leadership and composition of key Board committees, including appointing new chairs of the Board’s Risk Committee and Governance and Nominating Committee.
- Amending Board committee charters and working with management to improve reporting to the Board in order to enhance the Board's risk oversight.
- Electing six new independent directors, including directors with financial services, risk management, regulatory, technology, human capital management, social responsibility, and other relevant experience, with five directors retiring in 2017 and four more retiring at our 2018 annual meeting of shareholders. At the 2018 annual meeting, shareholders elected the 12 director nominees named in the Company’s proxy statement.

As has been our practice, we will continue our engagement efforts with our shareholders and other stakeholders while the Board maintains its focus on enhancing oversight and governance.

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. As part of the review and approval process contemplated by the consent order, the Company will respond to any feedback provided by the FRB regarding the plans, including by making any necessary changes to the plans. 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 by September 30, 2018, 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. Once the asset cap limitation is removed, a second third-party review must be conducted to assess the efficacy and sustainability of the improvements. During first quarter 2018 our average assets were below our level of total assets as of December 31, 2017.

Consent Orders with the Consumer Financial Protection Bureau (CFPB) 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 we entered into consent orders with the CFPB and OCC to pay an aggregate of $1 billion in civil money penalties to resolve matters regarding our compliance risk management program and past practices involving certain automobile collateral protection insurance policies and certain mortgage interest rate lock extensions. The consent orders require that the Company submit to the CFPB and OCC, within 60 days of the date of the consent orders, an acceptable 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. The consent orders also require the Company to submit for non-objection, within 120 days of the date of the consent orders, plans for a remediation program regarding ongoing compliance with federal consumer financial law and, within 60 days of the date of the consent orders, plans to remediate customers affected by the automobile collateral protection insurance and mortgage interest rate lock matters.

Sales Practices Matters

As we have previously reported, in September 2016 we announced settlements with the Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of the Currency (OCC), and the Office of the Los Angeles City Attorney, and entered into consent orders with the CFPB 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 provided customer remediation based on the expanded account analysis. 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.

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. As part of this effort, we are focused on the following key areas:

- Automobile Lending Business Practices concerning the origination, servicing, and/or collection of consumer automobile loans, including related insurance products. For example:

In July 2017, the Company announced a plan to 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. The practice of placing CPI was discontinued by the Company on September 30, 2016. 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. The Company currently estimates that it will provide approximately $158 million in cash remediation and $29 million in account adjustments under the plan. The amount of remediation may be affected by the requirements of the consent orders entered into with the CFPB and OCC described above.

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 may 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, Overview (continued)

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. A total of approximately $98 million in rate lock extension fees was assessed on approximately 110,000 accounts during the period in question. Although the Company believes a substantial number of these fees were appropriately charged under its policy, we estimate refunds will be issued to a majority of our customers who paid rate lock extension fees during this time period due to our customer-oriented remediation approach.

- Add-on Products 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. An ongoing review of "add-on" products across the Company is occurring, and we have begun remediation efforts where we have identified impacted customers.
- Consumer Deposit Account Freezing/Closing 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.
- 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 in WIM. The Company has determined that there have been instances of incorrect fees being applied to certain assets and accounts, resulting in overcharges. 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 fees on some assets and accounts, has notified the affected customers, and is continuing its analysis of those assets and accounts. As these reviews continue, the Company will consider suspending fees on additional assets and accounts, while continuing the process of analyzing those assets and accounts.
- Foreign Exchange Business The Company is reviewing policies, practices, and procedures in its foreign exchange (FX) business. The Company is also responding to inquiries from government agencies in connection with their reviews of certain aspects of our FX business.

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.

Financial Performance

Wells Fargo net income was $5.1 billion in first quarter 2018 with diluted earnings per common share (EPS) of $0.96, compared with $5.6 billion and $1.03, respectively, a year ago. First quarter 2018 results reflected an $800 million discrete litigation accrual in connection with entering into the consent orders with the CFPB and OCC on April 20, 2018, and also included:

- revenue was $21.9 billion, down $321 million compared with a year ago, with net interest income down 1% and noninterest income down 2% from a year ago;
- average loans were $951.0 billion, down $12.6 billion, or 1%, from a year ago;
- total deposits were $1.3 trillion, down $21.8 billion, or 2%, from a year ago;
-

return on assets (ROA) of 1.09% and return on equity (ROE) of 10.58%, down from 1.18% and 11.96%, respectively, compared with a year ago;

- our credit results improved with a net charge-off rate of 0.32% (annualized) of average loans in first quarter 2018, compared with 0.34% a year ago;
- nonaccrual loans of $7.7 billion, down $2.0 billion, or 21%, from a year ago; and
- we returned $4.0 billion to shareholders through common stock dividends and net share repurchases, which was the 11th 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 first quarter 2018 with strong credit quality and solid levels of liquidity and capital. Our total assets were $1.92 trillion at March 31, 2018. Cash and other short-term investments decreased $20.0 billion from December 31, 2017, reflecting lower deposit balances. Debt securities were $473.0 billion at March 31, 2018, with approximately $13 billion of gross purchases during first quarter 2018, more than offset by run-off and sales. Loans were down $9.5 billion, or 1%, from December 31, 2017, primarily due to a decline in automobile and junior lien mortgage loans.

Average deposits in first quarter 2018 were $1.30 trillion, down $2.0 billion from first quarter 2017 as lower commercial deposits from financial institutions were partially offset by higher interest-bearing checking deposits. Our average deposit cost in first quarter 2018 was 34 basis points, up 17 basis points from a year ago, primarily driven by an increase in commercial and Wealth and Investment Management deposit rates.

Credit Quality

Solid overall credit results continued in first quarter 2018 as losses remained low and we continued to originate high quality loans, reflecting our long-term risk focus. Net charge-offs were $741 million, or 0.32% (annualized) of average loans, in first quarter 2018, compared with $805 million a year ago (0.34%). The decrease in net charge-offs in first quarter 2018, compared with a year ago, was driven by lower losses in the commercial and industrial loan portfolio, including in the oil and gas portfolio.

Our commercial portfolio net charge-offs were $78 million, or 6 basis points of average commercial loans, in first quarter 2018, compared with net charge-offs of $143 million, or 11 basis points, a year ago. Net consumer credit losses increased to 60 basis points (annualized) of average consumer loans in first quarter 2018 from 59 basis points (annualized) in first quarter

2017. Our commercial real estate portfolios were in a net recovery position for the 21st consecutive quarter, reflecting our conservative risk discipline and improved market conditions. Net losses on our consumer real estate portfolios improved by $56 million, or 187%, to a net recovery of $26 million from a year ago, reflecting the benefit of the continued improvement in the housing market and our continued focus on originating high quality loans. Approximately 80% of the consumer first mortgage loan portfolio outstanding at March 31, 2018, was originated after 2008, when more stringent underwriting standards were implemented.

The allowance for credit losses as of March 31, 2018, decreased $974 million compared with a year ago and decreased $647 million from December 31, 2017. We had a $550 million release in the allowance for credit losses in first quarter 2018, with approximately $400 million driven by an improvement in our outlook for 2017 hurricane-related losses. The allowance coverage for total loans was 1.19% at March 31, 2018, compared with 1.28% a year ago and 1.25% at December 31, 2017. The allowance covered 3.8 times annualized first quarter net charge-offs, compared with 3.8 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 $191 million in first quarter 2018, down from $605 million a year ago, primarily 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 $388 million, or 4%, from December 31, 2017, the eighth consecutive quarter of decreases, with improvement across our consumer and commercial portfolios and lower foreclosed assets. Nonperforming assets were 0.88% of total loans, the lowest level since the merger with Wachovia in 2008. Nonaccrual loans decreased $317 million from the prior quarter largely due to a decrease in commercial nonaccruals. In addition, foreclosed assets were down $71 million from the prior quarter.

Capital

Our financial performance in first quarter 2018 allowed us to maintain a solid capital position, with total equity of $205.9 billion at March 31, 2018, compared with $208.1 billion at December 31, 2017. We returned $4.0 billion to shareholders in first quarter 2018 through common stock dividends and net share repurchases, an increase of 30% from a year ago. 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 85%. We continued to reduce our common shares outstanding through the repurchase of 50.6 million common shares in the quarter. We entered into a $1 billion forward repurchase contract with an unrelated third party in April 2018 that is expected to settle in third quarter 2018 for approximately 20 million 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 11.92% at March 31, 2018, well above our internal target of 10%. The decline in our CET1 ratio from December 31, 2017, reflected other comprehensive income resulting from higher interest rates and capital distributions, partially offset by capital generation from earnings, lower risk-weighted assets (RWA) driven by lower loan balances and improved RWA efficiency. 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 first quarter 2018 was $5.1 billion ($0.96), compared with $5.6 billion ($1.03) for the same period a year ago. Our financial performance in first quarter 2018, compared with the same period a year ago, benefited from a $414 million decrease in our provision for credit losses, offset by a $86 million decrease in net interest income, a $235 million decrease in noninterest income, and a $1.3 billion increase in noninterest expense. First quarter 2018 results also benefited from the lower income tax rate. Net interest income represented 56% of revenue, compared with 55% for the same period a year ago. Noninterest income was $9.7 billion in first quarter 2018, representing 44% of revenue, compared with $9.9 billion (45%) in first quarter 2017.

Revenue, the sum of net interest income and noninterest income, was $21.9 billion in first quarter 2018, compared with $22.3 billion for first quarter 2017. The decrease in revenue for first quarter 2018, compared with the same period in 2017, was due to a decline in both net interest income and in noninterest income.

Earnings Performance (continued)

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 first quarter 2018 and first quarter 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 $12.4 billion in first quarter 2018, compared with $12.6 billion for the same period a year ago. The net interest margin was 2.84% for first quarter 2018, down from 2.87% for the same period a year ago. The decrease in net interest income and net interest margin in first quarter 2018, compared with the same period a year ago, was driven by lower loan swap income due to unwinding the receive-fixed loan swap portfolio, unfavorable hedge ineffectiveness accounting, lower tax-equivalent net interest income from updated tax-equivalent factors, lower loan balances, and higher premium amortization, partially offset by the net repricing benefit of higher interest rates, growth in interest income from debt and equity securities, lower long-term debt balances, and higher variable income.

Average earning assets decreased $15.9 billion in first quarter 2018, compared with the same period a year ago. Compared with the same period a year ago:

- average loans decreased $12.6 billion;
- average interest-earning deposits decreased $36.2 billion;
- average federal funds sold and securities purchased under resale agreements increased $2.9 billion;
- average debt securities increased $19.3 billion;
- average equity securities increased $5.8 billion; and
- other earning assets increased $6.0 billion.

Deposits are an important low-cost source of funding and affect both net interest income and the net interest margin. Deposits include noninterest-bearing deposits, interest-bearing checking, market rate and other savings, savings certificates, other time deposits, and deposits in foreign offices. Average deposits of $1.30 trillion in first quarter 2018 were relatively stable compared with the same period a year ago, and represented 136% of average loans in first quarter 2018, compared with 135% in first quarter 2017. Average deposits were 74% of average earning assets in first quarter 2018, compared with 73% in first quarter 2017. The average deposit cost for first quarter 2018 was 34 basis points, up 17 basis points from a year ago, primarily driven by an increase in commercial and Wealth and Investment Management deposit rates.

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

	Quarter ended March 31,					
			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)	$172,291	1.49 %	$632	208,486	0.79 %	$405
Federal funds sold and securities purchased under resale agreements (3)	78,135	1.40	271	75,281	0.68	127
Debt securities (4):						
Trading debt securities	78,715	3.24	637	69,120	3.03	523
Available-for-sale debt securities:						
Securities of U.S. Treasury and federal agencies	6,426	1.66	26	25,034	1.54	95
Securities of U.S. states and political subdivisions (7)	49,956	3.37	421	52,248	3.93	513
Mortgage-backed securities:						
Federal agencies	158,472	2.72	1,076	156,617	2.58	1,011
Residential and commercial (7)	8,871	4.12	91	14,452	5.34	193
Total mortgage-backed securities (7)	167,343	2.79	1,167	171,069	2.81	1,204
Other debt securities (7)	48,094	3.73	444	50,149	3.61	447
Total available-for-sale debt securities (7)	271,819	3.04	2,058	298,500	3.04	2,259
Held-to-maturity debt securities:						
Securities of U.S. Treasury and federal agencies	44,723	2.20	243	44,693	2.20	243
Securities of U.S. states and political subdivisions	6,259	4.34	68	6,273	5.30	83
Federal agency and other mortgage-backed securities	90,789	2.38	541	51,786	2.51	324
Other debt securities	695	3.23	5	3,329	2.34	19
Total held-to-maturity debt securities	142,466	2.42	857	106,081	2.54	669
Total debt securities (7)	493,000	2.89	3,552	473,701	2.92	3,451
Mortgages held for sale (5)(7)	18,406	3.89	179	19,893	3.67	182
Loans held for sale (5)	2,011	4.92	24	1,600	2.50	10
Commercial loans:						
Commercial and industrial – U.S.	272,040	3.85	2,584	274,749	3.59	2,436
Commercial and industrial – Non U.S.	60,216	3.23	479	55,347	2.73	373
Real estate mortgage	126,200	4.05	1,262	132,449	3.56	1,164
Real estate construction	24,449	4.54	274	24,591	3.72	225
Lease financing	19,265	5.30	255	19,070	4.94	235
Total commercial loans	502,170	3.91	4,854	506,206	3.54	4,433
Consumer loans:						
Real estate 1-4 family first mortgage	284,207	4.02	2,852	275,480	4.02	2,766
Real estate 1-4 family junior lien mortgage	38,844	5.13	493	45,285	4.60	515
Credit card	36,468	12.75	1,147	35,437	11.97	1,046
Automobile	51,469	5.16	655	61,510	5.46	828
Other revolving credit and installment	37,866	6.46	604	39,727	6.02	590
Total consumer loans	448,854	5.16	5,751	457,439	5.06	5,745
Total loans (5)	951,024	4.50	10,605	963,645	4.26	10,178
Equity securities	39,754	2.35	233	33,926	2.11	179
Other	6,015	1.21	19	—	—	—
Total earning assets (7)	$1,760,636	3.55 %	$15,515	1,776,532	3.30 %	$14,532

Funding sources						
Deposits:						
Interest-bearing checking	$67,774	0.77 %	$129	50,686	0.29 %	$37
Market rate and other savings	679,068	0.22	368	684,175	0.09	157
Savings certificates	20,018	0.34	17	23,466	0.29	17
Other time deposits (7)	76,589	1.84	347	54,915	1.30	177
Deposits in foreign offices	94,810	0.98	229	122,200	0.49	148
Total interest-bearing deposits (7)	938,259	0.47	1,090	935,442	0.23	536
Short-term borrowings	101,779	1.24	312	98,549	0.47	115
Long-term debt (7)	226,062	2.80	1,576	260,130	1.77	1,147
Other liabilities	27,927	1.92	132	16,806	2.22	92
Total interest-bearing liabilities (7)	1,294,027	0.97	3,110	1,310,927	0.58	1,890
Portion of noninterest-bearing funding sources (7)	466,609	—	—	465,605	—	—
Total funding sources (7)	$1,760,636	0.71	3,110	1,776,532	0.43	1,890
Net interest margin and net interest income on a taxable-equivalent basis (6)(7)		2.84 %	$12,405		2.87 %	$12,642
Noninterest-earning assets						
Cash and due from banks	$18,853			18,706		
Goodwill	26,516			26,673		
Other (7)	109,891			109,129		
Total noninterest-earning assets (7)	$155,260			154,508		
Noninterest-bearing funding sources						
Deposits	$358,919			363,749		
Other liabilities (7)	56,770			54,805		
Total equity (7)	206,180			201,559		
Noninterest-bearing funding sources used to fund earning assets (7)	(466,609)			(465,605)		
Net noninterest-bearing funding sources (7)	$155,260			154,508		
Total assets (7)	$1,915,896			1,931,040		

(1) Our average prime rate was 4.52% and 3.80% for the quarters ended March 31, 2018 and 2017, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 1.93% and 1.07% for the quarters ended March 31, 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 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.

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

(6) Includes taxable-equivalent adjustments of $167 million and $318 million for the quarters ended March 31, 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 quarters ended March 31, 2018 and 2017, respectively.

(7) Financial information for the prior quarter 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.

Earnings Performance (continued)

Noninterest Income

Table 2: Noninterest Income

(in millions)	Quarter ended March 31, 2018	2017	% Change
Service charges on deposit accounts	$1,173	1,313	(11)%
Trust and investment fees:			
Brokerage advisory, commissions and other fees	2,403	2,324	3
Trust and investment management	850	829	3
Investment banking	430	417	3
Total trust and investment fees	3,683	3,570	3
Card fees	908	945	(4)
Other fees:			
Charges and fees on loans	301	307	(2)
Cash network fees	126	126	—
Commercial real estate brokerage commissions	85	81	5
Letters of credit fees	79	74	7
Wire transfer and other remittance fees	116	107	8
All other fees	93	170	(45)
Total other fees	800	865	(8)
Mortgage banking:			
Servicing income, net	468	456	3
Net gains on mortgage loan origination/sales activities	466	772	(40)
Total mortgage banking	934	1,228	(24)
Insurance	114	277	(59)
Net gains from trading activities	243	272	(11)
Net gains on debt securities	1	36	(97)
Net gains from equity securities	783	570	37
Lease income	455	481	(5)
Life insurance investment income	164	144	14
All other	438	230	90
Total	$9,696	9,931	(2)

Noninterest income was $9.7 billion for first quarter 2018, compared with $9.9 billion for the same period a year ago. This income represented 44% of revenue for first quarter 2018, compared with 45% for the same period a year ago. The decline in noninterest income in first quarter 2018, compared with the same period 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, and lower service charges on deposit accounts. These decreases were partially offset by growth in trust and investment fees, higher net gains from 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 in first quarter 2018, compared with $1.3 billion for the same period a year ago. The decrease in first quarter 2018, compared with the same period a year ago, was due to lower overdraft fees driven by customer-friendly changes including the first full quarter impact of Overdraft Rewind^{SM}, and the impact of a higher earnings credit rate applied to commercial accounts due to increased interest rates.

Brokerage advisory, commissions and other fees increased to $2.4 billion in first quarter 2018, compared with $2.3 billion for the same period in 2017. The increase in first quarter 2018, compared with the same period in 2017, was due to higher asset-

based fees, partially offset by lower transactional commission revenue. Retail brokerage client assets totaled $1.6 trillion at both March 31, 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 modestly increased to $850 million in first quarter 2018, from $829 million in first quarter 2017, largely due to growth in management fees for investment advice on mutual funds. Our AUM totaled $680.4 billion at March 31, 2018, compared with $654.9 billion at March 31, 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 $1.7 trillion at March 31, 2018, compared with $1.6 trillion at March 31, 2017.

Investment banking fees increased to $430 million in first quarter 2018, from $417 million for the same period in 2017, reflecting the impact of the new accounting standard for revenue recognition, which increased investment banking fees and increased noninterest expense by an equal amount due to the underwriting expenses of our broker-dealer business that were previously netted against revenue are now included in noninterest expense. The increase in fees was partially offset by lower advisory fees and equity originations.
Card fees were $908 million in first quarter 2018, down from $945 million in first quarter 2017, reflecting higher rewards costs and the impact of the new accounting standard for revenue recognition, which lowered card fees and reduced noninterest expense by an equal amount due to the netting of card payment network charges against related interchange and network revenues in card fees. These decreases were partially offset by an increase in interchange fees due to higher purchase activity.
Other fees decreased to $800 million in first quarter 2018, from $865 million for the same period in 2017, predominantly driven by lower all other fees. All other fees were $93 million in first quarter 2018, compared with $170 million for the same period in 2017, driven by lower other fees from discontinued products.
Mortgage banking noninterest income, consisting of net servicing income and net gains on mortgage loan origination/sales activities, totaled $934 million in first quarter 2018, compared with $1.2 billion for the same period 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 $468 million for first quarter 2018 included a $110 million net MSR valuation gain ($1.3 billion increase in the fair value of the MSRs and a $1.2 billion hedge loss). Net servicing income of $456 million for first quarter 2017 included a $102 million net MSR valuation gain ($174 million increase in the fair value of the MSRs and a $72 million hedge loss).
Our portfolio of mortgage loans serviced for others was $1.71 trillion at March 31, 2018, and $1.70 trillion at December 31, 2017. At March 31, 2018, the ratio of combined residential and commercial MSRs to related loans serviced for others was 0.96%, 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 $466 million in first quarter 2018, compared with $772 million for the same period a year ago. The decrease in first quarter 2018, compared with the same period a year ago, was largely due to lower production margins. Total mortgage loan originations were $43 billion for first quarter 2018, compared with $44 billion for the same period a year ago. The production margin on residential held-for-sale mortgage originations, which represents net gains on residential mortgage loan origination/sales activities divided by total residential held-for-sale mortgage 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 March 31, 2018	2017
Net gains on mortgage loan origination/sales activities (in millions):			
Residential	(A)	$324	569
Commercial		76	101
Residential pipeline and unsold/repurchased loan management (1)		66	102
Total		$466	772
Residential real estate originations (in billions):			
Held-for-sale	(B)	$34	34
Held-for-investment		9	10
Total		$43	44

Production margin on residential held-for-sale mortgage originations	(A)/(B)	0.94 %	1.68

(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.

10

Earnings Performance (continued)

The production margin was 0.94% for first quarter 2018, compared with 1.68% for the same period in 2017. The decline in production margin in first quarter 2018 was attributable to lower margins in both our retail and correspondent production channels as well as a shift to more correspondent origination volume, which has a lower production margin. Mortgage applications were $58 billion for first quarter 2018, compared with $59 billion for the same period a year ago. The 1-4 family first mortgage unclosed pipeline was $24 billion at March 31, 2018, compared with $28 billion at March 31, 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 $114 million in first quarter 2018, compared with $277 million in the same period a year ago. The decrease in first quarter 2018, compared with the same period 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 $243 million in first quarter 2018, compared with $272 million in the same period a year ago. The decrease in first quarter 2018, compared with the same period a year ago, was driven by lower customer accommodation trading activity within our capital markets trading business. 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 $784 million in first quarter 2018, compared with $606 million in first quarter 2017, after other-than-temporary impairment (OTTI) write-downs of $30 million for first quarter 2018, compared with $128 million for the same period in 2017. The increase in net gains on debt and equity securities in first quarter 2018, compared with the same period a year ago, was driven by higher net gains from nonmarketable equity securities and $250 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).

Lease income was $455 million in first quarter 2018, compared with $481 million for the same period a year ago. The decrease in first quarter 2018, compared with the same period a year ago, was driven by lower rail and equipment lease income.

All other income was $438 million in first quarter 2018, compared with $230 million for the same period a year ago. All other income includes ineffectiveness recognized on derivatives that qualify for hedge accounting, the results of certain economic hedges, losses on low income housing tax credit investments, foreign currency adjustments, and income from investments accounted for under the equity method, any of which can cause decreases and net losses in other income. The increase in all other income in first quarter 2018, compared with the same period a year ago, was predominantly driven by a $643 million pre-tax gain from the sale of $1.6 billion of purchased credit-impaired Pick-a-Pay loans and a $202 million pre-tax gain from the sale of Wells Fargo Shareowner Services in first quarter 2018. These gains were partially offset by an unrealized loss of $(176) million for a lower of cost or market (LOCOM) adjustment 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), and lower income from equity method investments.

Noninterest Expense

Table 3: Noninterest Expense

	Quarter ended March 31,		%
(in millions)	2018	2017	Change
Salaries	$4,363	4,261	2 %
Commission and incentive compensation	2,768	2,725	2
Employee benefits	1,598	1,686	(5)
Equipment	617	577	7
Net occupancy	713	712	—
Core deposit and other intangibles	265	289	(8)
FDIC and other deposit assessments	324	333	(3)
Operating losses	1,468	282	421
Outside professional services	821	804	2
Contract services (1)	447	397	13
Operating leases	320	345	(7)
Outside data processing	162	220	(26)
Travel and entertainment	152	179	(15)
Advertising and promotion	153	127	20
Postage, stationery and supplies	142	145	(2)
Telecommunications	92	91	1
Foreclosed assets	38	86	(56)
Insurance	26	24	8
All other (1)	573	509	13
Total	$15,042	13,792	9

(1) The prior period has 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 $15.0 billion in first quarter 2018, up 9% from $13.8 billion a year ago, predominantly driven by higher operating losses.

Personnel expenses, which include salaries, commissions, incentive compensation, and employee benefits, were up $57 million, or 1%, in first quarter 2018 compared with the same period a year ago. The increase was due to annual salary increases, higher incentive compensation, and higher employee benefits expense, partially offset by lower deferred compensation costs (offset in net gains from equity securities) and the impact of the sale of Wells Fargo Insurance Services in fourth quarter 2017.

Outside professional and contract services expense was up $67 million, or 6%, in first quarter 2018, compared with the same period a year ago. The increase reflected higher project and technology spending on regulatory and compliance related initiatives, partially offset by lower legal expense.

Outside data processing was down $58 million in first quarter 2018, or 26%, 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 up $1.2 billion, or 421%, in first quarter 2018, compared with the same period a year ago, predominantly driven by the $800 million discrete litigation accrual in connection with entering into the consent orders with the CFPB and OCC on April 20, 2018. See Note 1 (Summary of Significant Accounting Policies – Subsequent Events) for additional information.

Foreclosed assets expense was down $48 million, or 56%, in first quarter 2018, compared with the same period a year ago, due to lower foreclosed properties operating expenses and higher gains on sale of foreclosed properties.

All other noninterest expense was up $64 million, or 13%, in first quarter 2018, compared with the same period a year ago. The increase was primarily driven by higher donations expense.
Our efficiency ratio was 68.6% in first quarter 2018, compared with 62.0% in first quarter 2017.

Income Tax Expense

Our effective income tax rate was 21.1% and 27.4% for first quarter 2018 and 2017, respectively. The decrease in the effective income tax rate for first quarter 2018 reflected the reduced U.S federal tax rate as part of the Tax Cuts & Jobs Act (the Tax Act) that was enacted in 2017, partially offset by the non-tax deductible treatment of the $800 million discrete litigation accrual in connection with entering into the consent orders with the CFPB and OCC on April 20, 2018. 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 Tax Act. We anticipate these items will be finalized upon completion of our U.S. tax filings in 2018.

Earnings Performance (continued)

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 prior period operating segment results 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 March 31,										
Revenue	$11,830	11,823	7,279	7,577	4,242	4,257	(1,417)	(1,402)	21,934	22,255
Provision (reversal of provision) for credit losses	218	646	(20)	(43)	(6)	(4)	(1)	6	191	605
Noninterest expense	8,702	7,281	3,978	4,167	3,290	3,204	(928)	(860)	15,042	13,792
Net income (loss)	1,913	2,824	2,875	2,485	714	665	(366)	(340)	5,136	5,634
Average loans	$470.5	480.7	465.1	468.3	73.9	70.7	(58.5)	(56.1)	951.0	963.6
Average deposits	747.5	717.8	446.0	465.3	177.9	197.5	(74.2)	(81.4)	1,297.2	1,299.2

(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.

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 announced on November 28, 2017, that we will exit the personal insurance business, and we have begun winding down activities and ceased offering personal insurance products, effective February 1, 2018. Effective April 2, 2018, we sold the majority of our interests in our personal insurance business to a third party. Table 4a provides additional financial information for Community Banking.

Table 4a: Community Banking

	Quarter ended March 31,		
(in millions, except average balances which are in billions)	2018	2017	% Change
Net interest income	$7,195	7,132	1 %
Noninterest income:			
Service charges on deposit accounts	639	742	(14)
Trust and investment fees:			
Brokerage advisory, commissions and other fees (1)	478	444	8
Trust and investment management (1)	233	218	7
Investment banking (2)	(10)	(27)	63
Total trust and investment fees	701	635	10
Card fees	821	865	(5)
Other fees	327	395	(17)
Mortgage banking	842	1,106	(24)
Insurance	28	34	(18)
Net losses from trading activities	(1)	(52)	98
Net gains on debt securities	—	102	(100)
Net gains from equity securities (3)	684	468	46
Other income of the segment	594	396	50
Total noninterest income	4,635	4,691	(1)
Total revenue	11,830	11,823	—
Provision for credit losses	218	646	(66)
Noninterest expense:			
Personnel expense	5,511	5,201	6
Equipment	596	551	8
Net occupancy	534	526	2
Core deposit and other intangibles	101	112	(10)
FDIC and other deposit assessments	181	192	(6)
Outside professional services	397	349	14
Operating losses	1,440	261	452
Other expense of the segment	(58)	89	NM
Total noninterest expense	8,702	7,281	20
Income before income tax expense and noncontrolling interests	2,910	3,896	(25)
Income tax expense	809	982	(18)
Net income from noncontrolling interests (4)	188	90	109
Net income	$1,913	2,824	(32)

Average loans	$470.5	480.7	(2)
Average deposits	747.5	717.8	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) Predominantly 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 $1.9 billion, down $911 million, or 32%, compared with the same period a year ago. Revenue was $11.8 billion for first quarter 2018, stable compared with the same period last year, as higher net interest income, a gain on the sale of Pick-a-Pay loans, higher market sensitive revenue, and higher trust and investment fees, were offset by lower mortgage banking revenue and lower service charges on deposit accounts. Average loans of $470.5 billion in first quarter 2018 decreased $10.2 billion, or 2%, from first quarter 2017. The decline in average loans 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 $747.5 billion in first quarter 2018 increased $29.7 billion, or 4%, from first quarter 2017. 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 February 2018 were up 0.9% from February 2017. Noninterest expense increased $1.4 billion, or 20%, from first quarter 2017. The increase in noninterest expense from first quarter 2017 was predominantly due to higher operating losses, including the $800 million discrete litigation accrual, and personnel expense. The provision for credit losses decreased $428 million from first quarter 2017 primarily reflecting an improvement in our outlook for 2017 hurricane-related losses, as well as continued improvement in residential real estate and lower loan balances.

Earnings Performance (continued)

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 March 31,		
(in millions, except average balances which are in billions)	2018	2017	% Change
Net interest income	$4,532	4,681	(3)%
Noninterest income:			
Service charges on deposit accounts	534	570	(6)
Trust and investment fees:			
Brokerage advisory, commissions and other fees	67	84	(20)
Trust and investment management	113	129	(12)
Investment banking	440	445	(1)
Total trust and investment fees	620	658	(6)
Card fees	87	80	9
Other fees	472	468	1
Mortgage banking	93	123	(24)
Insurance	79	234	(66)
Net gains from trading activities	225	290	(22)
Net gains (losses) on debt securities	1	(66)	102
Net gains from equity securities	93	36	158
Other income of the segment	543	503	8
Total noninterest income	2,747	2,896	(5)
Total revenue	7,279	7,577	(4)
Provision (reversal of provision) for credit losses	(20)	(43)	53
Noninterest expense:			
Personnel expense	1,536	1,804	(15)
Equipment	12	16	(25)
Net occupancy	100	108	(7)
Core deposit and other intangibles	95	105	(10)
FDIC and other deposit assessments	122	118	3
Outside professional services	233	241	(3)
Operating losses	8	6	33
Other expense of the segment	1,872	1,769	6
Total noninterest expense	3,978	4,167	(5)
Income before income tax expense and noncontrolling interests	3,321	3,453	(4)
Income tax expense	448	973	(54)
Net loss from noncontrolling interests	(2)	(5)	60
Net income	$2,875	2,485	16
Average loans	$465.1	468.3	(1)

Average deposits	446.0	465.3	(4)

Wholesale Banking reported net income of $2.9 billion in first quarter 2018, up $390 million, or 16%, from the same period a year ago. First quarter 2018 results benefited from the reduced income tax rate. Revenue decreased $298 million, or 4%, from first quarter 2017 primarily due to the impact of the sale of Wells Fargo Insurance Services (WFIS) in fourth quarter 2017, as well as lower net interest income. Net interest income decreased $149 million, or 3%, from first quarter 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 $149 million, or 5%, from first quarter 2017 as the impact of the sale of WFIS, lower mortgage banking fees, and lower operating lease income was partially offset by a gain on the sale of Wells Fargo Shareowner Services.

Average loans of $465.1 billion in first quarter 2018 decreased $3.2 billion, or 1%, from first quarter 2017 as lower commercial real estate was partially offset by growth in asset backed finance, capital finance, and commercial distribution finance. Average deposits of $446.0 billion decreased $19.3 billion, or 4%, from first quarter 2017 reflecting declines across many businesses as well as actions taken to comply with the asset cap included in the FRB consent order on February 2, 2018. Noninterest expense decreased $189 million, or 5%, from first quarter 2017, reflecting the sale of WFIS, partially offset by higher regulatory, risk, cyber and technology expenses. The provision for credit losses increased $23 million from first quarter 2017 driven by a lower allowance for loan losses release.

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 March 31,		
(in millions, except average balances which are in billions)	2018	2017	% Change
Net interest income	$1,112	1,141	(3)%
Noninterest income:			
Service charges on deposit accounts	4	5	(20)
Trust and investment fees:			
Brokerage advisory, commissions and other fees	2,344	2,245	4
Trust and investment management	743	707	5
Investment banking (1)	—	(1)	100
Total trust and investment fees	3,087	2,951	5
Card fees	1	1	—
Other fees	4	5	(20)
Mortgage banking	(3)	(2)	(50)
Insurance	18	20	(10)
Net gains from trading activities	19	34	(44)
Net gains on debt securities	—	—	NM
Net gains from equity securities	6	66	(91)
Other income of the segment	(6)	36	NM
Total noninterest income	3,130	3,116	—
Total revenue	4,242	4,257	—
Provision (reversal of provision) for credit losses	(6)	(4)	(50)
Noninterest expense:			
Personnel expense	2,165	2,104	3
Equipment	10	11	(9)
Net occupancy	109	107	2
Core deposit and other intangibles	69	72	(4)
FDIC and other deposit assessments	36	40	(10)
Outside professional services	198	222	(11)
Operating losses	22	17	29
Other expense of the segment	681	631	8
Total noninterest expense	3,290	3,204	3
Income before income tax expense and noncontrolling interests	958	1,057	(9)
Income tax expense	239	386	(38)
Net income from noncontrolling interests	5	6	(17)
Net income	$714	665	7
Average loans	$73.9	70.7	5
Average deposits	177.9	197.5	(10)

NM – Not meaningful

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

WIM reported net income of $714 million in first quarter 2018, up $49 million, or 7%, compared with the same period a year ago. First quarter 2018 results benefited from the lower income tax rate. Revenue was down $15 million from first quarter 2017, due to lower net interest income, partially offset by higher noninterest income. Net interest income decreased 3% from first quarter 2017, primarily driven by lower deposit balances. Noninterest income increased $14 million from first quarter 2017 predominantly driven by higher asset-based fees, partially offset by deferred compensation plan investments (offset in employee benefits expense), and lower brokerage transaction revenue. Asset-based fees increased predominantly due to higher brokerage advisory account client assets driven by higher market valuations and positive net flows.

Average loans of $73.9 billion in first quarter 2018 increased 5% from the same period a year ago driven by growth in non-conforming mortgage loans. Average deposits in first quarter 2018 of $177.9 billion decreased 10% from the same period a year ago, as customers moved deposits into other investment alternatives. Noninterest expense was up 3% from first quarter 2017, driven by higher broker commissions and higher project and technology spending on regulatory and compliance related initiatives, partially offset by lower deferred compensation plan expense (offset in net gains from equity securities). The provision for credit losses decreased $2 million from first quarter 2017 driven by lower net charge-offs.

Earnings Performance (continued)

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 March 31, 2018 and 2017.

Table 4d: Retail Brokerage Client Assets

($ in billions)	March 31, 2018	2017
Retail brokerage client assets	$1,623.0	1,555.5
Advisory account client assets	540.4	490.1
Advisory account client assets as a percentage of total client assets	33 %	32

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 first 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 first quarter of 2018 and 2017.

Table 4e: Retail Brokerage Advisory Account Client Assets

(in billions)	Quarter ended Balance, beginning of period	Inflows (1)	Outflows (2)	Market impact (3)	Balance, end of period
March 31, 2018					
Client directed (4)	$170.9	9.4	(9.2)	(2.7)	168.4
Financial advisor directed (5)	147.0	8.1	(7.0)	0.5	148.6
Separate accounts (6)	149.1	6.8	(7.3)	(2.0)	146.6
Mutual fund advisory (7)	75.8	4.0	(3.0)	—	76.8
Total advisory client assets	542.8	28.3	(26.5)	(4.2)	540.4
March 31, 2017					
Client directed (4)	159.1	12.0	(11.6)	3.8	163.3
Financial advisor directed (5)	115.7	9.4	(6.0)	7.1	126.2
Separate accounts (6)	125.7	8.2	(6.2)	6.0	133.7
Mutual fund advisory (7)	63.3	3.8	(3.0)	2.8	66.9
Total advisory client assets	463.8	33.4	(26.8)	19.7	490.1

(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 first quarter of 2018 and 2017.

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

(in billions)	Quarter ended Balance, beginning of period	Inflows (1)	Outflows (2)	Market impact (3)	Balance, end of period
March 31, 2018					
Assets managed by WFAM (4):					
Money market funds (5)	$108.2	—	(3.2)	—	105.0
Other assets managed	395.7	25.7	(29.2)	(0.4)	391.8
Assets managed by Wealth and Retirement (6)	186.2	10.4	(11.4)	(1.9)	183.3
Total assets under management	690.1	36.1	(43.8)	(2.3)	680.1
March 31, 2017					
Assets managed by WFAM (4):					
Money market funds (5)	102.6	—	(5.9)	—	96.7
Other assets managed	379.6	29.4	(34.2)	9.6	384.4
Assets managed by Wealth and Retirement (6)	168.5	9.4	(9.4)	5.0	173.5
Total assets under management	650.7	38.8	(49.5)	14.6	654.6

(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 $5.7 billion and $6.3 billion as of March 31, 2018 and 2017, respectively, of client assets invested in proprietary funds managed by WFAM.

Balance Sheet Analysis (continued)

Balance Sheet Analysis

At March 31, 2018, our assets totaled $1.92 trillion, down $36.4 billion from December 31, 2017. Asset decline was driven by declines in loans, federal funds sold, securities purchased under resale agreements and other short-term investments, and cash and due from banks, which decreased by $9.5 billion, $6.5 billion, and $5.2 billion, respectively, from December 31, 2017. Total equity decreased by $2.2 billion from December 31, 2017, predominantly due to a $2.8 billion decline in cumulative other comprehensive income and a $1.4 billion decline in

treasury stock, partially offset by a $2.7 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

	March 31, 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	273,588	(1,932)	271,656	275,096	1,311	276,407
Held-to-maturity	141,446	(3,123)	138,323	139,335	(350)	138,985
Total (1)	$415,034	(5,055)	409,979	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 $2.6 billion in balance sheet carrying value from December 31, 2017, largely due to sales and paydowns of federal agency mortgage-backed securities, collateralized loan obligations and other asset-based securities, partially offset by purchases of federal agency mortgage-backed securities.

The total net unrealized losses on available-for-sale debt securities were $1.9 billion at March 31, 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 first quarter 2018, we recognized $10 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 (Debt Securities) to Financial Statements in this Report.

At March 31, 2018, debt securities included $56.0 billion of municipal bonds, of which 95.7% 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 6.6 years at March 31, 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 March 31, 2018			
Actual	$166.1	(3.1)	6.4
Assuming a 200 basis point:			
Increase in interest rates	147.3	(21.9)	8.8
Decrease in interest rates	178.4	9.2	4.0

The weighted-average expected maturity of debt securities held-to-maturity was 6.4 years at March 31, 2018. See Note 5 (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 $9.5 billion from December 31, 2017, reflecting paydowns, sales of 1-4 family first mortgage PCI Pick-a-Pay loans, a continued decline in junior lien

mortgage loans, seasonal declines in credit card balances, reclassification of automobile loans of Reliable Financial Services, Inc. to loans held for sale, and an expected decline in automobile loans as the effect of tighter underwriting standards resulted in lower origination volume.

Table 7: Loan Portfolios

(in millions)	March 31, 2018	December 31, 2017
Commercial	$ 503,396	503,388
Consumer	443,912	453,382
Total loans	$ 947,308	956,770
Change from prior year-end	$ (9,462)	(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

	March 31, 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	$ 102,900	206,812	24,966	334,678	105,327	201,530	26,268	333,125
Real estate mortgage	18,326	64,889	42,328	125,543	20,069	64,384	42,146	126,599
Real estate construction	9,745	12,770	1,367	23,882	9,555	13,276	1,448	24,279
Total selected loans	$ 130,971	284,471	68,661	484,103	134,951	279,190	69,862	484,003
Distribution of loans to changes in interest rates:								
Loans at fixed interest rates	$ 16,698	29,202	26,906	72,806	18,587	30,049	26,748	75,384
Loans at floating/variable interest rates	114,273	255,269	41,755	411,297	116,364	249,141	43,114	408,619
Total selected loans	$ 130,971	284,471	68,661	484,103	134,951	279,190	69,862	484,003

20

Balance Sheet Analysis (continued)

Deposits

Deposits were $1.3 trillion at March 31, 2018, down $32.3 billion from December 31, 2017, due to a decrease in commercial deposits from financial institutions reflecting seasonal outflows and market-driven changes due to movements in interest rates, as well as actions to comply with the asset cap included in the consent order issued by the Board of Governors of the Federal

Reserve System on February 2, 2018. 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)	Mar 31, 2018	% of total deposits		Dec 31, 2017	% of total deposits		% Change	
Noninterest-bearing	$370,085	28	%	$373,722	28	%	(1	)
Interest-bearing checking	95,123	7		51,928	4		83	
Market rate and other savings	682,037	53		690,168	52		(1	)
Savings certificates	19,930	2		20,415	2		(2	)
Other time deposits	79,976	6		71,715	4		12	
Deposits in foreign offices (1)	56,538	4		128,043	10		(56	)
Total deposits	$1,303,689	100	%	$1,335,991	100	%	(2	)

(1) Includes Eurodollar sweep balances of $27.9 billion and $80.1 billion at March 31, 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

	March 31, 2018			December 31, 2017	
($ in billions)	Total balance		Level 3 (1)	Total balance	Level 3 (1)
Assets carried at fair value	$409.5		26.3	416.6	24.9
As a percentage of total assets	21	%	1	21	1
Liabilities carried at fair value	$31.2		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 $205.9 billion at March 31, 2018, compared with $208.1 billion at December 31, 2017. The decrease was driven by a $2.8 billion decrease 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, and a $1.4 billion decrease in treasury stock, partially offset by a $2.7 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.

22

Risk Management

Wells Fargo manages a variety of risks that can significantly affect our financial performance and our ability to meet the expectations of our customers, stockholders, regulators and other stakeholders. Among the significant risks that we manage are conduct risk, operational risk, compliance risk, credit risk, and asset/liability management related risks, which include interest rate risk, market risk, liquidity risk, and funding related risks. We operate under a Board-level approved risk 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. For more information about how we manage these risks, see the "Risk Management" section in our 2017 Form 10-K. The discussion that follows provides an update regarding these risks.

Conduct Risk Management

Conduct risk is the risk resulting from behavior that does not comply with the Company's values or ethical principles.

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 and Goals and Code of Ethics and Business Conduct. The Board's Risk Committee has primary oversight responsibility for company- wide conduct risk, while certain other Board committees have primary oversight responsibility for specific components of conduct risk. For example, the conduct risk oversight responsibilities of the Board's Human Resources Committee include the Company's human capital management, company-wide culture, the Ethics Oversight program (including the Company's Code of Ethics and Business Conduct), and oversight of our company-wide 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. This office reports and is accountable to the Chief Risk Officer (CRO) and the Enterprise Risk Management Committee and also has direct escalation and informational reporting paths to the relevant Board committees.

Operational Risk Management

Operational risk is the risk resulting from inadequate or failed internal controls and processes, people and systems, or resulting from external events. Operational risk is inherent in all Wells Fargo products and services as it often arises in the presence of other risk types.

The Board's Risk Committee has primary oversight responsibility for all aspects of operational risk. In this capacity, it reviews and approves significant supporting operational risk policies and programs, including the Company's business continuity, financial crimes, information security, privacy, technology, and third-party risk management policies and programs. In addition, it periodically reviews updates from management on the overall state of operational risk, including all related programs and risk types.

At the management level, the Operational Risk Group has primary oversight responsibility for operational risk. This group reports and is accountable to the CRO and the Enterprise Risk Management Committee, and existing management-level committees with primary oversight responsibility for key

elements of operational risk report to it while maintaining relevant dual escalation and informational reporting paths to Board-level committees.

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 our 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 provide focused 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 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, 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, or other regulatory requirements, or the failure to appropriately address and limit violations of law and any associated harm to customers. Compliance risk encompasses compliance with the applicable standards of self-regulatory organizations as well as with 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 provide focused oversight of compliance risk. The Compliance Subcommittee reports to the Risk Committee and updates are provided by the Risk Committee to the full Board.

At the management level, Wells Fargo Compliance has primary oversight responsibility for compliance risk. This management-level organization reports and is accountable to the

CRO and the Enterprise Risk Management Committee and also has a direct escalation and information reporting path to the Board's Risk 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 CFPB/OCC's April 20, 2018, consent orders.

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

(in millions)	Mar 31, 2018	Dec 31, 2017
Commercial:		
Commercial and industrial	$334,678	333,125
Real estate mortgage	125,543	126,599
Real estate construction	23,882	24,279
Lease financing	19,293	19,385
Total commercial	503,396	503,388
Consumer:		
Real estate 1-4 family first mortgage	282,658	284,054
Real estate 1-4 family junior lien mortgage	37,920	39,713
Credit card	36,103	37,976
Automobile	49,554	53,371
Other revolving credit and installment	37,677	38,268
Total consumer	443,912	453,382
Total loans	$947,308	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

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 first quarter 2018, as our net charge-off rate remained low at 0.32% (annualized) of average total loans. We continued to benefit from improvements in the performance of our residential real estate portfolio as well as reduced losses in our oil and gas portfolio. In particular:

- Nonaccrual loans were $7.7 billion at March 31, 2018, down from $8.0 billion at December 31, 2017. Commercial nonaccrual loans declined to $2.4 billion at March 31, 2018, compared with $2.6 billion at December 31, 2017, and consumer nonaccrual loans declined to $5.3 billion at March 31, 2018, compared with $5.4 billion at December 31, 2017. The decline in nonaccrual loans reflected an improved housing market and continued improvement in our oil and gas portfolio. Nonaccrual loans represented 0.81% of total loans at March 31, 2018, compared with 0.84% at December 31, 2017.
- Net charge-offs (annualized) as a percentage of average total loans decreased to 0.32% in first quarter 2018, compared with 0.34% a year ago. Net charge-offs (annualized) as a percentage of our average commercial and consumer portfolios were 0.06% and 0.60% in first quarter 2018, respectively, compared with 0.11% and 0.59% in first quarter 2017.
- Loans that are not government insured/guaranteed and 90 days or more past due and still accruing were $64 million and $903 million in our commercial and consumer portfolios, respectively, at March 31, 2018, compared with $49 million and $1.0 billion at December 31, 2017.
- Our provision for credit losses was $191 million in first quarter 2018, compared with $605 million for the same period a year ago.
- The allowance for credit losses totaled $11.3 billion, or 1.19% of total loans, at March 31, 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 March 31, 2018, totaled $10.7 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 in part to prepayments observed in our Pick-a-Pay PCI portfolio, as well as the sale of $1.6 billion of Pick-a-Pay PCI loans. 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 March 31, 2018, was $6.9 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 March 31, 2018, $293 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 divided between special mention, substandard, doubtful and loss categories.
The commercial and industrial loans and lease financing portfolio totaled $354.0 billion, or 37% of total loans, at March 31, 2018. The annualized net charge-off rate for this portfolio was 0.11% in first quarter 2018, compared with 0.20% in first quarter 2017. At March 31, 2018, 0.45% of this portfolio was nonaccruing, compared with 0.56% at December 31, 2017, reflecting a decrease of $366 million in nonaccrual loans, mostly due to improvement in the oil and gas portfolio. Also, $17.5 billion of the commercial and industrial loan and lease financing portfolio was internally classified as criticized in accordance with regulatory guidance at March 31, 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 12 provides a breakout of commercial and industrial loans and lease financing by industry, and includes $60.8 billion of foreign loans at March 31, 2018. Foreign loans totaled $18.4 billion within the investor category, $17.4 billion within the financial institutions category and $1.5 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 $17.4 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 March 31, 2018, compared with $12.5 billion, or 1% of total outstanding loans, at December 31, 2017. Oil and gas nonaccrual loans decreased to $823 million at March 31, 2018, compared with $1.1 billion at December 31, 2017, due to improved portfolio performance.
Table 12: Commercial and Industrial Loans and Lease Financing by Industry (1)
March 31, 2018

(in millions)	Nonaccrual loans	Total portfolio	(2)	% of total loans	
Investors	$11	61,921		7	%
Financial institutions	2	38,837		4	
Cyclical retailers	71	27,934		3	
Healthcare	48	17,177		2	
Food and beverage	7	16,925		2	
Industrial equipment	107	14,555		2	
Real estate lessor	7	14,532		2	
Technology	29	13,535		1	
Oil and gas	823	12,223		1	
Transportation	117	8,785		1	
Business services	34	8,638		1	
Public administration	9	8,297		1	
Other	344	110,612	(3)	10	
Total	$1,609	353,971		37	%

(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 $75 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 $6.6 billion.

COMMERCIAL REAL ESTATE (CRE) We generally subject CRE loans to individual risk assessment using our internal borrower and collateral quality ratings. Our ratings are aligned to regulatory definitions of pass and criticized categories with criticized divided among special mention, substandard, doubtful and loss categories. The CRE portfolio, which included $8.8 billion of foreign CRE loans, totaled $149.4 billion, or 16% of total loans, at March 31, 2018, and consisted of $125.5 billion of mortgage loans and $23.9 billion of construction loans.
Table 13 summarizes CRE loans by state and property type with the related nonaccrual totals. The portfolio is diversified both geographically and by property type. The largest geographic

concentrations of CRE loans are in California, New York, Texas and Florida, which combined represented 49% of the total CRE portfolio. By property type, the largest concentrations are office buildings at 28% and apartments at 15% of the portfolio. CRE nonaccrual loans totaled 0.5% of the CRE outstanding balance at March 31, 2018, compared with 0.4% at December 31, 2017. At March 31, 2018, we had $4.4 billion of criticized CRE mortgage loans, compared with $4.3 billion at December 31, 2017, and $235 million of criticized CRE construction loans, compared with $298 million at December 31, 2017.

Table 13: CRE Loans by State and Property Type

	March 31, 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	$145	35,507	7	4,254	152	39,761	4	%
New York	12	10,143	—	2,313	12	12,456	1	
Texas	211	8,684	—	2,158	211	10,842	1	
Florida	43	7,882	2	2,138	45	10,020	1	
Arizona	26	4,394	—	533	26	4,927	1	
North Carolina	23	3,861	6	855	29	4,716	*	
Georgia	15	3,765	1	858	16	4,623	*	
Illinois	5	3,552	—	530	5	4,082	*	
Virginia	12	3,121	—	891	12	4,012	*	
Washington	25	3,085	3	625	28	3,710	*	
Other	238							