WELLS FARGO & COMPANY/MN
Form 10-Q
May 03, 2019

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, 2019
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 ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No ¨
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 ¨
Non-accelerated filer ¨ Smaller reporting company ¨
Emerging growth company ¨
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. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $1-2/3	WFC	New York Stock Exchange (NYSE)
7.5% Non-Cumulative Perpetual Convertible Class A Preferred Stock, Series L	WFC.PRL	NYSE
	WFC.PRN	NYSE

Depositary Shares, each representing a 1/1000th interest in a share of Non-Cumulative Perpetual Class A Preferred Stock, Series N		
Depositary Shares, each representing a 1/1000th interest in a share of Non-Cumulative Perpetual Class A Preferred Stock, Series O	WFC.PRO	NYSE
Depositary Shares, each representing a 1/1000th interest in a share of Non-Cumulative Perpetual Class A Preferred Stock, Series P	WFC.PRP	NYSE
Depositary Shares, each representing a 1/1000th interest in a share of 5.85% Fixed-to-Floating Rate Non-Cumulative Perpetual Class A Preferred Stock, Series Q	WFC.PRQ	NYSE
Depositary Shares, each representing a 1/1000th interest in a share of 6.625% Fixed-to-Floating Rate Non-Cumulative Perpetual Class A Preferred Stock, Series R	WFC.PRR	NYSE
Depositary Shares, each representing a 1/1000th interest in a share of Non-Cumulative Perpetual Class A Preferred Stock, Series T	WFC.PRT	NYSE
Depositary Shares, each representing a 1/1000th interest in a share of Non-Cumulative Perpetual Class A Preferred Stock, Series V	WFC.PRV	NYSE
Depositary Shares, each representing a 1/1000th interest in a share of Non-Cumulative Perpetual Class A Preferred Stock, Series W	WFC.PRW	NYSE
Depositary Shares, each representing a 1/1000th interest in a share of Non-Cumulative Perpetual Class A Preferred Stock, Series X	WFC.PRX	NYSE
Depositary Shares, each representing a 1/1000th interest in a share of Non-Cumulative Perpetual Class A Preferred Stock, Series Y	WFC.PRY	NYSE
Guarantee of 5.80% Fixed-to-Floating Rate Normal Wachovia Income Trust Securities of Wachovia Capital Trust III	WBTP	NYSE
Guarantee of Medium-Term Notes, Series A, due October 30, 2028 of Wells Fargo Finance LLC	WFC/28A	NYSE

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 24, 2019
Common stock, $1-2/3 par value	4,494,342,882

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PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW
Summary Financial Data

($ in millions, except per share amounts)	Quarter ended			% Change Mar 31, 2019 from	
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018	Dec 31, 2018	Mar 31, 2018
For the Period					
Wells Fargo net income	$5,860	6,064	5,136	(3)%	14
Wells Fargo net income applicable to common stock	5,507	5,711	4,733	(4)	16
Diluted earnings per common share	1.20	1.21	0.96	(1)	25
Profitability ratios (annualized):					
Wells Fargo net income to average assets (ROA)	1.26 %	1.28	1.09	(2)	16
Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders' equity (ROE)	12.71	12.89	10.58	(1)	20
Return on average tangible common equity (ROTCE) (1)	15.16	15.39	12.62	(1)	20
Efficiency ratio (2)	64.4	63.6	68.6	1	(6)
Total revenue	$21,609	20,980	21,934	3	(1)
Pre-tax pre-provision profit (PTPP) (3)	7,693	7,641	6,892	1	12
Dividends declared per common share	0.45	0.43	0.39	5	15
Average common shares outstanding	4,551.5	4,665.8	4,885.7	(2)	(7)
Diluted average common shares outstanding	4,584.0	4,700.8	4,930.7	(2)	(7)
Average loans	$950,010	946,336	951,024	—	—
Average assets	1,883,091	1,879,047	1,915,896	—	(2)
Average total deposits	1,262,062	1,268,948	1,297,178	(1)	(3)
Average consumer and small business banking deposits (4)	739,654	736,295	755,483	—	(2)
Net interest margin	2.91 %	2.94	2.84	(1)	2
At Period End					
Debt securities	$483,467	484,689	472,968	—	2
Loans	948,249	953,110	947,308	(1)	—
Allowance for loan losses	9,900	9,775	10,373	1	(5)
Goodwill	26,420	26,418	26,445	—	—
Equity securities	58,440	55,148	58,935	6	(1)
Assets	1,887,792	1,895,883	1,915,388	—	(1)
Deposits	1,264,013	1,286,170	1,303,689	(2)	(3)
Common stockholders' equity	176,025	174,359	181,150	1	(3)
Wells Fargo stockholders' equity	197,832	196,166	204,952	1	(3)
Total equity	198,733	197,066	205,910	1	(3)
Tangible common equity (1)	147,723	145,980	151,878	1	(3)
Capital ratios (5):					
Total equity to assets	10.53 %	10.39	10.75	1	(2)
Risk-based capital:					
Common Equity Tier 1	11.92	11.74	11.92	2	—
Tier 1 capital	13.64	13.46	13.76	1	(1)
Total capital	16.74	16.60	16.92	1	(1)
Tier 1 leverage	9.15	9.07	9.32	1	(2)
Common shares outstanding	4,511.9	4,581.3	4,873.9	(2)	(7)
Book value per common share (6)	$39.01	38.06	37.17	2	5

Tangible book value per common share (1)(6)	32.74	31.86	31.16	3	5
Team members (active, full-time equivalent)	262,100	258,700	265,700	1	(1)

(1) Tangible common equity is a non-GAAP financial measure and represents total equity less preferred equity, noncontrolling interests, and goodwill and certain identifiable intangible assets (including goodwill and intangible assets associated with certain of our nonmarketable equity 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) The risk-based capital ratios were calculated under the lower of Standardized or Advanced Approach determined pursuant to Basel III. Beginning January 1, 2018, the requirements for calculating common equity tier 1 and tier 1 capital, along with risk-weighted assets, became fully phased-in; accordingly, the information presented reflects fully phased-in common equity tier 1 capital, tier 1 capital and risk-weighted assets but reflects total capital still in accordance with Transition Requirements. See the "Capital Management" section and Note 23 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report for additional information.

(6) Book value per common share is common stockholders' equity divided by common shares outstanding. Tangible book value per common share is tangible common equity divided by common shares outstanding.

Overview (continued)

This Quarterly Report, including the Financial Review and the Financial Statements and related Notes, contains forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results may differ materially from our forward-looking statements due to several factors. Factors that could cause our actual results to differ materially from our forward-looking statements are described in this Report, including in the "Forward-Looking Statements" section, and in the "Risk Factors" and "Regulation and Supervision" sections of our Annual Report on Form 10-K for the year ended December 31, 2018 (2018 Form 10-K).

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

Financial Review

Overview

Wells Fargo & Company is a diversified, community-based financial services company with $1.89 trillion in assets. Founded in 1852 and headquartered in San Francisco, we provide banking, investment and mortgage products and services, as well as consumer and commercial finance, through 7,700 locations, more than 13,000 ATMs, digital (online, mobile and social), and contact centers (phone, email and correspondence), and we have offices in 32 countries and territories to support customers who conduct business in the global economy. With approximately 262,000 active, full-time equivalent team members, we serve one in three households in the United States and ranked No. 26 on Fortune's 2018 rankings of America's largest corporations. We ranked fourth in assets and third in the market value of our common stock among all U.S. banks at March 31, 2019.

We use our Vision, Values & 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.

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.

On March 28, 2019, the Company announced that Timothy J. Sloan had informed the Company's Board of Directors (Board) of his decision to retire from the Company, effective June 30, 2019, and to step down as the Company's Chief Executive Officer and President and as a member of the Company's Board effective March 28, 2019. The Board elected C. Allen Parker as interim CEO and President and as a member of the Board effective March 28, 2019. The Board is conducting an external search for a permanent CEO. During the search period, the Board will work closely with Mr. Parker and the Company's leadership team to continue to move forward on Wells Fargo's goals and commitments.

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

On February 2, 2018, the Company entered into a consent order with the Board of Governors of the Federal Reserve System (FRB). As required by the consent order, the Board submitted to the FRB a plan to further enhance the Board's governance and oversight of the Company, and the Company submitted to the FRB a plan to further improve the Company's compliance and operational risk management program. The consent order also requires the Company, following the FRB's acceptance and approval of the plans and the Company's adoption and implementation of the plans, to complete an initial third-party review of the enhancements and improvements provided for in the plans. Until this third-party review is 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. As of the end of first quarter 2019, our total consolidated assets, as calculated pursuant to the requirements of the consent order, were below our level of total assets as of December 31, 2017. Additionally, after removal of the asset cap, a second third-party review must also be conducted to assess the efficacy and sustainability of the enhancements and improvements.

Consent Orders with the Consumer Financial Protection Bureau and Office of the Comptroller of the Currency Regarding Compliance Risk Management Program, Automobile Collateral Protection Insurance Policies, and Mortgage Interest Rate Lock Extensions

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

Retail Sales Practices Matters

As we have previously reported, in September 2016 we announced settlements with the CFPB, the 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 completed financial remediation for the customers identified through the expanded account analysis. Additionally, customer outreach under the $142 million class-action lawsuit settlement concerning improper retail sales practices (Jabbari v. Wells Fargo Bank, N.A.) into which the Company entered to provide further remediation to customers, concluded in June 2018 and the period for customers to submit claims closed on July 7, 2018. The settlement administrator will pay claims following the calculation of compensatory damages and favorable resolution of pending appeals in the case.

For additional information regarding sales practices matters, including related legal matters, see the "Risk Factors" section in our 2018 Form 10-K and Note 14 (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, and we have accrued for the reasonably estimable remediation costs related to these matters, which amounts may change based on additional facts and information, as well as ongoing reviews and communications with our regulators. As part of this effort, we are focused on the following key areas:

- Automobile Lending Business The Company is reviewing practices concerning the origination, servicing, and collection of consumer automobile loans, including matters related to certain insurance products. In July 2017, the Company announced it would remediate customers who may have been financially harmed due to issues related to automobile collateral protection insurance (CPI) policies purchased through a third-party vendor on their behalf (based on an understanding that the borrowers did not have physical damage insurance coverage on their automobiles as required during the term of their automobile loans). The Company is in the process of providing remediation to affected customers 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. In addition, the Company has identified certain issues related to the unused portion of guaranteed automobile protection waiver or insurance agreements between the customer and dealer and, by assignment, the lender, which will result in remediation to customers in certain states. The Company is in the process of providing remediation to affected customers. The Company has also identified certain issues related to its consumer automobile collections processes for customers in default, including legal notice practices in certain states and expenses charged in connection with certain repossessions. We expect remediation of affected customers will be required.

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

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Overview (continued)

- 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 Board's review is substantially completed and has not, to date, uncovered evidence of systemic or widespread issues in these businesses. Federal government agencies continue to review this matter.
- 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 both overcharges and undercharges to customers. These issues included the incorrect set-up and maintenance in the system of record of the values associated with certain assets. Systems, operations, and account-level reviews are underway to determine the extent of any assets and accounts affected, and root cause analyses are being performed with the assistance of third parties. These reviews are ongoing and, as a result of its reviews to date, the Company has suspended the charging of fees on some assets and accounts, has notified the affected customers, and is continuing its analysis of those assets and accounts. We have begun the process of providing remediation to affected customers and continue to review customer accounts to determine the extent of any necessary remediation, including with respect to additional accounts not yet reviewed, which may lead to additional accruals and fee suspensions.
- Foreign Exchange Business The Company has completed an assessment, with the assistance of a third party, of its policies, practices, and procedures in its foreign exchange (FX) business. The FX business continues to revise and implement new policies, practices, and procedures, including those related to pricing. The Company has begun providing remediation to customers that may have received pricing inconsistent with commitments made to those customers, and rebates to customers where historic pricing, while consistent with contracts entered into with those customers, does not conform to recently implemented pricing review standards for prior periods. The Company's review of affected customers is ongoing.
- Mortgage Loan Modifications An internal review of the Company's use of a mortgage loan modification underwriting tool identified a calculation error regarding foreclosure attorneys' fees affecting certain accounts that were in the foreclosure process between April 13, 2010, and October 2, 2015, when the error was corrected. A subsequent expanded review identified related errors regarding the maximum allowable foreclosure attorneys' fees permitted for certain accounts that were in the foreclosure process between March 15, 2010, and April 30, 2018, when new controls were implemented. Similar to the initial calculation error, these errors caused an overstatement of the attorneys' fees that were included for purposes of determining whether a customer qualified for a mortgage loan modification or repayment plan pursuant to the requirements of government-sponsored enterprises (such as Fannie Mae and

Freddie Mac), the Federal Housing Administration (FHA), and the U.S. Department of Treasury's Home Affordable Modification Program. Customers were not actually charged the incorrect attorneys' fees. As previously disclosed, the Company has identified customers who, as a result of these errors, were incorrectly denied a loan modification or were not offered a loan modification or repayment plan in cases where they otherwise would have qualified, as well as instances where a foreclosure was completed after the loan modification was denied or the customer was deemed ineligible to be offered a loan modification or repayment plan. The number of previously disclosed customers affected by these errors may change as a result of ongoing validation, but is not expected to change materially upon completion of this validation. The Company has contacted substantially all of the identified customers affected by these errors and has provided remediation as well as the option to pursue no-cost mediation with an independent mediator. The Company's review of its mortgage loan modification practices is ongoing, and we are providing remediation to the extent we identify additional affected customers as a result of this review.

- Consumer Deposit Account Disclosures The Company is reviewing certain past disclosures to customers regarding the minimum qualifying debit card usage required to waive monthly service fees on certain consumer deposit accounts. Based on the possibility of confusion by some customers regarding the types of transactions that counted

toward the waiver, we expect to refund certain monthly service and related fees to affected customers.

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 2018 Form 10-K and Note 14 (Legal Actions) to Financial Statements in this Report.

Financial Performance

Wells Fargo net income was $5.9 billion in first quarter 2019 with diluted earnings per common share (EPS) of $1.20, compared with $5.1 billion and $0.96, respectively, a year ago. In first quarter 2019:

- revenue was $21.6 billion, down $325 million compared with a year ago, with net interest income up $73 million and noninterest income down $398 million;
- average loans were $950.0 billion, down $1.0 billion from a year ago;
- average deposits were $1.3 trillion, down $35.1 billion, or 3%, from a year ago;
- return on assets (ROA) of 1.26% and return on equity (ROE) of 12.71%, were up from 1.09% and 10.58%, respectively, a year ago;
- our credit results remained strong with a net charge-off rate of 0.30% (annualized) of average loans in first quarter 2019, compared with 0.32% (annualized) a year ago;
- nonaccrual loans of $6.9 billion were down $434 million, or 6%, from a year ago; and
- we returned $6.0 billion to shareholders through common stock dividends and net share repurchases, an increase of 49% from the $4.0 billion we returned in first quarter 2018 and the 15th consecutive quarter of returning more than $3 billion.

Balance Sheet and Liquidity
Our balance sheet remained strong during first quarter 2019 with strong credit quality and solid levels of liquidity and capital. Our total assets were $1.89 trillion at March 31, 2019. Cash and other short-term investments decreased $5.9 billion from December 31, 2018, reflecting lower deposit balances. Debt securities were $483.5 billion at March 31, 2019, a decrease of $1.2 billion from December 31, 2018, predominantly due to a decrease in available-for-sale debt securities. Loans were down $4.9 billion, or 1%, from December 31, 2018, driven by declines in real estate 1-4 family junior lien mortgage, commercial and industrial, and other revolving credit and installment loans, partially offset by an increase in commercial real estate mortgage loans.
Average deposits in first quarter 2019 were $1.3 trillion, down $35.1 billion from first quarter 2018. The decline was driven by lower Wholesale Banking and Wealth and Investment Management deposits, partially offset by higher retail banking deposits. Our average deposit cost in first quarter 2019 was 65 basis points, up 31 basis points from a year ago, driven by an increase in Wholesale Banking and Wealth and Investment Management deposit rates.

Credit Quality
Solid overall credit results continued in first quarter 2019 as losses remained low and we continued to originate high quality loans, reflecting our long-term risk focus. Net charge-offs were $695 million, or 0.30% (annualized) of average loans, in first quarter 2019, compared with $741 million a year ago (0.32%) (annualized). The decrease in net charge-offs in first quarter 2019, compared with a year ago, was predominantly driven by lower losses in the automobile portfolio, partially offset by increases in the commercial and industrial portfolio and the credit card portfolio.
Our commercial portfolio net charge-offs were $145 million, or 11 basis points (annualized) of average commercial loans, in first quarter 2019, compared with net charge-offs of $78 million, or 6 basis points (annualized), a year ago. Net consumer credit losses decreased to 51 basis points (annualized) of average consumer loans in first quarter 2019 from 60 basis points (annualized) in first quarter 2018.
The allowance for credit losses as of March 31, 2019, decreased $492 million compared with a year ago and increased $114 million from December 31, 2018. We had a $150 million build in the allowance for credit losses in first quarter 2019, compared with a $550 million release a year ago. The allowance coverage for total loans was 1.14% at March 31, 2019, compared with 1.19% a year ago and 1.12% at December 31, 2018. 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 $845 million in first quarter 2019, up from $191 million a year ago. The increase was predominantly due to an allowance build in first quarter 2019 reflecting a higher probability of slightly less favorable economic conditions, compared with an allowance release for the same period last year, reflecting improvement in our outlook for 2017 hurricane–related losses.

Nonperforming assets increased $394 million, or 6%, from December 31, 2018 and represented 0.77% of total loans. Nonaccrual loans increased $409 million from December 31, 2018, driven in part by a borrower in the utility sector, as well as increases in oil and gas. Foreclosed assets declined $15 million from December 31, 2018.

Capital
Our financial performance in first quarter 2019 allowed us to maintain a solid capital position, with total equity of $198.7 billion at March 31, 2019, compared with $197.1 billion at December 31, 2018. We returned $6.0 billion to shareholders in first quarter 2019 through common stock dividends and net share repurchases, which was 49% more than the $4.0 billion we returned in first quarter 2018. 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 109%. We continued to reduce our common shares outstanding through the repurchase of 97.4 million common shares in the quarter. We expect to reduce our common shares outstanding through share repurchases throughout the remainder of 2019.
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, 2019, up from 11.74% at December 31, 2018, but well above our

internal target of 10%. As of March 31, 2019, our eligible external total loss absorbing capacity (TLAC) as a percentage of total risk-weighted assets was 23.85%, compared with the required minimum of 22.0%. 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 2019 was $5.9 billion ($1.20 diluted earnings per common share), compared with $5.1 billion ($0.96 diluted per share) for the same period a year ago. Our financial performance in first quarter 2019 benefited from a $73 million increase in net interest income, a $1.1 billion decrease in noninterest expense, and a $493 million decline in income tax expense, partially offset by a $398 million decrease in noninterest income, and a $654 million increase in our provision for credit losses. Net income in first quarter 2019 included net discrete income tax benefits of $297 million related mostly to the results of U.S. federal and state income tax examinations and the accounting for stock compensation activity.

Revenue, the sum of net interest income and noninterest income, was $21.6 billion in first quarter 2019, compared with $21.9 billion in the same period a year ago. The decrease in revenue in first quarter 2019, compared with the same period a year ago, was due to a decrease in noninterest income, partially offset by an increase in net interest income. Our diversified sources of revenue generated by our businesses continued to be balanced between net interest income and noninterest income. In first quarter 2019, net interest income represented 57% of revenue, compared with 56% for the same period a year ago. Noninterest income was $9.3 billion in first quarter 2019, representing 43% of revenue, compared with $9.7 billion (44%) in first quarter 2018.

Net Interest Income

Net interest income is the interest earned on debt securities, loans (including yield-related loan fees) and other interest-earning assets minus the interest paid on deposits, short-term borrowings and long-term debt. The net interest margin is the average yield on earning assets minus the average interest rate paid for deposits and our other sources of funding. Net interest income and the net interest margin are presented on a taxable-equivalent basis in Table 1 to consistently reflect income from taxable and tax-exempt loans and debt and equity securities based on a 21% federal statutory tax rate for the periods ending
March 31, 2019 and 2018.

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, variable sources of interest income, such as loan fees, periodic dividends, and collection of interest on nonaccrual loans, can fluctuate from period to period.

Net interest income on a taxable-equivalent basis was $12.5 billion in first quarter 2019, compared with $12.4 billion for the same period a year ago. Net interest margin on a taxable-equivalent basis was 2.91% in first quarter 2019, compared with 2.84% for the same period a year ago. The increase in net interest income and net interest margin in first quarter 2019, compared with the same period a year ago, was driven by:

- the repricing benefits from higher interest rates;
- favorable hedge ineffectiveness accounting results; and
- a reduction in securities premium amortization driven by a refinement of our methodology to determine the remaining contractual life of our agency mortgage-backed securities portfolio;

partially offset by:

- a smaller balance sheet and an unfavorable shift of yields on earnings assets compared with funding sources;
- lower variable sources of interest income, primarily driven by a decrease in interest income received on nonaccrual loans; and
- lower loan swap income due to unwinding the received-fixed loan swap portfolio.

Average earning assets decreased $30.0 billion in first quarter 2019, compared with the same period a year ago. The change was driven by decreases in:

-

- average interest-earning deposits of $31.5 billion;
- average equity securities of $6.7 billion;
- average mortgage loans held for sale of $4.5 billion;
- other earning assets of $1.6 billion and
- average loans of $1.0 billion;

partially offset by increases in:

- average debt securities of $10.0 billion; and
- average federal funds sold and securities purchased under resale agreements of $5.4 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 were $1.26 trillion in first quarter 2019, compared with $1.30 trillion for the same period a year ago, and represented 133% of average loans in first quarter 2019, compared with 136% in first quarter 2018. Average deposits were 73% of average earning assets in first quarter 2019, compared with 74% in first quarter 2018. The average deposit cost for first quarter 2019 was 65 basis points, up 31 basis points from a year ago, driven by an increase in Wholesale Banking and Wealth and Investment Management deposit rates.

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

	Quarter ended March 31,							
				2019				2018
(in millions)	Average balance	Yields/ rates		Interest income/ expense	Average balance	Yields/ rates		Interest income/ expense
Earning assets								
Interest-earning deposits with banks	$140,784	2.33	%	$810	172,291	1.49	%	$632
Federal funds sold and securities purchased under resale agreements	83,539	2.40		495	78,135	1.40		271
Debt securities (3):								
Trading debt securities	89,378	3.58		798	78,715	3.24		637
Available-for-sale debt securities:								
Securities of U.S. Treasury and federal agencies	14,070	2.14		74	6,426	1.66		26
Securities of U.S. states and political subdivisions	48,342	4.02		486	49,956	3.37		421
Mortgage-backed securities:								
Federal agencies	151,494	3.10		1,173	158,472	2.72		1,076
Residential and commercial	5,984	4.31		64	8,871	4.12		91
Total mortgage-backed securities	157,478	3.14		1,237	167,343	2.79		1,167
Other debt securities	46,788	4.46		517	48,094	3.73		444
Total available-for-sale debt securities	266,678	3.48		2,314	271,819	3.04		2,058
Held-to-maturity debt securities:								
Securities of U.S. Treasury and federal agencies	44,754	2.20		243	44,723	2.20		243
Securities of U.S. states and political subdivisions	6,158	4.03		62	6,259	4.34		68
Federal agency and other mortgage-backed securities	96,004	2.74		656	90,789	2.38		541
Other debt securities	61	3.96		1	695	3.23		5
Total held-to-maturity debt securities	146,977	2.63		962	142,466	2.42		857
Total debt securities	503,033	3.25		4,074	493,000	2.89		3,552
Mortgage loans held for sale (4)	13,898	4.37		152	18,406	3.89		179
Loans held for sale (4)	1,862	5.25		24	2,011	4.92		24
Loans:								
Commercial loans:								
Commercial and industrial – U.S.	286,577	4.48		3,169	272,040	3.85		2,584
Commercial and industrial – Non U.S.	62,821	3.90		604	60,216	3.23		479
Real estate mortgage	121,417	4.58		1,373	126,200	4.05		1,262
Real estate construction	22,435	5.43		301	24,449	4.54		274
Lease financing	19,391	4.61		224	19,265	5.30		255
Total commercial loans	512,641	4.48		5,671	502,170	3.91		4,854
Consumer loans:								
Real estate 1-4 family first mortgage	285,214	3.96		2,821	284,207	4.02		2,852
Real estate 1-4 family junior lien mortgage	33,791	5.75		481	38,844	5.13		493
Credit card	38,182	12.88		1,212	36,468	12.75		1,147
Automobile	44,833	5.19		574	51,469	5.16		655
Other revolving credit and installment	35,349	7.14		623	37,866	6.46		604
Total consumer loans	437,369	5.26		5,711	448,854	5.16		5,751
Total loans (4)	950,010	4.84		11,382	951,024	4.50		10,605
Equity securities	33,080	2.56		211	39,754	2.35		233
Other	4,416	1.63		18	6,015	1.21		19
Total earning assets	$1,730,622	4.00	%	$17,166	1,760,636	3.55	%	$15,515

Funding sources						
Deposits:						
Interest-bearing checking	$56,253	1.42 %	$197	67,774	0.77 %	$129
Market rate and other savings	688,568	0.50	847	679,068	0.22	368
Savings certificates	25,231	1.26	78	20,018	0.34	17
Other time deposits	97,830	2.67	645	76,589	1.84	347
Deposits in foreign offices	55,443	1.89	259	94,810	0.98	229
Total interest-bearing deposits	923,325	0.89	2,026	938,259	0.47	1,090
Short-term borrowings	108,651	2.23	597	101,779	1.24	312
Long-term debt	233,172	3.32	1,927	226,062	2.80	1,576
Other liabilities	25,292	2.28	143	27,927	1.92	132
Total interest-bearing liabilities	1,290,440	1.47	4,693	1,294,027	0.97	3,110
Portion of noninterest-bearing funding sources	440,182	—	—	466,609	—	—
Total funding sources	$1,730,622	1.09	4,693	1,760,636	0.71	3,110
Net interest margin and net interest income on a taxable-equivalent basis (5)		2.91 %	$12,473		2.84 %	$12,405
Noninterest-earning assets						
Cash and due from banks	$19,614			18,853		
Goodwill	26,420			26,516		
Other	106,435			109,891		
Total noninterest-earning assets	$152,469			155,260		
Noninterest-bearing funding sources						
Deposits	$338,737			358,919		
Other liabilities	55,565			56,770		
Total equity	198,349			206,180		
Noninterest-bearing funding sources used to fund earning assets	(440,182)			(466,609)		
Net noninterest-bearing funding sources	$152,469			155,260		
Total assets	$1,883,091			1,915,896		

(1) Our average prime rate was 5.50% and 4.52% for the quarters ended March 31, 2019 and 2018, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 2.69% and 1.93% for the quarters ended March 31, 2019 and 2018, respectively.

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

(3) Yields/rates are based on interest income/expense amounts for the period, annualized based on the accrual basis for the respective accounts. The average balance amounts represent amortized cost for the periods presented.

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

(5) Includes taxable-equivalent adjustments of $162 million and $167 million for the quarters ended March 31, 2019 and 2018, respectively, predominantly related to tax-exempt income on certain loans and securities. The federal statutory tax rate utilized was 21% for periods presented.

Earnings Performance (continued)

Noninterest Income

Table 2: Noninterest Income

(in millions)	Quarter ended March 31, 2019	2018	% Change
Service charges on deposit accounts	$1,094	1,173	(7)%
Trust and investment fees:			
Brokerage advisory, commissions and other fees	2,193	2,403	(9)
Trust and investment management	786	850	(8)
Investment banking	394	430	(8)
Total trust and investment fees	3,373	3,683	(8)
Card fees	944	908	4
Other fees:			
Lending related charges and fees (1)	347	380	(9)
Cash network fees	109	126	(13)
Commercial real estate brokerage commissions	81	85	(5)
Wire transfer and other remittance fees	113	116	(3)
All other fees	120	93	29
Total other fees	770	800	(4)
Mortgage banking:			
Servicing income, net	364	468	(22)
Net gains on mortgage loan origination/sales activities	344	466	(26)
Total mortgage banking	708	934	(24)
Insurance	96	114	(16)
Net gains from trading activities	357	243	47
Net gains on debt securities	125	1	NM
Net gains from equity securities	814	783	4
Lease income	443	455	(3)
Life insurance investment income	159	164	(3)
All other	415	438	(5)
Total	$9,298	9,696	(4)

NM – Not meaningful

(1) Represents combined amount of previously reported “Charges and fees on loans” and “Letters of credit fees”.

Noninterest income was $9.3 billion in first quarter 2019, compared with $9.7 billion for the same period a year ago. This income represented 43% of revenue for first quarter 2019, compared with 44% for the same period a year ago. The decline in noninterest income in first quarter 2019, compared with the same period a year ago, was predominantly due to lower trust and investment fees, mortgage banking income, net gains on nonmarketable equity securities, and service charges on deposit accounts. These decreases were partially offset by higher deferred compensation gains (offset in employee benefits expense) and higher gains from trading and debt securities. For more information on our performance obligations and the nature of services performed for certain of our revenues discussed below, see Note 18 (Revenue from Contracts with Customers) to Financial Statements in this Report.

Service charges on deposit accounts were $1.1 billion in first quarter 2019, compared with $1.2 billion for the same period a year ago. The decrease in first quarter 2019, compared with the same period a year ago, was due to lower monthly service fees and lower treasury management fees. A significant portion of the lower treasury management fees were due to the impact of a higher earnings credit rate applied to commercial accounts due to increased interest

rates. The decrease in service charges on deposit accounts also reflected $35 million in fee waivers and reversals for customers including those affected by our data

center system outage in February 2019, and the government shutdown in first quarter 2019.

Brokerage advisory, commissions and other fees were $2.2 billion in first quarter 2019, compared with $2.4 billion for the same period in 2018. The decrease in first quarter 2019, compared with the same period a year ago, was predominantly due to lower asset-based fees as well as lower transactional commission revenue. Retail brokerage client assets totaled $1.6 trillion at both March 31, 2019 and 2018. All retail brokerage services are provided by our WIM operating segment. For additional information on retail brokerage client assets, see the discussion and Tables 4d and 4e in the "Operating Segment Results – Wealth and Investment Management – Retail Brokerage Client Assets" section in this Report.

Trust and investment management fee income is largely from client assets under management (AUM) for which fees are based on a tiered scale relative to market value of the assets, and client assets under administration (AUA), for which fees are generally based on the extent of services to administer the assets. Trust and investment management fees declined to $786 million in first quarter 2019, from $850 million for the same period a year ago, due to decreases in trust fees, investment management fees, and mutual fund asset fees, driven by lower average assets under management. Our AUM totaled $661.1 billion at March 31, 2019, compared with $680.4 billion at March 31, 2018, 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 both March 31, 2019 and 2018.
Investment banking fees declined to $394 million in first quarter 2019, from $430 million for the same period in 2018, predominantly due to lower equity and debt originations, partially offset by higher advisory fees.
Card fees were $944 million in first quarter 2019, compared with $908 million for the same period in 2018, predominantly due to higher interchange fees driven by increased purchase activity, partially offset by higher rewards costs.
Other fees decreased to $770 million in first quarter 2019, from $800 million for the same period in 2018, driven by lower lending related charges and fees and lower cash network fees, partially offset by an increase in all other fees.
Mortgage banking noninterest income decreased to $708 million in first quarter 2019, from $934 million for the same period a year ago, driven by decreases in both net servicing income and net gains on mortgage loan origination/sales activities.
In addition to servicing fees, net 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 $364 million for first quarter 2019 included a $71 million net MSR valuation gain ($891 million decrease in the fair value of the MSRs and a $962 million hedge gain). 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).
Our portfolio of loans serviced for others was $1.68 trillion at March 31, 2019, and $1.71 trillion at December 31, 2018. At March 31, 2019, the ratio of combined residential and commercial MSRs to related loans serviced for others was 0.88%, compared with 0.94% at December 31, 2018. 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 $344 million in first quarter 2019, compared with $466 million for the same period a year ago. The decrease in first quarter 2019, compared with the same period a year ago, was predominantly due to lower mortgage loan originations. Total mortgage loan originations were $33 billion for first quarter 2019, compared with $43 billion for the same period a year ago. The production margin on residential held-for-sale mortgage loan originations, which represents net gains on residential mortgage loan origination/sales activities divided by total residential held-for-sale mortgage loan originations, provides a measure of the profitability of our residential mortgage origination activity. Table 2a presents the information used in determining the production margin.

Table 2a: Selected Mortgage Production Data

		Quarter ended March 31,	
		2019	2018
Net gains on mortgage loan origination/sales activities (in millions):			
Residential	(A)	$232	324
Commercial		47	76
Residential pipeline and unsold/repurchased loan management (1)		65	66
Total		$344	466
Residential real estate originations (in billions):			
Held-for-sale	(B)	$22	34
Held-for-investment		11	9
Total		$33	43
Production margin on residential held-for-sale mortgage loan originations (1)	(A)/(B)	1.05 %	0.94

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

The production margin was 1.05% for first quarter 2019, compared with 0.94% for the same period in 2018. The increase in the production margin in first quarter 2019, compared with the same period in 2018, was largely attributable to a shift to more retail origination volume, which has a higher production margin. Mortgage applications were $64 billion for first quarter 2019, compared with $58 billion for the same period a year ago. The 1-4 family first mortgage unclosed application pipeline was $32 billion at March 31, 2019, compared with $24 billion at March 31, 2018. 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 11 (Mortgage Banking Activities) and Note 16 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.

Insurance income was $96 million in first quarter 2019, compared with $114 million in the same period a year ago. The decrease in first quarter 2019, compared with the same period a year ago, was primarily driven by reduced commission income related to the sale of certain personal insurance agency relationships in second quarter 2018.

Net gains from trading activities, which reflect unrealized changes in fair value of our trading positions and realized gains and losses, were $357 million in first quarter 2019, compared with $243 million in the same period a year ago. The increase in first quarter 2019, compared with the same period a year ago, was due to growth in asset-backed securities trading driven by higher residential mortgage-backed securities (RMBS) trading volumes, as well as higher credit trading. 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 trading assets and other interest expense from trading liabilities. 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 $939 million in first quarter 2019, compared with $784 million for the same period in 2018, after other-than-temporary impairment (OTTI) write-downs of $81 million for first quarter 2019, compared with $30 million for the same period in 2018. The increase in net gains on debt and equity securities in first quarter 2019, compared with the same period a year ago, was predominantly due to higher deferred compensation plan investment results (offset in employee benefits expense – see Table 3a in this Report for more information) and higher net gains on debt securities, partially offset by lower net gains from nonmarketable equity securities. The increase in OTTI in first quarter 2019, compared with the same period a year ago, was predominantly driven by higher write-downs in municipal debt securities and commercial mortgage-backed securities.
Lease income was $443 million in first quarter 2019, compared with $455 million for the same period a year ago. The decrease was driven by lower equipment lease income.

All other income was $415 million in first quarter 2019, compared with $438 million for the same period a year ago. All other income includes losses on low income housing tax credit investments, foreign currency adjustments, income from investments accounted for under the equity method, hedge accounting results related to hedges of foreign currency risk, and the results of certain economic hedges, any of which can cause lower net gains or increased net losses, resulting in a decrease to all other income. The decrease in all other income in first quarter 2019, compared with the same period a year ago, reflected a pre-tax gain from the sale of Wells Fargo Shareowner Services in first quarter 2018 and a lower benefit from hedge ineffectiveness accounting results in first quarter 2019, partially offset by a $148 million pre-tax gain from the sale of Business Payroll Services in first quarter 2019 and a loss related to the sale of certain assets and liabilities of Reliable Financial Services, Inc. (a subsidiary of Wells Fargo's automobile financing business) in first quarter 2018. All other income also included a $608 million and a $643 million gain from the sales of purchased credit-impaired Pick-a-Pay loans for first quarter 2019 and 2018, respectively.

Noninterest Expense

Table 3: Noninterest Expense

(in millions)	Quarter ended Mar 31, 2019	2018	% Change
Salaries	$4,425	4,363	1 %
Commission and incentive compensation	2,845	2,768	3
Employee benefits	1,938	1,598	21
Equipment	661	617	7
Net occupancy (1)	717	713	1
Core deposit and other intangibles	28	265	(89)
FDIC and other deposit assessments	159	324	(51)
Outside professional services	678	821	(17)
Contract services	563	447	26
Operating losses	238	1,468	(84)
Operating leases (2)	286	320	(11)
Advertising and promotion	237	153	55
Outside data processing	167	162	3
Travel and entertainment	147	152	(3)
Postage, stationery and supplies	122	142	(14)
Telecommunications	91	92	(1)
Foreclosed assets	37	38	(3)
Insurance	25	26	(4)
All other	552	573	(4)
Total	$13,916	15,042	(7)

(1) Represents expenses for both leased and owned properties.
(2) Represents expenses for assets we lease to customers.

Noninterest expense was $13.9 billion in first quarter 2019, down 7% from $15.0 billion a year ago. The decrease in first quarter 2019, compared with the same period a year ago, was substantially due to lower operating losses. Personnel expenses, which include salaries, commissions, incentive compensation, and employee benefits, were up $479 million, or 5%, in first quarter 2019, compared with the

same period a year ago. The increase was due to higher deferred compensation costs (offset in net gains from equity securities), higher stock incentive compensation expense, and annual salary increases, partially offset by lower revenue-related incentive compensation. Table 3a presents deferred compensation plan investment results.

Table 3a: Deferred Compensation Plan Investment Results

(in millions)	Quarter ended Mar 31, 2019	Mar 31, 2018
Net interest income	$13	10
Net gains (losses) from equity securities	345	(6)
Total revenue from deferred compensation plan investments	358	4
Employee benefits expense	357	4
Income before income tax expense	$1	—

Equipment expense was up $44 million, or 7%, in first quarter 2019, compared with the same period a year ago, due to higher computer software licensing and maintenance and depreciation expense.

Core deposit and other intangibles expense was down $237 million, or 89%, in first quarter 2019, compared with the same period a year ago, due to lower amortization expense reflecting the end of the 10-year amortization period on Wachovia intangibles.

Federal Deposit Insurance Corporation (FDIC) and other deposit assessments were down $165 million, or 51%, in first quarter 2019, compared with the same period a year ago, due to the completion of the FDIC temporary surcharge which ended September 30, 2018.

Outside professional and contract services expense was down $27 million, or 2%, in first quarter 2019, compared with the same period a year ago, reflecting a reduction in remediation-related project spending.

Operating losses were down $1.2 billion, or 84%, in first quarter 2019, compared with the same period a year ago, driven by lower litigation accruals. First quarter 2018 included an $800 million discrete litigation accrual in connection with entering into the consent orders with the CFPB and OCC on April 20, 2018.

Advertising and promotion expense was up $84 million, or 55%, in first quarter 2019, compared with the same period a year ago, due to increases in marketing and branding campaign volumes.

Earnings Performance (continued)

Our efficiency ratio was 64.4% in first quarter 2019, compared with 68.6% in first quarter 2018.

Income Tax Expense

Our effective income tax rate was 13.1% and 21.1% for first quarter 2019 and 2018, respectively. The lower rate in first quarter 2019 was related to net discrete income tax benefits of $297 million related mostly to the results of U.S. federal and state income tax examinations and the accounting for stock compensation activity. The first quarter 2018 rate reflected the non-tax deductible treatment of an $800 million discrete litigation accrual in connection with entering into the consent orders with the CFPB and OCC on April 20, 2018.

Operating Segment Results

We are organized for management reporting purposes into three operating segments: Community Banking; Wholesale Banking; and Wealth and Investment Management (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). 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 22 (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)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Quarter ended March 31,										
Revenue	$11,750	11,830	7,111	7,279	4,079	4,242	(1,331)	(1,417)	21,609	21,934
Provision (reversal of provision) for credit losses	710	218	134	(20)	4	(6)	(3)	(1)	845	191
Noninterest expense	7,689	8,702	3,838	3,978	3,303	3,290	(914)	(928)	13,916	15,042
Net income (loss)	2,823	1,913	2,770	2,875	577	714	(310)	(366)	5,860	5,136
Average loans	$458.2	470.5	476.4	465.1	74.4	73.9	(59.0)	(58.5)	950.0	951.0
Average deposits	765.6	747.5	409.8	446.0	153.2	177.9	(66.5)	(74.2)	1,262.1	1,297.2

(1) Includes the elimination of certain items that are included in more than one business segment, which predominantly 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 the other operating segments and results of investments in our affiliated venture capital and private equity partnerships. We continue to wind down the personal insurance business and expect to substantially complete these activities in the first half of 2019. Table 4a provides additional financial information for Community Banking.

Table 4a: Community Banking

	Quarter ended March 31,		
(in millions, except average balances which are in billions)	2019	2018	% Change
Net interest income	$7,248	7,195	1 %
Noninterest income:			
Service charges on deposit accounts	610	639	(5)
Trust and investment fees:			
Brokerage advisory, commissions and other fees (1)	449	478	(6)
Trust and investment management (1)	210	233	(10)
Investment banking (2)	(20)	(10)	(100)
Total trust and investment fees	639	701	(9)
Card fees	858	821	5
Other fees	332	327	2
Mortgage banking	641	842	(24)
Insurance	11	28	(61)
Net gains (losses) from trading activities	5	(1)	600
Net gains on debt securities	37	—	NM
Net gains from equity securities (3)	601	684	(12)
Other income of the segment	768	594	29
Total noninterest income	4,502	4,635	(3)
Total revenue	11,750	11,830	(1)
Provision for credit losses	710	218	226
Noninterest expense:			
Personnel expense	5,981	5,511	9
Equipment	641	596	8
Net occupancy	542	534	1
Core deposit and other intangibles	1	101	(99)
FDIC and other deposit assessments	106	181	(41)
Outside professional services	316	397	(20)
Operating losses	219	1,440	(85)
Other expense of the segment	(117)	(58)	NM
Total noninterest expense	7,689	8,702	(12)
Income before income tax expense and noncontrolling interests	3,351	2,910	15
Income tax expense	424	809	(48)
Net income from noncontrolling interests (4)	104	188	(45)
Net income	$2,823	1,913	48
Average loans	$458.2	470.5	(3)

Average deposits	765.6	747.5	2

NM – Not meaningful

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

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

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

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

Community Banking reported net income of $2.8 billion for first quarter 2019, up $910 million, or 48%, compared with the same period a year ago. Revenue was $11.8 billion for first quarter 2019, down $80 million, or 1%, from the same period a year ago. The decrease in revenue from first quarter 2018 was due to lower mortgage banking income, trust and investment fees, and market sensitive revenue (consists of net gains from trading activities, debt securities and equity securities), partially offset by higher card fees, other income and net interest income. Average loans of $458.2 billion in first quarter 2019 decreased $12.3 billion, or 3%, from first quarter 2018, as growth in nonconforming mortgage loan originations and consumer credit card loans was more than offset by declines in automobile loans and legacy consumer real estate portfolios, including purchased credit-impaired (PCI) Pick-a-Pay and junior lien mortgage loans due to run-off and sales. Average deposits of $765.6 billion in

first quarter 2019 increased $18.1 billion, or 2%, from first quarter 2018.

Noninterest expense was $7.7 billion in first quarter 2019, down $1.0 billion, or 12%, from first quarter 2018, predominantly due to lower operating losses, core deposit and other intangibles amortization expense, outside professional services, and FDIC expense, partially offset by higher personnel expense. The provision for credit losses increased $492 million from first quarter 2018, predominantly due to an allowance build in first quarter 2019, reflecting a higher probability of slightly less favorable economic conditions, compared with an allowance release in first quarter 2018 primarily due to improvement in our outlook for 2017 hurricane–related losses. The allowance build was partially offset by lower net charge-offs in the automobile portfolio. Income tax expense decreased $385 million from first quarter 2018, and included net discrete income tax benefits

Earnings Performance (continued)

related mostly to the results of U.S. federal and state income tax examinations and the accounting for stock compensation activity.

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

Commercial Banking, Commercial Real Estate, Corporate and Investment Banking, Credit Investment Portfolio, Treasury Management, and Commercial Capital. 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)	2019	2018	% Change
Net interest income	$4,534	4,532	— %
Noninterest income:			
Service charges on deposit accounts	483	534	(10)
Trust and investment fees:			
Brokerage advisory, commissions and other fees	78	67	16
Trust and investment management	114	113	1
Investment banking	412	440	(6)
Total trust and investment fees	604	620	(3)
Card fees	86	87	(1)
Other fees	437	472	(7)
Mortgage banking	68	93	(27)
Insurance	78	79	(1)
Net gains from trading activities	333	225	48
Net gains on debt securities	88	1	NM
Net gains from equity securities	77	93	(17)
Other income of the segment	323	543	(41)
Total noninterest income	2,577	2,747	(6)
Total revenue	7,111	7,279	(2)
Provision (reversal of provision) for credit losses	134	(20)	770
Noninterest expense:			
Personnel expense	1,510	1,536	(2)
Equipment	9	12	(25)
Net occupancy	95	100	(5)
Core deposit and other intangibles	24	95	(75)
FDIC and other deposit assessments	45	122	(63)
Outside professional services	184	233	(21)
Operating losses	1	8	(88)
Other expense of the segment	1,970	1,872	5
Total noninterest expense	3,838	3,978	(4)
Income before income tax expense and noncontrolling interests	3,139	3,321	(5)

Income tax expense	369	448	(18)
Net loss from noncontrolling interests	—	(2)	100
Net income	$2,770	2,875	(4)
Average loans	$476.4	465.1	2
Average deposits	409.8	446.0	(8)

NM – Not meaningful

Wholesale Banking reported net income of $2.8 billion in first quarter 2019, down $105 million, or 4%, from the same period a year ago. Revenue decreased $168 million, or 2%, from first quarter 2018, largely due to the gain related to the sale of Wells Fargo Shareowner Services in first quarter 2018, a decrease in service charges on deposit accounts driven by lower treasury management fees, and lower mortgage banking income, partially offset by higher market sensitive revenue. Net interest income of $4.5 billion in first quarter 2019 was relatively stable compared with the same period a year ago. Average loans of $476.4 billion in first quarter 2019, increased $11.3 billion, or 2%, from first quarter 2018, as growth in commercial and industrial loans in Corporate and Investment Banking and Commercial Capital were partially offset by lower commercial real estate lending. Average deposits of $409.8 billion in first quarter 2019 decreased $36.2 billion, or 8%, from first quarter 2018. The decline in average deposits in first quarter 2019, compared with the same period a year ago, was driven by actions taken in the first half of 2018 in response to the asset cap included in the FRB consent order on February 2, 2018, and declines across many businesses as commercial customers allocated more cash to higher-rate

alternatives. Noninterest expense decreased $140 million, or 4%, from first quarter 2018, mostly due to lower FDIC assessments, core deposit and other intangibles amortization, personnel expenses and operating lease expense. This decrease was partially offset by higher regulatory, risk, and technology expenses. The provision for credit losses increased $154 million from first quarter 2018 predominately due to an allowance build in first quarter 2019, reflecting higher nonaccrual loans, compared with an allowance release in first quarter 2018, as well as lower recoveries in first quarter 2019.

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. On April 9, 2019, we announced an agreement to sell our Institutional Retirement and Trust

business. The transaction is expected to close in third quarter 2019. 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)	2019	2018	% Change
Net interest income	$1,101	1,112	(1)%
Noninterest income:			
Service charges on deposit accounts	4	4	—
Trust and investment fees:			
Brokerage advisory, commissions and other fees	2,124	2,344	(9)
Trust and investment management	676	743	(9)
Investment banking	5	—	NM
Total trust and investment fees	2,805	3,087	(9)
Card fees	1	1	—
Other fees	4	4	—
Mortgage banking	(3)	(3)	—
Insurance	17	18	(6)
Net gains from trading activities	19	19	—
Net gains on debt securities	—	—	NM
Net gains from equity securities	136	6	NM
Other income of the segment	(5)	(6)	17
Total noninterest income	2,978	3,130	(5)
Total revenue	4,079	4,242	(4)
Provision (reversal of provision) for credit losses	4	(6)	167
Noninterest expense:			
Personnel expense	2,197	2,165	1
Equipment	11	10	10
Net occupancy	112	109	3
Core deposit and other intangibles	3	69	(96)
FDIC and other deposit assessments	14	36	(61)
Outside professional services	184	198	(7)
Operating losses	21	22	(5)
Other expense of the segment	761	681	12
Total noninterest expense	3,303	3,290	—
Income before income tax expense and noncontrolling interests	772	958	(19)
Income tax expense	192	239	(20)
Net income from noncontrolling interests	3	5	(40)
Net income	$577	714	(19)
Average loans	$74.4	73.9	1
Average deposits	153.2	177.9	(14)

NM – Not meaningful

WIM reported net income of $577 million in first quarter 2019, down $137 million, or 19%, from the same period a year ago. Revenue declined $163 million, or 4%, from first quarter 2018, predominantly due to lower asset-based fees and brokerage transaction revenue, partially offset by net gains from equity securities on higher deferred

compensation plan investment results (offset in employee benefits expense). Asset-based fees decreased largely due to lower retail brokerage advisory fees . Average loans of $74.4 billion in first quarter 2019 increased 1% from the same period a year ago, driven by growth in nonconforming mortgage loans. Average deposits in first quarter 2019 decreased $24.7 billion, or 14%, from the same period a year ago, as customers continued to allocate more cash into higher yielding liquid alternatives. Noninterest expense of $3.3 billion was relatively stable in first quarter 2019, compared with first quarter 2018, as higher employee benefits expense from deferred compensation plan expense (offset in net gains from equity securities) and higher regulatory, risk, and technology expense was partially offset by lower broker commissions and core deposit and other intangibles amortization expense. The provision for credit losses increased $10 million from the first quarter 2018.

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, are priced at the beginning of the quarter 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, 2019 and 2018.

Earnings Performance (continued)

Table 4d: Retail Brokerage Client Assets

	March 31,	
($ in billions)	2019	2018
Retail brokerage client assets	$1,600.6	1,623.0
Advisory account client assets	546.7	540.4
Advisory account client assets as a percentage of total client assets	34 %	33

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 as of the beginning of the quarter, 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 first quarter 2019 and 2018, 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 first quarter 2019 and 2018.

Table 4e: Retail Brokerage Advisory Account Client Assets

	Quarter ended				
(in billions)	Balance, beginning of period	Inflows (1)	Outflows (2)	Market impact (3)	Balance, end of period
March 31, 2019					
Client directed (4)	$151.5	7.9	(9.3)	13.5	163.6
Financial advisor directed (5)	141.9	7.5	(7.7)	15.2	156.9
Separate accounts (6)	136.4	5.6	(6.9)	13.2	148.3
Mutual fund advisory (7)	71.3	2.8	(3.2)	7.0	77.9
Total advisory client assets	$501.1	23.8	(27.1)	48.9	546.7
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

(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.

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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. On April 9, 2019, we announced an agreement to sell our Institutional Retirement and Trust business. The transaction is expected to close in third quarter 2019. Table 4f presents AUM activity for the first quarter of 2019 and 2018.

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, 2019					
Assets managed by WFAM (4):					
Money market funds (5)	$112.4	—	(2.9)	—	109.5
Other assets managed	353.5	19.3	(21.9)	16.1	367.0
Assets managed by Wealth and Retirement (6)	170.7	9.2	(10.4)	11.9	181.4
Total assets under management	$636.6	28.5	(35.2)	28.0	657.9
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

(1) Inflows include new managed account assets, contributions, dividends and interest.
(2) Outflows include closed managed account assets, withdrawals and client management fees.
(3) Market impact reflects gains and losses on portfolio investments.
(4) Assets managed by WFAM consist of equity, alternative, balanced, fixed income, money market, and stable value, and include client assets that are managed or sub-advised on behalf of other Wells Fargo lines of business.
(5) Money Market funds activity is presented on a net inflow or net outflow basis, because the gross flows are not meaningful nor used by management as an indicator of performance.
(6) Includes $4.8 billion and $5.7 billion as of March 31, 2019 and 2018, respectively, of client assets invested in proprietary funds managed by WFAM.

Balance Sheet Analysis (continued)

Balance Sheet Analysis

At March 31, 2019, our assets totaled $1.89 trillion, down $8.1 billion from December 31, 2018. Asset decline was driven by declines in cash and due from banks, interest-earning deposits with banks, available-for-sale debt securities, loans, and mortgage servicing rights (MSRs), which decreased by $2.9 billion, $21.4 billion, $1.8 billion, $4.9 billion, and $1.3 billion, respectively, from December 31, 2018. Liabilities totaled $1.69 trillion, down $9.8 billion from December 31, 2018. The decline in liabilities was due to declines in total deposits, which decreased by $22.2 billion from December 31, 2018. Total equity increased by $1.7 billion from December 31, 2018,

predominantly due to a $2.7 billion increase in cumulative other comprehensive income, and a $2.6 billion increase in retained earnings, net of dividends paid, partially offset by a $3.3 billion increase in treasury stock.

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 23 (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

(in millions)	March 31, 2019			December 31, 2018		
	Amortized cost	Net unrealized gain (loss)	Fair value	Amortized cost	Net unrealized gain (loss)	Fair value
Available-for-sale	267,246	853	268,099	272,471	(2,559)	269,912
Held-to-maturity	144,990	(291)	144,699	144,788	(2,673)	142,115
Total (1)	$412,236	562	412,798	417,259	(5,232)	412,027

(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 $1.6 billion in balance sheet carrying value from December 31, 2018, largely due to net declines in federal agency mortgage-backed securities and residential mortgage-backed securities, partially offset by net purchases of U.S. Treasury and federal agency debt securities.

The total net unrealized gains on available-for-sale debt securities were $853 million at March 31, 2019, up from net unrealized losses of $2.6 billion at December 31, 2018, primarily due to lower U.S. interest rates and tighter credit and mortgage spreads. For a discussion of our investment management objectives and practices, see the "Balance Sheet Analysis" section in our 2018 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 OTTI quarterly or more often if a potential loss-triggering event occurs. In first quarter 2019, we recognized $45 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 2018 Form 10-K and Note 5 (Available-for-Sale and Held-to-Maturity Debt Securities) to Financial Statements in this Report.

At March 31, 2019, debt securities included $55.9 billion of municipal bonds, of which 93.3% were rated "A-" or better based predominantly 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 5.6 years at March 31, 2019. The expected remaining maturity is shorter than the remaining contractual maturity for the 58% of this portfolio that is

mortgage-backed securities (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, 2019			
Actual	$156.5	(0.5)	5.1
Assuming a 200 basis point:			
Increase in interest rates	141.0	(16.0)	7.3
Decrease in interest rates	166.7	9.7	3.3

The weighted-average expected maturity of debt securities held-to-maturity (HTM) was 5.1 years at March 31, 2019. HTM debt securities are measured at amortized cost and, therefore, changes in the fair value of our held-to-maturity MBS resulting from changes in interest rates are not recognized in our financial results. See Note 5 (Available-for-Sale and Held-to-Maturity Debt Securities) to Financial Statements in this Report for a summary of debt securities by security type.

Loan Portfolios
Table 7 provides a summary of total outstanding loans by portfolio segment. Total loans decreased $4.9 billion from December 31, 2018, with a decline in both commercial and consumer loans. Consumer loans were down $3.7 billion from December 31, 2018, and included sales of $1.6 billion of 1-4 family first mortgage PCI Pick-a-Pay loans, a continued decline in

junior lien mortgage loans, and a decline in other revolving credit and installment loans reflecting higher short-term rates and market volatility. Commercial loans were down $1.2 billion, reflecting declines in corporate and investment banking, government and institutional banking, and business banking loans, partially offset by growth in the commercial real estate, commercial capital finance and credit investment portfolios.
Table 7: Loan Portfolios

(in millions)	March 31, 2019	December 31, 2018
Commercial	$ 512,226	513,405
Consumer	436,023	439,705
Total loans	$ 948,249	953,110
Change from prior year-end	$ (4,861)	(3,660)

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, 2019				December 31, 2018			
(in millions)	Within one year	After one year through five years	After five years	Total	Within one year	After one year through five years	After five years	Total
Selected loan maturities:								
Commercial and industrial	$ 104,906	217,761	26,467	349,134	109,566	213,425	27,208	350,199
Real estate mortgage	16,871	63,534	41,708	122,113	16,413	63,648	40,953	121,014
Real estate construction	9,867	10,901	1,089	21,857	9,958	11,343	1,195	22,496
Total selected loans	$ 131,644	292,196	69,264	493,104	135,937	288,416	69,356	493,709
Distribution of loans to changes in interest rates:								
Loans at fixed interest rates	$ 16,694	28,117	28,527	73,338	17,619	28,545	28,163	74,327
Loans at floating/variable interest rates	114,950	264,079	40,737	419,766	118,318	259,871	41,193	419,382
Total selected loans	$ 131,644	292,196	69,264	493,104	135,937	288,416	69,356	493,709

Balance Sheet Analysis (continued)

Deposits

Deposits were $1.3 trillion at March 31, 2019, down $22.2 billion from December 31, 2018, due to a decrease in commercial deposits primarily reflecting seasonality from typically higher fourth quarter levels, partially offset by an increase in consumer and small business banking deposits. The increase in consumer and small business banking deposits was due to higher retail banking deposits reflecting seasonality as well as growth in

certificates of deposit (CDs) and high-yield savings, partially offset by higher balance customers moving a portion of those balances to other higher rate liquid alternatives. 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, 2019	% of total deposits		Dec 31, 2018	% of total deposits		% Change	
Noninterest-bearing	$341,399	27	%	$349,534	27	%	(2	)
Interest-bearing checking	56,372	4		56,797	4		(1	)
Market rate and other savings	691,117	55		703,338	55		(2	)
Savings certificates	28,313	2		22,648	2		25	
Other time deposits	99,401	8		95,602	7		4	
Deposits in foreign offices (1)	47,411	4		58,251	5		(19	)
Total deposits	$1,264,013	100	%	$1,286,170	100	%	(2	)

(1) Includes Eurodollar sweep balances of $25.6 billion and $31.8 billion at March 31, 2019, and December 31, 2018, 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 2018 Form 10-K and Note 16 (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, 2019			December 31, 2018	
($ in billions)	Total balance		Level 3 (1)	Total balance	Level 3 (1)
Assets carried at fair value	$408.0		25.2	408.4	25.3
As a percentage of total assets	22	%	1	22	1
Liabilities carried at fair value	$29.0		1.9	28.2	1.6
As a percentage of total liabilities	2	%	*	2	*

* Less than 1%.

(1) Before derivative netting adjustments.

See Note 16 (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 $198.7 billion at March 31, 2019, compared with $197.1 billion at December 31, 2018. The increase was driven by a $2.7 billion increase in cumulative other comprehensive income primarily due to a decrease in long-term yields along with tightening credit spreads resulting in an increase in the value of available-for-sale debt securities, and a $2.6 billion increase in retained earnings net of dividends paid, partially offset by a $3.3 billion increase in treasury stock.

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 13 (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 2018 Form 10-K and Note 13 (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 10 (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 similar arrangements. For more information on guarantees and certain contingent arrangements, see Note 13 (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 15 (Derivatives) to Financial Statements in this Report.

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, shareholders, regulators and other stakeholders. We operate under a Board approved risk management framework which outlines our company-wide approach to risk management and oversight and describes the structures and practices employed to manage current and emerging risks inherent to Wells Fargo. For more information about how we manage risk, see the "Risk Management" section in our 2018 Form 10-K. The discussion that follows supplements our discussion of the management of certain risks contained in the "Risk Management" section in our 2018 Form 10-K.

Credit Risk Management

We define credit risk as the risk of loss associated with a borrower or counterparty default (failure to meet obligations in accordance with agreed upon terms). Credit risk exists with many of our assets and exposures such as debt security holdings, certain derivatives, and loans.

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

The following discussion focuses on our loan portfolios, which represent the largest component of assets on our balance sheet for which we have credit risk. Table 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, 2019	Dec 31, 2018
Commercial:		
Commercial and industrial	$349,134	350,199
Real estate mortgage	122,113	121,014
Real estate construction	21,857	22,496
Lease financing	19,122	19,696
Total commercial	512,226	513,405
Consumer:		
Real estate 1-4 family first mortgage	284,545	285,065
Real estate 1-4 family junior lien mortgage	33,099	34,398
Credit card	38,279	39,025
Automobile	44,913	45,069
Other revolving credit and installment	35,187	36,148
Total consumer	436,023	439,705
Total loans	$948,249	953,110

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 2019, as our net charge-off rate remained low at 0.30% (annualized) of average total loans. First quarter 2019 results reflected:

- Nonaccrual loans were $6.9 billion at March 31, 2019, up from $6.5 billion at December 31, 2018. Commercial nonaccrual loans increased to $2.8 billion at March 31, 2019, compared with $2.2 billion at December 31, 2018, and consumer nonaccrual loans declined to $4.1 billion at March 31, 2019, compared with $4.3 billion at December 31, 2018. The overall increase in nonaccrual loans reflected an increase in commercial nonaccrual loans driven in part by a customer in the utilities industry, as well as increases in the oil, gas and pipelines portfolio. Nonaccrual loans represented 0.73% of total loans at March 31, 2019, compared with 0.68% at December 31, 2018.
- Net charge-offs (annualized) as a percentage of average total loans decreased to 0.30% in first quarter 2019, compared with 0.32% a year ago. Net charge-offs (annualized) as a percentage of our average commercial and consumer portfolios were 0.11% and 0.51%, respectively, in first quarter 2019, compared with 0.06% and 0.60% in first quarter 2018.
- Loans that are not government insured/guaranteed and 90 days or more past due and still accruing were $67 million and $807 million in our commercial and consumer portfolios, respectively, at March 31, 2019, compared with $94 million and $885 million at December 31, 2018.
- Our provision for credit losses was $845 million in first quarter 2019, compared with $191 million in first quarter 2018. The increase in provision for credit losses was due to an allowance build in first quarter 2019 reflecting a higher probability of slightly less favorable economic conditions, compared with an allowance release in first quarter 2018, reflecting improvement in our outlook for 2017 hurricane-related losses.
- The allowance for credit losses totaled $10.8 billion, or 1.14% of total loans, at March 31, 2019, up from $10.7 billion, or 1.12%, at December 31, 2018.

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. A nonaccretable difference is established for PCI loans to absorb losses expected on the contractual amounts of those loans. Amounts absorbed by the nonaccretable difference do not affect the income statement or the allowance for credit losses. The carrying value of PCI loans at March 31, 2019, totaled $3.2 billion, compared with $5.0 billion at December 31, 2018. The decline in carrying value was due to the sale of $1.6 billion of Pick-a-Pay PCI loans in first quarter 2019 and paydowns.
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 2018 Form 10-K, and Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Significant Loan Portfolio Reviews Measuring and monitoring our credit risk is an ongoing process that tracks delinquencies, collateral values, Fair Isaac Corporation (FICO) scores, economic trends by geographic areas, loan-level risk grading for certain portfolios (typically commercial) and other indications of credit risk. Our credit risk monitoring process is designed to enable early identification of developing risk and to support our determination of an appropriate allowance for credit losses. The following discussion provides additional characteristics and analysis of our significant portfolios. See Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for more analysis and credit metric information for each of the following portfolios.

COMMERCIAL AND INDUSTRIAL LOANS AND LEASE FINANCING For purposes of portfolio risk management, we aggregate commercial and industrial loans and lease financing according to market segmentation and standard industry codes. We generally subject commercial and industrial loans and lease financing to individual risk assessment using our internal borrower and collateral quality ratings. Our ratings are aligned to regulatory definitions of pass and criticized categories with criticized segmented among special mention, substandard, doubtful and loss categories.

The commercial and industrial loans and lease financing portfolio totaled $368.3 billion, or 39% of total loans, at March 31, 2019. The net charge-off rate (annualized) for this portfolio was 0.16% in first quarter 2019, compared with 0.11% in first quarter 2018. At March 31, 2019, 0.56% of this portfolio was nonaccruing, compared with 0.43% at December 31, 2018, reflecting an increase of $486 million in nonaccrual loans, predominantly due to a customer in the utilities industry, as well as increases in the oil, gas and pipelines portfolio. Also, $16.6 billion of the commercial and industrial loan and lease financing portfolio was internally classified as criticized in accordance with regulatory guidance at March 31, 2019, compared with $15.8 billion at December 31, 2018. The increase in criticized loans, which also includes the increase in nonaccrual loans, was mostly due to increases in the oil, gas and pipelines, and entertainment and recreation portfolios.
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 foreign loans of $64.3 billion and $63.7 billion at March 31, 2019, and December 31, 2018, respectively. Significant industry concentrations of foreign loans include $26.3 billion and $25.6 billion in the financials except banks category, $17.0 billion and $18.1 billion in the banks category, and $1.4 billion and $1.2 billion in the oil, gas and pipelines category at March 31, 2019, and December 31, 2018, respectively. The industry categories were updated in first quarter 2019, to align with industry groupings that our regulators use to monitor industry concentration risks.
Loans in the financials except banks category, which include investment firms and financial vehicles, non-bank creditors and other financial companies, were $103.6 billion, or 11% of total outstanding loans, at March 31, 2019. A significant portion of this industry category consists of 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 our loan amounts to a percentage of the value of the underlying assets based on analysis of underlying credit risk and other factors such as asset duration and ongoing performance.

Oil, gas and pipelines loans were $13.3 billion, or 1% of total outstanding loans, at March 31, 2019, compared with $12.2 billion, or 1% of total outstanding loans, at December 31, 2018. Oil, gas and pipelines nonaccrual loans increased to $701 million at March 31, 2019, compared with $416 million at December 31, 2018.

Risk Management - Credit Risk Management (continued)

Table 12: Commercial and Industrial Loans and Lease Financing by Industry (1)

(in millions)	March 31, 2019				December 31, 2018			
	Nonaccrual loans	Total portfolio	% of total loans		Nonaccrual loans	Total portfolio	% of total loans	
Financials except banks	$207	103,567	11	%	$305	105,925	11	%
Technology, telecom and media	76	25,580	3		26	25,681	3	
Real estate and construction	36	22,932	2		31	23,380	2	
Equipment, machinery and parts manufacturing	56	21,500	2		47	20,850	2	
Materials and commodities	156	20,345	2		136	18,688	2	
Retail	65	20,107	2		87	19,541	2	
Banks	—	17,123	2		—	18,407	2	
Automobile related	22	16,934	2		16	16,801	2	
Food and beverage manufacturing	48	15,216	2		48	15,448	2	
Health care and pharmaceuticals	105	15,123	2		124	15,529	2	
Entertainment and recreation	32	14,460	2		33	14,045	1	
Oil, gas and pipelines	701	13,349	1		417	12,840	1	
Transportation services	160	12,118	1		176	12,029	1	
Commercial services	51	10,378	1		48	10,591	1	
Agribusiness	57	7,360	1		46	7,996	1	
Government and education	2	6,410	1		3	6,160	1	
Utilities	247	5,587	1		6	5,756	1	
Other (2)	41	20,167	1		27	20,228	2	
Total	$2,062	368,256	39	%	$1,576	$369,895	39	%

(1) Industry categories are based on the North American Industry Classification System and the amounts include foreign loans. The industry categories were updated in first quarter 2019 to align with industry groupings that our regulators use to monitor industry concentration risks. The amounts for December 31, 2018, have been reclassified to conform with the current period presentation.

(2) No other single industry had total loans in excess of $4.7 billion and $4.5 billion at March 31, 2019 and December 31, 2018, respectively.

COMMERCIAL REAL ESTATE (CRE) We generally subject CRE loans to individual risk assessment using our internal borrower and collateral quality ratings. Our ratings are aligned to regulatory definitions of pass and criticized categories with criticized segmented among special mention, substandard, doubtful and loss categories. The CRE portfolio, which included $8.2 billion of foreign CRE loans, totaled $144.0 billion, or 15% of total loans, at March 31, 2019, and consisted of $122.1 billion of mortgage loans and $21.9 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, Florida and Texas, which combined represented 50% of the total CRE portfolio. By property type, the largest concentrations are office buildings at 27% and apartments at 17% of the portfolio. CRE nonaccrual loans totaled 0.5% of the CRE outstanding balance at March 31, 2019, compared with 0.4% at December 31, 2018. At March 31, 2019, we had $4.8 billion of criticized CRE mortgage loans, compared with $4.5 billion at December 31, 2018, and $245 million of criticized CRE construction loans, compared with $289 million at December 31, 2018.

Table 13: CRE Loans by State and Property Type

	March 31, 2019							
	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	$140	33,978	8	4,601	148	38,579		4 %
New York	24	11,559	1	2,593	25	14,152		1
Florida	28	8,209	3	1,746	31	9,955		1
Texas	67	7,859	4	1,518	71	9,377		1
North Carolina	24	3,706	5	859	29	4,565		*
Arizona	44	4,180	—	273	44	4,453		*
Washington	21	3,402	—	632	21	4,034		*
Georgia	12	3,401	—	564	12	3,965		*
Virginia	8	2,733	—	1,003	8	3,736		*
Colorado	10	2,889	—	457	10	3,346		*
Other	321	40,197	15	7,611	336	47,808	(1)	5
Total	$699	122,113	36	21,857	735	143,970		15 %
By property:								
Office buildings	$180	35,510	4	3,155	184	38,665		4 %
Apartments	14	16,535	—	7,248	14	23,783		2
Industrial/warehouse	89	15,358	2	1,281	91	16,639		2
Retail (excluding shopping center)	103	14,549	8	508	111	15,057		2
Shopping center	85	11,037	—	1,251	85	12,288		1
Hotel/motel	20	9,998	—	1,554	20	11,552		1
Mixed use properties (2)	83	6,365	2	377	85	6,742		1
Institutional	48	3,607	—	1,858	48	5,465		1
Agriculture	48	2,411	—	9	48	2,420		*
Collateral pool	—	2,300	—	4	—	2,304		*
Other	29	4,443	20	4,612	49	9,055		1
Total	$699	122,113	36	21,857	735	143,970		15 %

*Less than 1%.
(1)Includes 40 states; no state had loans in excess of $3.4 billion.

(2) Mixed use properties are primarily owner occupied real estate, including data centers, flexible space leased to multiple tenants, light manufacturing and other specialized uses.

Risk Management - Credit Risk Management (continued)

FOREIGN LOANS AND COUNTRY RISK EXPOSURE We classify loans for financial statement and certain regulatory purposes as foreign primarily based on whether the borrower's primary address is outside of the United States. At March 31, 2019, foreign loans totaled $72.9 billion, representing approximately 8% of our total consolidated loans outstanding, compared with $71.9 billion, or approximately 8% of total consolidated loans outstanding, at December 31, 2018. Foreign loans were approximately 4% of our consolidated total assets at both March 31, 2019 and at December 31, 2018.

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

We evaluate our individual country risk exposure based on our assessment of the borrower's ability to repay, which gives consideration for allowable transfers of risk such as guarantees and collateral and may be different from the reporting based on the borrower's primary address. Our largest single foreign country exposure based on our assessment of risk at March 31, 2019, was the United Kingdom, which totaled $28.4 billion, or approximately 2% of our total assets, and included $3.5 billion of

sovereign claims. Our United Kingdom sovereign claims arise predominantly from deposits we have placed with the Bank of England pursuant to regulatory requirements in support of our London branch. The United Kingdom officially announced its intention to leave the European Union (Brexit) on March 29, 2017, and the negotiation process leading to its departure has been extended to October 31, 2019. We continue to implement plans for Brexit. Our primary goal is to continue to serve our existing clients in the United Kingdom and the European Union as well as to continue to meet the needs of our domestic clients as they do business in the United Kingdom and the European Union. We have an existing authorized bank in Ireland and an asset management entity in Luxembourg. We are also in the process of obtaining regulatory approvals to establish a broker dealer in France. We plan to leverage these entities in order to continue to serve clients in the European Union. In addition, we are implementing actions where possible to mitigate the impact of Brexit on our supplier contracts, staffing and business operations in the European Union. For additional information on risks associated with Brexit, see the "Risk Factors" section in our 2018 Form 10-K.

Table 14 provides information regarding our top 20 exposures by country (excluding the U.S.) and our Eurozone exposure, based on our assessment of risk, which gives consideration to the country of any guarantors and/or underlying collateral.

Table 14: Select Country Exposures

	March 31, 2019								
	Lending (1)		Securities (2)		Derivatives and other (3)		Total exposure		
(in millions)	Sovereign	Non-sovereign	Sovereign	Non-sovereign	Sovereign	Non-sovereign	Sovereign	Non-sovereign (4)	Total
Top 20 country exposures:									
United Kingdom	$3,460	23,132	—	1,592	2	224	3,462	24,948	28,410
Canada	32	17,288	(24)	225	—	158	8	17,671	17,679
Cayman Islands	—	6,382	—	7	—	195	—	6,584	6,584
Ireland	49	4,384	—	241	—	153	49	4,778	4,827
Germany	1,830	1,929	(1)	36	—	275	1,829	2,240	4,069
Bermuda	—	3,691	—	76	—	44	—	3,811	3,811
Netherlands	—	3,051	57	307	—	18	57	3,376	3,433
Guernsey	—	2,533	—	—	—	—	—	2,533	2,533

Luxembourg	—	1,855	—	604	—	33	—	2,492	2,492
China	—	2,442	(2)	(214)	46	15	44	2,243	2,287
India	—	1,940	—	142	—	—	—	2,082	2,082
Brazil	—	2,008	1	—	—	—	1	2,008	2,009
Chile	1	1,754	—	(3)	—	62	1	1,813	1,814
France	—	1,583	—	49	1	2	1	1,634	1,635
Japan	530	1,091	3	(60)	—	32	533	1,063	1,596
Australia	—	1,422	—	71	—	6	—	1,499	1,499
South Korea	—	1,210	(8)	86	1	7	(7)	1,303	1,296
United Arab Emirates	—	1,259	—	—	—	—	—	1,259	1,259
Mexico	—	1,201	(1)	6	—	4	(1)	1,211	1,210
Switzerland	—	1,157	—	(36)	—	21	—	1,142	1,142
Total top 20 country exposures	$5,902	81,312	25	3,129	50	1,249	5,977	85,690	91,667
Eurozone exposure:									
Eurozone countries included in Top 20 above (5)	$1,879	12,802	56	1,237	1	481	1,936	14,520	16,456
Spain	—	394	—	13	—	1	—	408	408
Belgium	—	332	—	(75)	—	2	—	259	259
Austria	—	225	—	(1)	—	—	—	224	224
Other Eurozone exposure (6)	22	208	—	59	—	—	22	267	289
Total Eurozone exposure	$1,901	13,961	56	1,233	1	484	1,958	15,678	17,636

(1) Lending exposure includes funded loans and unfunded commitments, leveraged leases, and money market placements presented on a gross basis prior to the deduction of impairment allowance and collateral received under the terms of the credit agreements.

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

(3) Represents counterparty exposure on foreign exchange and derivative contracts, and securities resale and lending agreements. This exposure is presented net of counterparty netting adjustments and reduced by the amount of cash collateral. It includes credit default swaps (CDS) predominantly used for market making activities in the U.S. based trading businesses, which sometimes results in selling and purchasing protection on the identical reference entities. Generally, we do not use market instruments such as CDS to hedge the credit risk of our investment or loan positions, although we do use them to manage risk in our trading businesses. At March 31, 2019, the gross notional amount of our CDS sold that reference assets in the Top 20 or Eurozone countries that contain non-sovereign debt was $366 million, which was offset by the notional amount of CDS purchased of $511 million. On a net basis we did not have any CDS purchased or sold that reference pools of assets that contain sovereign debt or where the reference asset was solely the sovereign debt of a foreign country.

(4) For countries presented in the table, total non-sovereign exposure comprises $42.8 billion exposure to financial institutions and $44.0 billion to non-financial corporations at March 31, 2019.

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

(6) Includes non-sovereign exposure to Italy, Portugal, and Greece in the amount of $139 million, $18 million and $6 million, respectively. We had no sovereign exposure in these countries at March 31, 2019.

REAL ESTATE 1-4 FAMILY FIRST AND JUNIOR LIEN MORTGAGE LOANS Our real estate 1-4 family first and junior lien mortgage loans are presented in Table 15.

Table 15: Real Estate 1-4 Family First and Junior Lien Mortgage Loans

	March 31, 2019		December 31, 2018	
(in millions)	Balance	% of portfolio	Balance	% of portfolio
Real estate 1-4 family first mortgage	$284,545	90 %	$285,065	89 %
Real estate 1-4 family junior lien mortgage	33,099	10	34,398	11
Total real estate 1-4 family mortgage loans	$317,644	100 %	$319,463	100 %

The real estate 1-4 family mortgage loan portfolio includes some loans with adjustable-rate features and some with an interest-only feature as part of the loan terms. Interest-only loans were approximately 3% and 4% of total loans at March 31, 2019, and December 31, 2018, respectively. We believe we have manageable adjustable-rate mortgage (ARM) reset risk across our owned mortgage loan portfolios. We do not offer option ARM products, nor do we offer variable-rate mortgage products with fixed payment amounts, commonly referred to within the financial services industry as negative amortizing mortgage loans. The option ARMs we do have are included in the Pick-a-Pay portfolio which was acquired from Wachovia. For more information, 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.

We continue to modify real estate 1-4 family mortgage loans to assist homeowners and other borrowers experiencing financial difficulties. For more information on our modification programs, see the "Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans" section in our 2018 Form 10-K.

Part of our credit monitoring includes tracking delinquency, current FICO scores and loan/combined loan to collateral values (LTV/CLTV) on the entire real estate 1-4 family mortgage loan portfolio. These credit risk indicators, which exclude government insured/guaranteed loans, continued to improve in first quarter 2019 on the non-PCI mortgage portfolio. Loans 30 days or more delinquent at March 31, 2019, totaled $3.8 billion, or 1% of total non-PCI mortgages, compared with $4.0 billion, or 1%, at December 31, 2018. Loans with FICO scores lower than 640 totaled $9.3 billion, or 3% of total non-PCI mortgages at March 31, 2019, compared with $9.7 billion, or 3%, at December 31, 2018. Mortgages with a LTV/CLTV greater than 100% totaled $3.7 billion at March 31, 2019, or 1% of total non-PCI mortgages, compared with $3.9 billion, or 1%, at December 31, 2018. Information regarding credit quality indicators can be found in Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Real estate 1-4 family first and junior lien mortgage loans by state are presented in Table 16. Our real estate 1-4 family non-PCI mortgage loans to borrowers in California represented 13% of total loans at March 31, 2019, located predominantly within the larger metropolitan areas, with no single California metropolitan area consisting of more than 5% of total loans. We monitor changes in real estate values and underlying economic or market conditions for all geographic areas of our real estate 1-4 family first and junior lien mortgage portfolios as part of our credit risk management process. Our underwriting and periodic review of loans and lines secured by residential real estate collateral includes appraisals or estimates from automated valuation models (AVMs) to support property values. Additional information about AVMs and our policy for their use can be

found in Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report and the "Risk Management – Credit Risk Management – Real Estate 1-4 Family First and Junior Lien Mortgage Loans" section in our 2018 Form 10-K.

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

	March 31, 2019			
(in millions)	Real estate 1-4 family	Real estate 1-4 family junior lien mortgage	Total real estate 1-4 family mortgage	% of total loans

	first mortgage				
Real estate 1-4 family loans (excluding PCI):					
California	$110,551	9,042	119,593	13	%
New York	29,251	1,647	30,898	3	
New Jersey	13,828	3,039	16,867	2	
Florida	12,212	2,992	15,204	1	
Washington	9,946	739	10,685	1	
Virginia	8,489	1,930	10,419	1	
Texas	8,556	638	9,194	1	
North Carolina	5,869	1,539	7,408	1	
Pennsylvania	5,372	1,855	7,227	1	
Other (1)	65,096	9,662	74,758	8	
Government insured/ guaranteed loans (2)	12,191	—	12,191	1	
Real estate 1-4 family loans (excluding PCI)	281,361	33,083	314,444	33	
Real estate 1-4 family PCI loans	3,184	16	3,200	—	
Total	$284,545	33,099	317,644	33	%

(1) Consists of 41 states; no state had loans in excess of $6.8 billion.

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

Risk Management - Credit Risk Management (continued)

First Lien Mortgage Portfolio Our total real estate 1-4 family first lien mortgage portfolio decreased $520 million in first quarter 2019, as paydowns and Pick-a-Pay PCI loan sales of $1.6 billion were partially offset by growth in nonconforming mortgage loans. In addition, $776 million of nonconforming mortgage loan originations that would have otherwise been included in this portfolio, were designated as held for sale in first quarter 2019 in anticipation of the future issuance of residential mortgage-backed securities. We retained $10.5 billion in nonconforming originations, consisting of loans that exceed conventional conforming loan amount limits established by federal government-sponsored entities (GSEs) in first quarter 2019.
The credit performance associated with our real estate 1-4 family first lien mortgage portfolio was stable in first quarter

2019, as measured through net charge-offs and nonaccrual loans. Net charge-offs (annualized) as a percentage of average real estate 1-4 family first lien mortgage loans was a net recovery of 0.02% in first quarter 2019, compared with a net recovery of 0.03% for the same period a year ago. Nonaccrual loans were $3.0 billion at March 31, 2019, down $157 million from December 31, 2018. The decrease in nonaccrual loans from December 31, 2018, was driven by nonaccrual loan sales and an improving housing environment.
Table 17 shows certain delinquency and loss information for the first lien mortgage portfolio and lists the top five states by outstanding balance.
Table 17: First Lien Mortgage Portfolio Performance

	Outstanding balance		% of loans 30 days or more past due		Loss (recovery) rate (annualized) quarter ended				
(in millions)	Mar 31, 2019	Dec 31, 2018	Mar 31, 2019	Dec 31, 2018	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
California	$110,551	109,092	0.63 %	0.68	(0.03)	(0.04)	(0.05)	(0.07)	(0.07)
New York	29,251	28,954	1.11	1.12	0.02	0.02	0.04	0.09	(0.01)
New Jersey	13,828	13,811	1.75	1.91	0.08	0.05	(0.02)	0.02	0.08
Florida	12,212	12,350	2.50	2.58	(0.10)	(0.18)	(0.22)	(0.15)	(0.14)
Washington	9,946	9,677	0.49	0.57	(0.04)	(0.06)	(0.06)	(0.06)	(0.06)
Other	93,382	93,261	1.57	1.70	(0.02)	(0.03)	(0.03)	(0.03)	0.01
Total	269,170	267,145	1.15	1.23	(0.02)	(0.03)	(0.04)	(0.04)	(0.03)
Government insured/guaranteed loans	12,191	12,932							
PCI	3,184	4,988							
Total first lien mortgages	$284,545	285,065							

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Pick-a-Pay Portfolio The Pick-a-Pay portfolio was one of the consumer residential first lien mortgage portfolios we acquired from Wachovia and a majority of the portfolio was identified as PCI loans.
The Pick-a-Pay portfolio is included in the consumer real estate 1-4 family first mortgage class of loans throughout this

Report. Pick-a-Pay option payment loans may have fixed or adjustable rates with payment options that include a minimum payment, an interest-only payment or fully amortizing payment (both 15 and 30 year options). Table 18 provides balances by types of loans as of March 31, 2019.
Table 18: Pick-a-Pay Portfolio

	March 31, 2019		December 31, 2018	
(in millions)	Adjusted unpaid principal balance (1)	% of total	Adjusted unpaid principal balance (1)	% of total
Option payment loans	$8,084	54 %	$8,813	50 %
Non-option payment adjustable-rate and fixed-rate loans	2,626	18	2,848	16
Full-term loan modifications	4,126	28	6,080	34
Total adjusted unpaid principal balance	$14,836	100 %	$17,741	100 %
Total carrying value	$13,834		16,115	

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

The predominant portion of our remaining PCI loans is included in the Pick-a-Pay portfolio. Total carrying value of Pick-a-Pay PCI loans was $3.1 billion at March 31, 2019, compared with $4.9 billion at December 31, 2018. During first quarter 2019, we sold $1.6 billion of Pick-a-Pay PCI loans that resulted in a gain of $608 million. We also expect to close on the sale of approximately $2.0 billion of Pick-a-Pay PCI loans in second quarter 2019. The accretable yield balance of our Pick-a-Pay PCI loan portfolio was $1.5 billion ($1.7 billion for all PCI loans) at March 31, 2019, compared with $2.8 billion ($3.0 billion for all PCI loans) at December 31, 2018. The estimated weighted-average life was approximately 5.3 years and 5.5 years at March 31, 2019 and December 31, 2018, respectively. The accretable yield percentage for Pick-a-Pay PCI loans for first quarter 2019 was 11.49%, and we expect the percentage to increase to approximately 11.56% for second quarter 2019.
For additional information on PCI loans, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2018 Form 10-K.

Risk Management - Credit Risk Management (continued)

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

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

process for junior lien mortgages considers the inherent loss where the borrower is delinquent on the corresponding first lien mortgage loans.

Table 19 shows certain delinquency and loss information for the junior lien mortgage portfolio and lists the top five states by outstanding balance. The decrease in outstanding balances since December 31, 2018, predominantly reflects loan paydowns. As of March 31, 2019, 6% of the outstanding balance of the junior lien mortgage portfolio was associated with loans that had a combined loan to value (CLTV) ratio in excess of 100%. Of those junior lien mortgages with a CLTV ratio in excess of 100%, 2.76% were 30 days or more past due. CLTV means the ratio of the total loan balance of first lien mortgages and junior lien mortgages (including unused line amounts for credit line products) to property collateral value. The unsecured portion (the outstanding amount that was in excess of the most recent property collateral value) of the outstanding balances of these loans totaled 2% of the junior lien mortgage portfolio at March 31, 2019. For additional information on consumer loans by LTV/CLTV, see Table 6.12 in Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Table 19: Junior Lien Mortgage Portfolio Performance

(in millions)	Outstanding balance		% of loans 30 days or more past due		Loss (recovery) rate (annualized) quarter ended				
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2019	Dec 31, 2018	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
California	$9,042	9,338	1.74 %	1.67	(0.39)	(0.33)	(0.51)	(0.56)	(0.42)
New Jersey	3,039	3,152	2.59	2.57	0.12	0.03	0.24	0.28	0.44
Florida	2,992	3,140	2.80	2.73	(0.05)	0.07	0.12	(0.05)	(0.12)
Virginia	1,930	2,020	1.96	1.91	0.14	0.04	0.16	0.30	0.25
Pennsylvania	1,855	1,929	2.18	2.10	0.04	0.25	0.18	0.13	0.06
Other	14,225	14,802	2.04	2.12	(0.03)	(0.11)	(0.05)	(0.06)	(0.05)
Total	33,083	34,381	2.08	2.08	(0.10)	(0.11)	(0.10)	(0.13)	(0.09)
PCI	16	17							
Total junior lien mortgages	$33,099	34,398							

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

On a monthly basis, we monitor the payment characteristics of borrowers in our first and junior lien lines of credit portfolios. In March 2019, approximately 43% of these borrowers paid only the minimum amount due and approximately 52% paid more than the minimum amount due. The rest were either delinquent or paid less than the minimum amount due. For the borrowers

with an interest only payment feature, approximately 29% paid only the minimum amount due and approximately 65% paid more than the minimum amount due.

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

Table 20 reflects the outstanding balance of our portfolio of junior lien mortgages, including lines and loans, and first lien lines segregated into scheduled end of draw or end of term periods and products that are currently amortizing, or in balloon repayment status. It excludes real estate 1-4 family first lien line reverse mortgages, which total $105 million, because they are predominantly insured by the FHA, and it excludes PCI loans, which total $32 million, because their losses were generally reflected in our nonaccretable difference established at the date of acquisition.

Table 20: Junior Lien Mortgage Line and Loan and First Lien Mortgage Line Portfolios Payment Schedule

			Scheduled end of draw / term					
(in millions)	Outstanding balance March 31, 2019	Remainder of 2019	2020	2021	2022	2023	2024 and thereafter (1)	Amortizing (3)
Junior lien lines and loans	$ 33,083	295	450	1,039	3,788	2,622	14,030	10,859
First lien lines	11,376	103	180	488	1,821	1,369	5,472	1,943
Total (2)	$ 44,459	398	630	1,527	5,609	3,991	19,502	12,802
% of portfolios	100 %	1	1	3	13	9	44	29
End-of-term balloon payments included in Total	$ 877	130	206	343	163	7	28	

(1) Substantially all lines and loans are scheduled to convert to amortizing loans by the end of 2028, with annual scheduled amounts through 2028 ranging from $2.2 billion to $5.5 billion and averaging $3.8 billion per year.

(2) Junior and first lien lines are primarily interest-only during their draw period. The unfunded credit commitments for junior and first lien lines totaled $60.2 billion at March 31, 2019.

(3) Amortizing lines and loans include $52 million of end-of-term balloon payments, which are past due. At March 31, 2019, $456 million, or 4% of outstanding lines of credit that are amortizing, are 30 days or more past due compared to $537 million, or 2%, for lines in their draw period.

CREDIT CARDS Our credit card portfolio totaled $38.3 billion at March 31, 2019, which represented 4% of our total outstanding loans. The net charge-off rate (annualized) for our credit card portfolio was 3.73% for first quarter 2019, compared with 3.69% for first quarter 2018.

AUTOMOBILE Our automobile portfolio, predominantly composed of indirect loans, totaled $44.9 billion at March 31, 2019. The net charge-off rate (annualized) for our automobile portfolio was 0.82% for first quarter 2019, compared with 1.64% for first quarter 2018. The decrease in the net charge-off rate in first quarter 2019, compared with the same period in 2018, was driven by lower early losses from higher quality originations.

OTHER REVOLVING CREDIT AND INSTALLMENT Other revolving credit and installment loans totaled $35.2 billion at March 31, 2019, and primarily included student and securities-based loans. Our private student loan portfolio totaled $11.1 billion at March 31, 2019. The net charge-off rate (annualized) for other revolving credit and installment loans was 1.47% for first quarter 2019, compared with 1.60% for first quarter 2018.

Risk Management - Credit Risk Management (continued)

NONPERFORMING ASSETS (NONACCRUAL LOANS AND FORECLOSED ASSETS) Table 21 summarizes nonperforming assets (NPAs) for each of the last four quarters. Total NPAs increased $394 million from fourth quarter 2018 to $7.3 billion. Nonaccrual loans increased $409 million from fourth quarter 2018 to $6.9 billion, reflecting higher commercial nonaccruals predominantly in the oil, gas and pipelines, and utilities portfolios. Foreclosed assets of $436 million were down

$15 million from fourth quarter 2018. For information about when we generally place loans on nonaccrual status, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2018 Form 10-K. Credit card loans are not placed on nonaccrual status, but are generally fully charged off when the loan reaches 180 days past due.

Table 21: Nonperforming Assets (Nonaccrual Loans and Foreclosed Assets)

	March 31, 2019		December 31, 2018		September 30, 2018		June 30, 2018	
($ in millions)	Balance	% of total loans	Balance	% of total loans	Balance	% of total loans	Balance	% of total loans
Nonaccrual loans:								
Commercial:								
Commercial and industrial	$1,986	0.57 %	$1,486	0.42 %	$1,555	0.46 %	$1,559	0.46 %
Real estate mortgage	699	0.57	580	0.48	603	0.50	765	0.62
Real estate construction	36	0.16	32	0.14	44	0.19	51	0.22
Lease financing	76	0.40	90	0.46	96	0.49	80	0.41
Total commercial	2,797	0.55	2,188	0.43	2,298	0.46	2,455	0.49
Consumer:								
Real estate 1-4 family first mortgage	3,026	1.06	3,183	1.12	3,267	1.15	3,469	1.23
Real estate 1-4 family junior lien mortgage	916	2.77	945	2.75	983	2.78	1,029	2.82
Automobile	116	0.26	130	0.29	118	0.26	119	0.25
Other revolving credit and installment	50	0.14	50	0.14	48	0.13	54	0.14
Total consumer	4,108	0.94	4,308	0.98	4,416	1.00	4,671	1.06
Total nonaccrual loans (1)(2)(3)	6,905	0.73	6,496	0.68	6,714	0.71	7,126	0.75
Foreclosed assets:								
Government insured/guaranteed (4)	75		88		87		90	
Non-government insured/guaranteed	361		363		435		409	
Total foreclosed assets	436		451		522		499	
Total nonperforming assets	$7,341	0.77 %	$6,947	0.73 %	$7,236	0.77 %	$7,625	0.81 %
Change in NPAs from prior quarter	$394		(289)		(389)		(285)	

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

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

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

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

certain government-guaranteed mortgage loans upon foreclosure, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2018 Form 10-K.

Table 22 provides an analysis of the changes in nonaccrual loans.

Table 22: Analysis of Changes in Nonaccrual Loans

(in millions)	Quarter ended Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Commercial nonaccrual loans					
Balance, beginning of period	$2,188	2,298	2,455	2,409	2,640
Inflows	1,238	662	774	726	605
Outflows:					
Returned to accruing	(43)	(45)	(122)	(43)	(113)
Foreclosures	(15)	(12)	—	—	—
Charge-offs	(158)	(193)	(191)	(133)	(119)
Payments, sales and other	(413)	(522)	(618)	(504)	(604)
Total outflows	(629)	(772)	(931)	(680)	(836)
Balance, end of period	2,797	2,188	2,298	2,455	2,409
Consumer nonaccrual loans					
Balance, beginning of period	4,308	4,416	4,671	4,930	5,006
Inflows	552	569	572	578	714
Outflows:					
Returned to accruing	(248)	(269)	(319)	(342)	(374)
Foreclosures	(42)	(35)	(41)	(40)	(50)
Charge-offs	(49)	(57)	(65)	(84)	(86)
Payments, sales and other	(413)	(316)	(402)	(371)	(280)
Total outflows	(752)	(677)	(827)	(837)	(790)
Balance, end of period	4,108	4,308	4,416	4,671	4,930
Total nonaccrual loans	$6,905	6,496	6,714	7,126	7,339

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

While nonaccrual loans are not free of loss content, we believe exposure to loss is significantly mitigated by the following factors at March 31, 2019:

- over 87% of total commercial nonaccrual loans and 99% of total consumer nonaccrual loans are secured. Of the consumer nonaccrual loans, 96% are secured by real estate and 87% have a combined LTV (CLTV) ratio of 80% or less.
- losses of $304 million and $1.4 billion have already been recognized on 15% of commercial nonaccrual loans and 44% of consumer nonaccrual loans, respectively, in accordance with our charge-off policies. Once we write down loans to the net realizable value (fair value of collateral less estimated costs to sell), we re-evaluate each loan regularly and record additional write-downs if needed.
- 75% of commercial nonaccrual loans were current on interest and 68% were current on both principal and interest, but were on nonaccrual status because the full or timely collection of interest or principal had become uncertain.
- the remaining risk of loss of all nonaccrual loans has been considered and we believe is adequately covered by the allowance for loan losses.
- of $1.8 billion of consumer loans in bankruptcy or discharged in bankruptcy, and classified as nonaccrual, $1.3 billion were current.

We continue to work with our customers experiencing financial difficulty to determine if they can qualify for a loan modification so that they can stay in their homes. Under our proprietary modification programs, customers may be

required to provide updated documentation, and some programs require completion of payment during trial periods to demonstrate sustained performance before the loan can be removed from nonaccrual status.

Risk Management - Credit Risk Management (continued)

Table 23 provides a summary of foreclosed assets and an analysis of changes in foreclosed assets.

Table 23: Foreclosed Assets

(in millions)	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Summary by loan segment					
Government insured/guaranteed	$ 75	88	87	90	103
Commercial	124	127	201	176	221
Consumer	237	236	234	233	247
Total foreclosed assets	$ 436	451	522	499	571
Analysis of changes in foreclosed assets					
Balance, beginning of period	$ 451	522	499	571	642
Net change in government insured/guaranteed (1)	(13)	1	(3)	(13)	(17)
Additions to foreclosed assets (2)	193	193	209	191	185
Reductions:					
Sales	(205)	(274)	(181)	(257)	(245)
Write-downs and gains (losses) on sales	10	9	(2)	7	6
Total reductions	(195)	(265)	(183)	(250)	(239)
Balance, end of period	$ 436	451	522	499	571

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

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

Foreclosed assets at March 31, 2019, included $304 million of foreclosed residential real estate, of which 25% is predominantly FHA insured or VA guaranteed and expected to have minimal or no loss content. The remaining amount of foreclosed assets has been written down to estimated net realizable value. Of the $436 million in foreclosed assets at March 31, 2019, 69% have been in the foreclosed assets portfolio one year or less.

TROUBLED DEBT RESTRUCTURINGS (TDRs)

Table 24: Troubled Debt Restructurings (TDRs)

(in millions)	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Commercial:					
Commercial and industrial	$1,740	1,623	1,837	1,792	1,703
Real estate mortgage	681	704	782	904	939
Real estate construction	45	39	49	40	45
Lease financing	46	56	65	50	53
Total commercial TDRs	2,512	2,422	2,733	2,786	2,740
Consumer:					
Real estate 1-4 family first mortgage	10,343	10,629	10,967	11,387	11,782
Real estate 1-4 family junior lien mortgage	1,604	1,639	1,689	1,735	1,794
Credit Card	473	449	431	410	386
Automobile	85	89	91	81	83
Other revolving credit and installment	156	154	146	141	137
Trial modifications	136	149	163	200	198
Total consumer TDRs	12,797	13,109	13,487	13,954	14,380
Total TDRs	$15,309	15,531	16,220	16,740	17,120
TDRs on nonaccrual status	$4,037	4,058	4,298	4,454	4,428
TDRs on accrual status:					
Government insured/guaranteed	1,275	1,299	1,308	1,368	1,375
Non-government insured/guaranteed	9,997	10,174	10,614	10,918	11,317
Total TDRs	$15,309	15,531	16,220	16,740	17,120

Table 24 provides information regarding the recorded investment of loans modified in TDRs. The allowance for loan losses for TDRs was $1.2 billion at both March 31, 2019, and December 31, 2018. See Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for additional information regarding TDRs. In those situations where principal is forgiven, the entire amount of such forgiveness is immediately charged off. When we delay the timing on the repayment of a portion of principal (principal forbearance), we charge off the amount of forbearance if that amount is not considered fully collectible.

For more information on our nonaccrual policies when a restructuring is involved, see the "Risk Management – Credit Risk Management – Troubled Debt Restructurings (TDRs)" section in our 2018 Form 10-K.
Table 25 provides an analysis of the changes in TDRs. Loans modified more than once are reported as TDR inflows only in the period they are first modified. Other than resolutions such as foreclosures, sales and transfers to held for sale, we may remove loans held for investment from TDR classification, but only if they have been refinanced or restructured at market terms and qualify as new loans.

Risk Management - Credit Risk Management (continued)

Table 25: Analysis of Changes in TDRs

	Quarter ended				
(in millions)	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Commercial TDRs					
Balance, beginning of quarter	$2,422	2,733	2,786	2,740	3,076
Inflows (1)(2)	539	374	588	481	321
Outflows					
Charge-offs	(44)	(88)	(92)	(41)	(63)
Foreclosures	—	(2)	(13)	—	—
Payments, sales and other (2)(3)	(405)	(595)	(536)	(394)	(594)
Balance, end of quarter	2,512	2,422	2,733	2,786	2,740
Consumer TDRs					
Balance, beginning of quarter	13,109	13,487	13,954	14,380	14,692
Inflows (1)	439	379	414	467	487
Outflows					
Charge-offs	(60)	(57)	(56)	(56)	(54)
Foreclosures	(86)	(90)	(116)	(133)	(131)
Payments, sales and other (3)	(593)	(595)	(672)	(706)	(618)
Net change in trial modifications (4)	(12)	(15)	(37)	2	4
Balance, end of quarter	12,797	13,109	13,487	13,954	14,380
Total TDRs	$15,309	15,531	16,220	16,740	17,120

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

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

(3) Other outflows consist of normal amortization/accretion of loan basis adjustments and loans transferred to held-for-sale. Occasionally, loans that have been refinanced or restructured at market terms qualify as new loans, which are also included as other outflows.

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

LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING

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

Excluding insured/guaranteed loans, loans 90 days or more past due and still accruing at March 31, 2019, were down $105 million, or 11%, from December 31, 2018, due to payoffs and

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

Loans 90 days or more past due and still accruing whose repayments are predominantly insured by the FHA or guaranteed by the VA for mortgages were $7.0 billion at March 31, 2019, down from $7.7 billion at December 31, 2018, due to an improvement in delinquencies as well as a reduction in the portfolio.

Table 26 reflects non-PCI loans 90 days or more past due and still accruing by class for loans not government insured/guaranteed. For additional information on delinquencies by loan class, see Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Table 26: Loans 90 Days or More Past Due and Still Accruing

(in millions)	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Total (excluding PCI (1)):	$ 7,870	8,704	8,838	9,087	10,351
Less: FHA insured/VA guaranteed (2)	6,996	7,725	7,906	8,246	9,385
Total, not government insured/guaranteed	$ 874	979	932	841	966
By segment and class, not government insured/guaranteed:					
Commercial:					
Commercial and industrial	$ 42	43	42	23	40
Real estate mortgage	20	51	56	26	23
Real estate construction	5	—	—	—	1
Total commercial	67	94	98	49	64
Consumer:					
Real estate 1-4 family first mortgage	117	124	128	132	163
Real estate 1-4 family junior lien mortgage	28	32	32	33	48
Credit card	502	513	460	429	473
Automobile	68	114	108	105	113
Other revolving credit and installment	92	102	106	93	105
Total consumer	807	885	834	792	902
Total, not government insured/guaranteed	$ 874	979	932	841	966

(1) PCI loans totaled $243 million, $370 million, $567 million, $811 million, and $1.0 billion at March 31, 2019, and December 31, September 30, June 30, and March 31, 2018, respectively.

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

Risk Management - Credit Risk Management (continued)

NET CHARGE-OFFS

Table 27: Net Charge-offs

										Quarter ended
	Mar 31, 2019		Dec 31, 2018		Sep 30, 2018		Jun 30, 2018		Mar 31, 2018	
($ in millions)	Net loan charge-offs	% of avg. loans(1)	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)	Net loan charge-offs	% of avg. loans (1)
Commercial:										
Commercial and industrial	$133	0.15 %	$132	0.15 %	$148	0.18 %	$58	0.07 %	$85	0.10 %
Real estate mortgage	6	0.02	(12)	(0.04)	(1)	—	—	—	(15)	(0.05)
Real estate construction	(2)	(0.04)	(1)	(0.01)	(2)	(0.04)	(6)	(0.09)	(4)	(0.07)
Lease financing	8	0.17	13	0.26	7	0.14	15	0.32	12	0.25
Total commercial	145	0.11	132	0.10	152	0.12	67	0.05	78	0.06
Consumer:										
Real estate 1-4 family first mortgage	(12)	(0.02)	(22)	(0.03)	(25)	(0.04)	(23)	(0.03)	(18)	(0.03)
Real estate 1-4 family junior lien mortgage	(9)	(0.10)	(10)	(0.11)	(9)	(0.10)	(13)	(0.13)	(8)	(0.09)
Credit card	352	3.73	338	3.54	299	3.22	323	3.61	332	3.69
Automobile	91	0.82	133	1.16	130	1.10	113	0.93	208	1.64
Other revolving credit and installment	128	1.47	150	1.64	133	1.44	135	1.44	149	1.60
Total consumer	550	0.51	589	0.53	528	0.47	535	0.49	663	0.60
Total	$695	0.30 %	$721	0.30 %	$680	0.29 %	$602	0.26 %	$741	0.32 %

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

Table 27 presents net charge-offs for first quarter 2019 and the previous four quarters. Net charge-offs in first quarter 2019 were $695 million (0.30% of average total loans outstanding), compared with $741 million (0.32%) in first quarter 2018.

The increase in commercial net charge-offs from first quarter 2018 was due to higher commercial and industrial loan charge-offs and lower recoveries in the commercial and industrial portfolio. Consumer net charge-offs decreased from the prior year predominantly due to a decrease in automobile net charge-offs, partially offset by an increase in credit card net charge-offs.

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

We apply a disciplined process and methodology to establish our allowance for credit losses each quarter. This process takes into consideration many factors, including historical and forecasted loss trends, loan-level credit quality ratings and loan grade-specific characteristics. The process involves subjective and complex judgments. In addition, we review a variety of credit metrics and trends. These credit metrics and trends, however, do not solely determine the amount of the allowance as we use several analytical tools. Our estimation approach for the commercial portfolio reflects the estimated probability of default in accordance with the borrower's financial strength, and the severity of loss in the event of default, considering the quality of any underlying collateral. Probability of default and severity at the time of default are statistically derived through historical observations of defaults and losses after default within each credit risk rating. Our estimation approach for the consumer portfolio uses forecasted losses that represent our best estimate of inherent loss based on historical experience, quantitative and other mathematical techniques. For additional information on our allowance for credit losses, see the "Critical Accounting Policies – Allowance for Credit Losses" section in our 2018 Form 10-K and Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Table 28 presents the allocation of the allowance for credit losses by loan segment and class for the most recent quarter end and last four year ends.

Table 28: Allocation of the Allowance for Credit Losses (ACL)

(in millions)	Mar 31, 2019 ACL	Loans as % of total loans		Dec 31, 2018 ACL	Loans as % of total loans		Dec 31, 2017 ACL	Loans as % of total loans		Dec 31, 2016 ACL	Loans as % of total loans		Dec 31, 2015 ACL	Loans as % of total loans	
Commercial:															
Commercial and industrial	$3,650	37	%	$3,628	37	%	$3,752	35	%	$4,560	34	%	$4,231	33	%
Real estate mortgage	1,307	13		1,282	13		1,374	13		1,320	14		1,264	13	
Real estate construction	1,165	2		1,200	2		1,238	3		1,294	2		1,210	3	
Lease financing	306	2		307	2		268	2		220	2		167	1	
Total commercial	6,428	54		6,417	54		6,632	53		7,394	52		6,872	50	
Consumer:															
Real estate 1-4 family first mortgage	780	30		750	30		1,085	30		1,270	29		1,895	30	
Real estate 1-4 family junior lien mortgage	317	3		431	3		608	4		815	5		1,223	6	
Credit card	2,201	4		2,064	4		1,944	4		1,605	4		1,412	4	
Automobile	514	5		475	5		1,039	5		817	6		529	6	
Other revolving credit and installment	581	4		570	4		652	4		639	4		581	4	
Total consumer	4,393	46		4,290	46		5,328	47		5,146	48		5,640	50	
Total	$10,821	100	%	$10,707	100	%	$11,960	100	%	$12,540	100	%	$12,512	100	%

	Mar 31, 2019		Dec 31, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Components:						
Allowance for loan losses	$9,900		9,775	11,004	11,419	11,545
Allowance for unfunded credit commitments	921		932	956	1,121	967
Allowance for credit losses	$10,821		10,707	11,960	12,540	12,512
Allowance for loan losses as a percentage of total loans	1.04	%	1.03	1.15	1.18	1.26
Allowance for loan losses as a percentage of total net charge-offs (1)	351		356	376	324	399
Allowance for credit losses as a percentage of total loans	1.14		1.12	1.25	1.30	1.37
Allowance for credit losses as a percentage of total nonaccrual loans	157		165	156	126	115

(1) Total net charge-offs are annualized for quarter ended March 31, 2019.

In addition to the allowance for credit losses, there was $518 million at March 31, 2019, and $480 million at December 31, 2018, of nonaccretable difference to absorb losses on PCI loans of $3.2 billion at March 31, 2019 and $5.0 billion at December 31, 2018. The allowance for credit losses is lower than otherwise would have been required without PCI loan accounting. As a result of PCI loans, certain ratios of the Company may not be directly comparable with credit-related metrics for other financial institutions. For additional information on PCI loans, see the "Risk Management – Credit Risk Management – Purchased Credit-Impaired Loans" section and Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

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

The allowance for credit losses increased $114 million, or 1%, from December 31, 2018, primarily due to a higher probability of slightly less favorable economic conditions. Total provision for credit losses was $845 million in first quarter 2019, compared with $191 million in first quarter 2018. The increase in the provision for credit losses of $654 million was due to an

allowance increase in first quarter 2019, reflecting a higher probability of slightly less favorable economic conditions, compared with an allowance decrease in first quarter 2018, predominantly due to improvement in our outlook for 2017 hurricane-related losses.

We believe the allowance for credit losses of $10.8 billion at March 31, 2019, was appropriate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, at that date. The entire allowance is available to absorb credit losses inherent in the total loan portfolio. The allowance for credit losses is subject to change and reflects existing factors as of the date of determination, including economic or market conditions and ongoing internal and external examination processes. Due to the sensitivity of the allowance for credit losses to changes in the economic and business environment, it is possible that we will incur incremental credit losses not anticipated as of the balance sheet date. Future allowance levels will be based on a variety of factors, including loan growth, portfolio performance and general economic conditions. Our process for determining the allowance for credit losses is discussed in the "Critical Accounting Policies – Allowance for Credit Losses" section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2018 Form 10-K.

LIABILITY FOR MORTGAGE LOAN REPURCHASE LOSSES For information on our repurchase liability, see the "Risk Management – Credit Risk Management – Liability For Mortgage Loan Repurchase Losses" section in our 2018 Form 10-K.

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

For additional information about the risks related to our servicing activities, see the "Risk Management – Credit Risk Management – Risks Relating to Servicing Activities" section in our 2018 Form 10-K.

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

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

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

We assess interest rate risk by comparing outcomes under various net interest income simulations using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. These simulations require assumptions regarding drivers of earnings and balance sheet composition such as loan originations, prepayment speeds on loans and debt securities, deposit flows and mix, as well as pricing strategies.
Currently, our profile is such that we project net interest income will benefit modestly from higher interest rates as our assets would reprice faster and to a greater degree than our liabilities, while in the case of lower interest rates, our assets would reprice downward and to a greater degree than our liabilities.
Our most recent simulations estimate net interest income sensitivity over the next two years under a range of both lower and higher interest rates. Measured impacts from standardized ramps (gradual changes) and shocks (instantaneous changes) are summarized in Table 29, indicating net interest income sensitivity relative to the Company's base net interest income

plan. Ramp scenarios assume interest rates move gradually in parallel across the yield curve relative to the base scenario in year one, and the full amount of the ramp is held as a constant differential to the base scenario in year two. The following describes the simulation assumptions for the scenarios presented in Table 29:

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

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

Table 29: Net Interest Income Sensitivity Over Next Two-Year Horizon Relative to Base Expectation

($ in billions)	Base	Lower Rates 100 bps Ramp Parallel Decrease	Higher Rates 100 bps Instantaneous Parallel Increase	200 bps Ramp Parallel Increase
First Year of Forecasting Horizon				
Net Interest Income Sensitivity to Base Scenario	$	(1.2) - (0.7)	1.0 - 1.5	0.8 - 1.3
Key Rates at Horizon End				
Fed Funds Target	2.75 %	1.75	3.75	4.75
10-year CMT (1)	3.02	2.02	4.02	5.02
Second Year of Forecasting Horizon				
Net Interest Income Sensitivity to Base Scenario	$	(2.9) - (2.4)	1.4 - 1.9	2.1 - 2.6
Key Rates at Horizon End				
Fed Funds Target	2.75 %	1.75	3.75	4.75
10-year CMT (1)	3.28	2.28	4.28	5.28

(1) U.S. Constant Maturity Treasury Rate

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

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

Asset/Liability Management (continued)

We use the debt securities portfolio and exchange-traded and over-the-counter (OTC) interest rate derivatives to hedge our interest rate exposures. See the “Balance Sheet Analysis – Available-for-Sale and Held-to-Maturity Debt Securities” section in this Report for more information on the use of the available-for-sale and held-to-maturity securities portfolios. The notional or contractual amount, credit risk amount and fair value of the derivatives used to hedge our interest rate risk exposures as of March 31, 2019, and December 31, 2018, are presented in Note 15 (Derivatives) to Financial Statements in this Report. We use derivatives for asset/liability management in two main ways:

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

MORTGAGE BANKING INTEREST RATE AND MARKET RISK We originate, fund and service mortgage loans, which subjects us to various risks, including credit, liquidity and interest rate risks. For more information on mortgage banking interest rate and market risk, see the “Risk Management – Asset/Liability Management – Mortgage Banking Interest Rate and Market Risk” section in our 2018 Form 10-K.

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

The total carrying value of our residential and commercial MSRs was $14.8 billion at March 31, 2019, and $16.1 billion at December 31, 2018. The weighted-average note rate on our portfolio of loans serviced for others was 4.34% at March 31, 2019, and 4.32% at December 31, 2018. The carrying value of our total MSRs represented 0.88% of mortgage loans serviced for others at March 31, 2019, and 0.94% of mortgage loans serviced for others at December 31, 2018.

MARKET RISK Market risk is the risk of possible economic loss from adverse changes in market risk factors such as interest rates, credit spreads, foreign exchange rates, equity and commodity prices, and the risk of possible loss due to counterparty risk. This includes implied volatility risk, basis risk, and market liquidity risk. Market risk also includes counterparty credit risk, price risk in the trading book, mortgage servicing rights and the associated hedge effectiveness risk associated with the mortgage book, and impairment on private equity investments.

The Board’s Finance Committee has primary oversight responsibility for market risk and oversees the Company’s market risk exposure and market risk management strategies. In addition, the Board’s Risk Committee has certain oversight responsibilities with respect to market risk, including adjusting the Company’s market risk appetite with input from the Finance Committee. The Finance Committee also reports key market risk matters to the Risk Committee.

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

MARKET RISK – TRADING ACTIVITIES We engage in trading activities to accommodate the investment and risk management activities of our customers and to execute economic hedging to manage certain balance sheet risks. These trading activities predominantly occur within our Wholesale Banking businesses and to a lesser extent other divisions of the Company. Debt securities held for trading, equity securities held for trading, trading loans and trading

derivatives are financial instruments used in our trading activities, and all are carried at fair value. Income earned on the financial instruments used in our trading activities include net interest income, changes in fair value and realized gains and losses. Net interest income earned from our trading activities is reflected in the interest income and interest expense components of our income statement. Changes in fair value of the financial instruments used in our trading activities are reflected in net gains on trading activities, a component of noninterest income in our income statement. For more information on the financial instruments used in our trading activities and the income from these trading activities, see Note 4 (Trading Activities) to Financial Statements in this Report.

Value-at-risk (VaR) is a statistical risk measure used to estimate the potential loss from adverse moves in the financial markets. The Company uses VaR metrics complemented with sensitivity analysis and stress testing in measuring and monitoring market risk. For more information, including information regarding our monitoring activities, sensitivity analysis and stress testing, see the "Risk Management – Asset/Liability Management – Market Risk – Trading Activities" section in our 2018 Form 10-K.

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

Table 30 shows the Company's Trading General VaR by risk category. As presented in Table 30, average Company Trading General VaR was $15 million for the quarter ended March 31, 2019, compared with $16 million for the quarter ended December 31, 2018, and $17 million for the quarter ended

March 31, 2018. The decrease in average Company Trading General VaR for the quarter ended March 31, 2019, compared with the quarter ended March 31, 2018, was mainly driven by changes in portfolio composition.

Table 30: Trading 1-Day 99% General VaR by Risk Category

	Quarter ended											
	March 31, 2019				December 31, 2018				March 31, 2018			
(in millions)	Period end	Average	Low	High	Period end	Average	Low	High	Period end	Average	Low	High
Company Trading General VaR Risk Categories												
Credit	$15	15	11	19	18	16	13	24	14	14	10	18
Interest rate	42	34	22	44	28	20	14	28	15	13	7	21
Equity	5	5	4	7	5	5	2	7	14	13	10	16
Commodity	2	2	1	4	2	2	1	4	1	1	1	1
Foreign exchange	1	1	1	1	1	1	0	2	0	1	0	3
Diversification benefit (1)	(46)	(42)			(33)	(28)			(22)	(25)		
Company Trading General VaR	$19	15			21	16			22	17		

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

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

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

through a series of sales, thereby eliminating this position as of September 30, 2015. As part of these sales, we agreed to compensate the buyer for any additional contributions to a litigation settlement fund for the litigation matters associated with the Class B shares we sold. Our exposure to this retained litigation risk has been updated quarterly and is reflected on our balance sheet. For additional information about the associated litigation matters, see the "Interchange Litigation" section in Note 14 (Legal Actions) to Financial Statements in this Report.

As part of our business to support our customers, we trade public equities, listed/OTC equity derivatives and convertible bonds. We have parameters that govern these activities. We also have marketable equity securities that

include investments relating to our venture capital activities. We manage these marketable equity securities within capital risk limits approved by management and the Board and monitored by Corporate ALCO and the Market Risk Committee. The fair value changes in these marketable equity securities are recognized in net income. For more information, see Note 8 (Equity Securities) to Financial Statements in this Report.

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

Asset/Liability Management (continued)

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

Liquidity Standards We are subject to a rule, issued by the FRB, OCC and FDIC, that implemented a quantitative liquidity requirement consistent with the liquidity coverage ratio (LCR) established by the Basel Committee on Banking Supervision (BCBS). The rule requires banking institutions, such as Wells Fargo, to hold high-quality liquid assets (HQLA), such as central bank reserves and government and corporate debt that can be converted easily and quickly into cash, in an amount equal to or greater than its projected net cash outflows during a 30-day stress period. The rule is applicable to the Company on a consolidated basis and to our insured depository institutions with total assets greater than $10 billion. In addition, rules issued by the FRB impose enhanced liquidity management standards on large bank holding companies (BHC) such as Wells Fargo.
The FRB, OCC and FDIC have proposed a rule that would implement a stable funding requirement, the net stable funding ratio (NSFR), which would require large banking organizations, such as Wells Fargo, to maintain a sufficient amount of stable funding in relation to their assets, derivative exposures and commitments over a one-year horizon period.

Liquidity Coverage Ratio As of March 31, 2019, the consolidated Company and Wells Fargo Bank, N.A. were above the minimum LCR requirement of 100%, which is calculated as

HQLA divided by projected net cash outflows, as each is defined under the LCR rule. Table 31 presents the Company’s quarterly average values for the daily-calculated LCR and its components calculated pursuant to the LCR rule requirements.

Table 31: Liquidity Coverage Ratio

(in millions, except ratio)	Average for Quarter ended March 31, 2019	
HQLA (1)(2)	$ 358,190	
Projected net cash outflows	290,651	
LCR	123	%

(1) Excludes excess HQLA at Wells Fargo Bank, N.A.
(2) Net of applicable haircuts required under the LCR rule.

Liquidity Sources We maintain liquidity in the form of cash, cash equivalents and unencumbered high-quality, liquid debt securities. These assets make up our primary sources of liquidity which are presented in Table 32. Our primary sources of liquidity are substantially the same in composition as HQLA under the LCR rule; however, our primary sources of liquidity will generally exceed HQLA calculated under the LCR rule due to the applicable haircuts to HQLA and the exclusion of excess HQLA at our subsidiary insured depository institutions required under the LCR rule.

Our cash is predominantly on deposit with the Federal Reserve. Debt securities included as part of our primary sources of liquidity are comprised of U.S. Treasury and federal agency debt, and mortgage-backed securities issued by federal agencies within our debt securities portfolio. We believe these debt securities provide quick sources of liquidity through sales or by pledging to obtain financing, regardless of market conditions. Some of these debt securities are within the held-to-maturity portion of our debt securities portfolio and as such are not intended for sale but may be pledged to obtain financing. Some of the legal entities within our consolidated group of companies are subject to various regulatory, tax, legal and other restrictions that can limit the transferability of their funds. We believe we maintain adequate liquidity for these entities in consideration of such funds transfer restrictions.

Table 32: Primary Sources of Liquidity

	March 31, 2019			December 31, 2018		
(in millions)	Total	Encumbered	Unencumbered	Total	Encumbered	Unencumbered
Interest-earning deposits with banks	$128,318	—	128,318	149,736	—	149,736
Debt securities of U.S. Treasury and federal agencies	59,799	2,160	57,639	57,688	1,504	56,184
Mortgage-backed securities of federal agencies	243,827	30,001	213,826	244,211	35,656	208,555
Total	$431,944	32,161	399,783	451,635	37,160	414,475

In addition to our primary sources of liquidity shown in Table 32, liquidity is also available through the sale or financing of other debt securities including trading and/or available-for-sale debt securities, as well as through the sale, securitization or financing of loans, to the extent such debt securities and loans are not encumbered. In addition, other debt securities in our held-to-maturity portfolio, to the extent not encumbered, may be pledged to obtain financing.

Deposits have historically provided a sizable source of relatively low-cost funds. Deposits were 133% of total loans at March 31, 2019, and 135% at December 31, 2018.

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

Table 33 shows selected information for short-term borrowings, which generally mature in less than 30 days.
Table 33: Short-Term Borrowings

(in millions)	Quarter ended Mar 31 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Balance, period end					
Federal funds purchased and securities sold under agreements to repurchase	$93,896	92,430	92,418	89,307	80,916
Other short-term borrowings	12,701	13,357	13,033	15,189	16,291
Total	$106,597	105,787	105,451	104,496	97,207
Average daily balance for period					
Federal funds purchased and securities sold under agreements to repurchase	$95,721	93,483	92,141	89,138	86,535
Other short-term borrowings	12,930	12,479	13,331	14,657	15,244
Total	$108,651	105,962	105,472	103,795	101,779
Maximum month-end balance for period					
Federal funds purchased and securities sold under agreements to repurchase (1)	$97,650	93,918	92,531	92,103	88,121
Other short-term borrowings (2)	14,129	13,357	14,270	15,272	16,924

(1) Highest month-end balance in each of the last five quarters was in January 2019, and November, July, May and January 2018.
(2) Highest month-end balance in each of the last five quarters was in February 2019, and December, July, May and January 2018.

Long-Term Debt We issue long-term debt in a variety of maturities and currencies to achieve cost-efficient funding and to maintain an appropriate maturity profile. Long-term debt of $236.3 billion at March 31, 2019, increased $7.3 billion from December 31, 2018. We issued $17.3 billion of long-term debt in

first quarter 2019. Table 34 provides the aggregate carrying value of long-term debt maturities (based on contractual payment dates) for the remainder of 2019 and the following years thereafter, as of March 31, 2019.
Table 34: Maturity of Long-Term Debt

(in millions)	March 31, 2019 Remaining 2019	2020	2021	2022	2023	Thereafter	Total
Wells Fargo & Company (Parent Only)							
Senior notes	$4,679	13,451	17,972	17,848	10,970	48,761	113,681
Subordinated notes	—	—	—	—	3,583	22,583	26,166
Junior subordinated notes	—	—	—	—	—	1,662	1,662
Total long-term debt - Parent	$4,679	13,451	17,972	17,848	14,553	73,006	141,509
Wells Fargo Bank, N.A. and other bank entities (Bank)							
Senior notes	$27,595	25,786	23,471	39	2,836	180	79,907
Subordinated notes	—	—	—	—	1,071	4,232	5,303
Junior subordinated notes	—	—	—	—	—	355	355
Securitizations and other bank debt	1,677	1,666	727	281	83	2,140	6,574
Total long-term debt - Bank	$29,272	27,452	24,198	320	3,990	6,907	92,139
Other consolidated subsidiaries							
Senior notes	$1,121	11	997	—	410	120	2,659
Securitizations and other bank debt	—	—	—	—	—	32	32
Total long-term debt - Other consolidated subsidiaries	$1,121	11	997	—	410	152	2,691
Total long-term debt	$35,072	40,914	43,167	18,168	18,953	80,065	236,339

Parent In March 2019, the Securities and Exchange Commission (SEC) declared effective the Parent's registration statement for the issuance of up to $50 billion of senior and subordinated notes, preferred stock and other securities. At March 31, 2019, the Parent's remaining authorized issuance capacity under this registration statement was $50 billion. The Parent's overall ability to issue debt securities is limited by the debt issuance authority granted by the Board. As of March 31, 2019, the Parent was authorized by the Board to issue up to $180 billion in outstanding long-term debt. In April 2019, the Board increased this authority to $200 billion. The Parent's long-

term debt issuance authority granted by the Board includes debt issued to affiliates and others. At March 31, 2019, the Parent had available $33.5 billion in long-term debt issuance authority, net of debt issued to affiliates. During the first three months of 2019, the Parent issued $6.6 billion of senior notes, substantially all of which were registered with the SEC. In April 2019, the Parent issued EUR €1.0 billion and GDP £600 million of senior notes. The Parent's short-term debt issuance authority granted by the Board was limited to debt issued to affiliates, and was revoked by the Board at management's request in January 2018.

Asset/Liability Management (continued)

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

Wells Fargo Bank, N.A. As of March 31, 2019, Wells Fargo Bank, N.A. was authorized by its board of directors to issue $100 billion in outstanding short-term debt and $175 billion in outstanding long-term debt and had available $99.1 billion in short-term debt issuance authority and $97.9 billion in long-term debt issuance authority. In April 2018, Wells Fargo Bank, N.A. established a new $100 billion bank note program under which, subject to any other debt outstanding under the limits described above, it may issue $50 billion in outstanding short-term senior notes and $50 billion in outstanding long-term senior or subordinated notes. At March 31, 2019, Wells Fargo Bank, N.A. had remaining issuance capacity under the new bank note program of $50.0 billion in short-term senior notes and $39.8 billion in long-term senior or subordinated notes. During the first three months of 2019, Wells Fargo Bank, N.A. issued $270 million of unregistered senior notes.

During the first three months of 2019, Wells Fargo Bank, N.A. borrowed $6.3 billion from the Federal Home Loan Bank of Des Moines, and as of March 31, 2019, Wells Fargo Bank, N.A. had outstanding advances of $48.6 billion across the Federal Home Loan Bank System. In addition, in April 2019, Wells Fargo Bank, N.A. borrowed $250 million from the Federal Home Loan Bank of Des Moines. Federal Home Loan Bank advances are reflected as short-term borrowings or long-term debt on the Company's balance sheet.

Credit Ratings Investors in the long-term capital markets, as well as other market participants, generally will consider, among other factors, a company's debt rating in making investment decisions. Rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, the level and quality of earnings, and rating agency assumptions regarding the probability and extent of federal financial assistance or support for certain large financial institutions. Adverse changes in these factors could result in a reduction of our credit rating; however, our debt securities do not contain credit rating covenants.

There were no actions undertaken by the rating agencies with regard to our credit ratings during first quarter 2019. On April 1, 2019, S&P Global Ratings affirmed the credit ratings for both the Parent and Wells Fargo Bank, N.A., but revised the ratings outlook for the Parent to negative from stable. Both the Parent and Wells Fargo Bank, N.A. remain among the highest-rated financial firms in the U.S.

See the "Risk Factors" section in our 2018 Form 10-K for additional information regarding our credit ratings and the potential impact a credit rating downgrade would have on our liquidity and operations, as well as Note 15 (Derivatives) to Financial Statements in this Report for information regarding additional collateral and funding obligations required for certain derivative instruments in the event our credit ratings were to fall below investment grade.

The credit ratings of the Parent and Wells Fargo Bank, N.A. as of March 31, 2019, are presented in Table 35.

Table 35: Credit Ratings as of March 31, 2019

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

FEDERAL HOME LOAN BANK MEMBERSHIP The Federal Home Loan Banks (the FHLBs) are a group of cooperatives that lending institutions use to finance housing and economic development in local communities. We are a member of the FHLBs based in Dallas, Des Moines and San Francisco. Each member of the FHLBs is required to maintain a minimum investment in capital stock of the applicable FHLB. The board of directors of each FHLB can

increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of the Federal Housing Finance Agency. Because the extent of any obligation to increase our investment in any of the FHLBs depends entirely upon the occurrence of a future event, potential future payments to the FHLBs are not determinable.

LIBOR TRANSITION During the first three months of 2019, the Company did not issue any debt securities with an interest rate indexed to the new Secured Overnight Financing Rate (SOFR) published by the Federal Reserve Bank of New York. SOFR is an alternative to LIBOR and is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities. Due to the uncertainty surrounding the future of LIBOR, it is expected that a transition away from the widespread use of LIBOR to alternative benchmark rates will occur by the end of 2021. See the “Asset/Liability Management – Liquidity and Funding” section in our 2018 Form 10-K for additional information regarding our strategy to transition products and exposures away from LIBOR, and the “Risk Factors” section in our 2018 Form 10-K for additional information regarding the potential impact of a benchmark rate, such as LIBOR, or other referenced financial metric being significantly changed, replaced or discontinued.

Capital Management
We have an active program for managing capital through a comprehensive process for assessing the Company's overall capital adequacy. Our objective is to maintain capital at an amount commensurate with our risk profile and risk tolerance objectives, and to meet both regulatory and market expectations. We primarily fund our working capital needs through the retention of earnings net of both dividends and share repurchases, as well as through the issuance of preferred stock and long and short-term debt. Retained earnings increased $2.6 billion from December 31, 2018, predominantly from Wells Fargo net income of $5.9 billion, less common and preferred stock dividends of $2.4 billion. During first quarter 2019, we issued 28.1 million shares of common stock. During first quarter 2019, we repurchased 97.4 million shares of common stock at a cost of $4.8 billion. The amount of our repurchases are subject to various factors as discussed in the "Securities Repurchases" section below. For additional information about share repurchases, see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

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

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

- a minimum Common Equity Tier 1 (CET1) ratio of 9.0%, comprised of a 4.5% minimum requirement plus a capital conservation buffer of 2.5% and for us, as a global systemically important bank (G-SIB), a capital surcharge to be calculated annually, which is 2.0% based on our year-end 2017 data;
- a minimum tier 1 capital ratio of 10.5%, comprised of a 6.0% minimum requirement plus the capital conservation buffer of 2.5% and the G-SIB capital surcharge of 2.0%;
- a minimum total capital ratio of 12.5%, comprised of a 8.0% minimum requirement plus the capital conservation buffer of 2.5% and the G-SIB capital surcharge of 2.0%;
- a potential countercyclical buffer of up to 2.5% to be added to the minimum capital ratios, which is currently not in effect but could be imposed by regulators at their discretion if it is determined that a period of excessive credit growth is contributing to an increase in systemic risk;
- a minimum tier 1 leverage ratio of 4.0%; and
- a minimum supplementary leverage ratio (SLR) of 5.0% (comprised of a 3.0% minimum requirement plus a supplementary leverage buffer of 2.0%) for large and internationally active BHCs.

We were required to comply with the final Basel III capital rules beginning January 2014, with certain provisions subject to

phase-in periods. Beginning January 1, 2018, the requirements for calculating CET1 and tier 1 capital, along with risk-weighted assets (RWAs), became fully phased-in. However, the requirements for calculating tier 2 and total capital are still in accordance with Transition Requirements. The entire Basel III capital rules are scheduled to be fully phased in by the end of 2021. The Basel III capital rules contain two frameworks for calculating capital requirements, a Standardized Approach, which replaced Basel I, and an Advanced Approach applicable to certain institutions, including Wells Fargo. Accordingly, in the assessment of our capital adequacy, we must report the lower of our CET1, tier 1 and total capital ratios calculated under the Standardized Approach and under the Advanced Approach. On April 10, 2018, the FRB issued a proposed rule that would add a stress capital buffer and a stress leverage buffer to the minimum capital and tier 1 leverage ratio requirements. The buffers would be calculated based on the decrease in a financial institution's risk-based capital and tier 1 leverage ratios under the supervisory severely adverse scenario in the Comprehensive Capital Analysis and Review (CCAR), plus four quarters of planned common stock dividends. The stress capital buffer would replace the 2.5% capital conservation buffer under the Standardized Approach,

whereas the stress leverage buffer would be added to the current 4% minimum tier 1 leverage ratio.
Because the Company has been designated as a G-SIB, we are also subject to the FRB's rule implementing the additional capital surcharge of between 1.0-4.5% on G-SIBs. Under the rule, we must annually calculate our surcharge under two methods and use the higher of the two surcharges. The first method (method one) considers our size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity, consistent with the methodology developed by the BCBS and the Financial Stability Board (FSB). The second (method two) uses similar inputs, but replaces substitutability with use of short-term wholesale funding and will generally result in higher surcharges than the BCBS methodology. The G-SIB surcharge became fully effective on January 1, 2019. Based on year-end 2017 data, our 2019 G-SIB surcharge under method two is 2.0% of the Company's RWAs, which is the higher of method one and method two. Because the G-SIB surcharge is calculated annually based on data that can differ over time, the amount of the surcharge is subject to change in future years. Under the Standardized Approach, our CET1 ratio (fully phased-in) of 11.92% exceeded the minimum of 9.0% by 292 basis points at March 31, 2019.
The tables that follow provide information about our risk- based capital and related ratios as calculated under Basel III capital guidelines. For banking industry regulatory reporting purposes, we continue to report our tier 2 and total capital in accordance with Transition Requirements but are managing our capital based on a fully phased-in calculation. For information about our capital requirements calculated in accordance with Transition Requirements, see Note 23 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report.

Capital Management (continued)

Table 36 summarizes our CET1, tier 1 capital, total capital, risk-weighted assets and capital ratios on a fully phased-in basis at March 31, 2019 and December 31, 2018. As of March 31, 2019, our CET1, tier 1, and total capital ratios were lower using RWAs calculated under the Standardized Approach.

Table 36: Capital Components and Ratios (Fully Phased-In) (1)

		March 31, 2019			December 31, 2018		
(in millions, except ratios)		Advanced Approach	Standardized Approach		Advanced Approach	Standardized Approach	
Common Equity Tier 1	(A)	$148,124	148,124		146,363	146,363	
Tier 1 Capital	(B)	169,611	169,611		167,866	167,866	
Total Capital	(C)	199,331	207,522		198,103	206,346	
Risk-Weighted Assets	(D)	1,176,360	1,243,125		1,177,350	1,247,210	
Common Equity Tier 1 Capital Ratio	(A)/(D)	12.59 %	11.92	*	12.43	11.74	*
Tier 1 Capital Ratio	(B)/(D)	14.42	13.64	*	14.26	13.46	*
Total Capital Ratio	(C)/(D)	16.94	16.69	*	16.83	16.54	*

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

(1) Beginning January 1, 2018, the requirements for calculating CET1 and tier 1 capital, along with RWAs, became fully phased-in. However, the requirements for calculating tier 2 and total capital are still in accordance with Transition Requirements. Accordingly, fully phased-in total capital amounts and ratios are considered non-GAAP financial measures that are used by management, bank regulatory agencies, investors and analysts to assess and monitor the Company's capital position. See Table 37 for information regarding the calculation and components of CET1, tier 1 capital, total capital and RWAs, as well as the corresponding reconciliation of our fully phased-in regulatory capital amounts to GAAP financial measures.

Table 37 provides information regarding the calculation and composition of our risk-based capital under the Advanced and Standardized Approaches at March 31, 2019 and December 31, 2018.

Table 37: Risk-Based Capital Calculation and Components

(in millions)		March 31, 2019 Advanced Approach	March 31, 2019 Standardized Approach	December 31, 2018 Advanced Approach	December 31, 2018 Standardized Approach
Total equity		$198,733	198,733	197,066	197,066
Adjustments:					
Preferred stock		(23,214)	(23,214)	(23,214)	(23,214)
Additional paid-in capital on ESOP preferred stock		(95)	(95)	(95)	(95)
Unearned ESOP shares		1,502	1,502	1,502	1,502
Noncontrolling interests		(901)	(901)	(900)	(900)
Total common stockholders' equity		176,025	176,025	174,359	174,359
Adjustments:					
Goodwill		(26,420)	(26,420)	(26,418)	(26,418)
Certain identifiable intangible assets (other than MSRs)		(522)	(522)	(559)	(559)
Other assets (1)		(2,131)	(2,131)	(2,187)	(2,187)
Applicable deferred taxes (2)		771	771	785	785
Investment in certain subsidiaries and other		401	401	383	383
Common Equity Tier 1 (Fully Phased-In)		148,124	148,124	146,363	146,363
Common Equity Tier 1 (Fully Phased-In)		$148,124	148,124	146,363	146,363
Preferred stock		23,214	23,214	23,214	23,214
Additional paid-in capital on ESOP preferred stock		95	95	95	95
Unearned ESOP shares		(1,502)	(1,502)	(1,502)	(1,502)
Other		(320)	(320)	(304)	(304)
Total Tier 1 capital (Fully Phased-In)	(A)	169,611	169,611	167,866	167,866
Total Tier 1 capital (Fully Phased-In)		$169,611	169,611	167,866	167,866
Long-term debt and other instruments qualifying as Tier 2		27,283	27,283	27,946	27,946
Qualifying allowance for credit losses (3)		2,630	10,821	2,463	10,706
Other		(193)	(193)	(172)	(172)
Total Tier 2 capital (Fully Phased-In)	(B)	29,720	37,911	30,237	38,480
Effect of Transition Requirements		520	520	695	695
Total Tier 2 capital (Transition Requirements)		$30,240	38,431	30,932	39,175
Total qualifying capital (Fully Phased-In)	(A)+(B)	$199,331	207,522	198,103	206,346
Total Effect of Transition Requirements		520	520	695	695
		$199,851	208,042	198,798	207,041

Total qualifying capital (Transition Requirements)				
Risk-Weighted Assets (RWAs) (4)(5):				
Credit risk	$799,801	1,200,379	803,273	1,201,246
Market risk	42,746	42,746	45,964	45,964
Operational risk	333,813	N/A	328,113	N/A
Total RWAs (Fully Phased-In)	$1,176,360	1,243,125	1,177,350	1,247,210

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

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

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

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

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

Capital Management (continued)

Table 38 presents the changes in Common Equity Tier 1 under the Advanced Approach for the three months ended March 31, 2019.

Table 38: Analysis of Changes in Common Equity Tier 1

(in millions)	
Common Equity Tier 1 (Fully Phased-In) at December 31, 2018	$146,363
Net income applicable to common stock	5,507
Common stock dividends	(2,054)
Common stock issued, repurchased, and stock compensation-related items	(3,949)
Goodwill	(2)
Certain identifiable intangible assets (other than MSRs)	37
Other assets (1)	56
Applicable deferred taxes (2)	(14)
Investment in certain subsidiaries and other	2,180
Change in Common Equity Tier 1	1,761
Common Equity Tier 1 (Fully Phased-In) at March 31, 2019	$148,124

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

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

Table 39 presents net changes in the components of RWAs under the Advanced and Standardized Approaches for the three months ended March 31, 2019.

Table 39: Analysis of Changes in RWAs

(in millions)	Advanced Approach	Standardized Approach
RWAs (Fully Phased-In) at December 31, 2018	$1,177,350	1,247,210
Net change in credit risk RWAs	(3,472)	(867)
Net change in market risk RWAs	(3,218)	(3,218)
Net change in operational risk RWAs	5,700	—
Total change in RWAs	(990)	(4,085)
RWAs (Fully Phased-In) at March 31, 2019	$1,176,360	1,243,125

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

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

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

The methodology of determining tangible common equity may differ among companies. Management believes that tangible book value per common share and return on average tangible common equity, which utilize tangible common equity, are useful financial measures because they enable investors and others to assess the Company's use of equity. Table 40 provides a reconciliation of these non-GAAP financial measures to GAAP financial measures.

Table 40: Tangible Common Equity

		Balance at period end			Average balance		
		Quarter ended			Quarter ended		
(in millions, except ratios)		Mar 31, 2019	Dec 31, 2018	Mar 31, 2018	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018
Total equity		$198,733	197,066	205,910	198,349	198,442	206,180
Adjustments:							
Preferred stock		(23,214)	(23,214)	(26,227)	(23,214)	(23,463)	(26,157)
Additional paid-in capital on ESOP preferred stock		(95)	(95)	(146)	(95)	(105)	(153)
Unearned ESOP shares		1,502	1,502	2,571	1,502	1,761	2,508
Noncontrolling interests		(901)	(900)	(958)	(899)	(910)	(997)
Total common stockholders' equity	(A)	176,025	174,359	181,150	175,643	175,725	181,381
Adjustments:							
Goodwill		(26,420)	(26,418)	(26,445)	(26,420)	(26,423)	(26,516)
Certain identifiable intangible assets (other than MSRs)		(522)	(559)	(1,357)	(543)	(693)	(1,489)
Other assets (1)		(2,131)	(2,187)	(2,388)	(2,159)	(2,204)	(2,233)
Applicable deferred taxes (2)		771	785	918	784	800	933
Tangible common equity	(B)	$147,723	145,980	151,878	147,305	147,205	152,076
Common shares outstanding	(C)	4,511.9	4,581.3	4,873.9	N/A	N/A	N/A
Net income applicable to common stock (3)	(D)	N/A	N/A	N/A	$5,507	5,711	4,733
Book value per common share	(A)/(C)	$39.01	38.06	37.17	N/A	N/A	N/A
Tangible book value per common share	(B)/(C)	32.74	31.86	31.16	N/A	N/A	N/A
Return on average common stockholders' equity (ROE) (annualized)	(D)/(A)	N/A	N/A	N/A	12.71 %	12.89	10.58
Return on average tangible common equity (ROTCE) (annualized)	(D)/(B)	N/A	N/A	N/A	15.16	15.39	12.62

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

Capital Management (continued)

SUPPLEMENTARY LEVERAGE RATIO In April 2014, federal banking regulators finalized a rule that enhances the SLR requirements for BHCs, like Wells Fargo, and their insured depository institutions. The SLR consists of Tier 1 capital divided by the Company's total leverage exposure. Total leverage exposure consists of the total average on-balance sheet assets, plus off-balance sheet exposures, such as undrawn commitments and derivative exposures, less amounts permitted to be deducted from Tier 1 capital. The rule, which became effective on January 1, 2018, requires a covered BHC to maintain a SLR of at least 5.0% (comprised of the 3.0% minimum requirement plus a supplementary leverage buffer of 2.0%) to avoid restrictions on capital distributions and discretionary bonus payments. The rule also requires that all of our insured depository institutions maintain a SLR of 6.0% under applicable regulatory capital adequacy guidelines. In April 2018, the FRB and OCC proposed rules (the "Proposed SLR Rules") that would replace the 2% supplementary leverage buffer with a buffer equal to one-half of the firm's G-SIB capital surcharge. The Proposed SLR Rules would similarly tailor the current 6% SLR requirement for our insured depository institutions. At March 31, 2019, our SLR for the Company was 7.8% calculated under the Advanced Approach capital framework. Based on our review, our current leverage levels would exceed the applicable requirements for each of our insured depository institutions as well. See Table 41 for information regarding the calculation and components of the SLR.

Table 41: Supplementary Leverage Ratio

(in millions, except ratio)	Quarter ended March 31, 2019
Tier 1 capital	$169,611
Total average assets	1,883,091
Less: deductions from Tier 1 capital (1)	28,724
Total adjusted average assets	1,854,367
Adjustments:	
Derivative exposures (2)	68,724
Repo-style transactions (3)	4,819
Other off-balance sheet exposures (4)	252,704
Total adjustments	326,247
Total leverage exposure	$2,180,614
Supplementary leverage ratio	7.8 %

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

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

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

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

OTHER REGULATORY CAPITAL MATTERS In December 2016, the FRB finalized rules to address the amount of equity and unsecured long-term debt a U.S. G-SIB must hold to improve its resolvability and resiliency, often referred to as Total Loss Absorbing Capacity (TLAC). Under the rules, which became effective on January 1, 2019, U.S. G-SIBs are required to have a minimum TLAC amount (consisting of CET1 capital and additional tier 1 capital issued directly by the top-tier or covered BHC plus eligible external long-term debt) equal to the greater of (i) 18% of RWAs and (ii) 7.5% of total leverage exposure (the denominator of the SLR calculation). Additionally, U.S. G-SIBs are required to maintain (i) a TLAC buffer equal to 2.5% of RWAs

plus the firm's applicable G-SIB capital surcharge calculated under method one plus any applicable countercyclical buffer to be added to the 18% minimum and (ii) an external TLAC leverage buffer equal to 2.0% of total leverage exposure to be added to the 7.5% minimum, in order to avoid restrictions on capital distributions and discretionary bonus payments. The rules also require U.S. G-SIBs to have a minimum amount of eligible unsecured long-term debt equal to the greater of (i) 6.0% of RWAs plus the firm's applicable G-SIB capital surcharge calculated under method two and (ii) 4.5% of the total leverage exposure. In addition, the rules impose certain restrictions on the operations and liabilities of the top-tier or covered BHC in order to further facilitate an orderly resolution, including prohibitions on the issuance of short-term debt to external investors and on entering into derivatives and certain other types of financial contracts with external counterparties. While the rules permit permanent grandfathering of a significant portion of otherwise ineligible long-term debt that was issued prior to December 31, 2016, long-term debt issued after that date must be fully compliant with the eligibility requirements of the rules in order to count toward the minimum TLAC amount. As a result of the rules, we will need to issue additional long-term debt to remain compliant with the requirements. Under the Proposed SLR Rules, the 2% external TLAC leverage buffer would be replaced with a buffer equal to one-half of the firm's G-SIB capital surcharge. Additionally, the Proposed SLR Rules would modify the leverage component for calculating the minimum amount of eligible unsecured long-term debt from 4.5% of total leverage exposure to 2.5% of total leverage exposure plus one-half of the firm's G-SIB capital surcharge. As of March 31, 2019, our eligible external TLAC as a percentage of total risk-weighted assets was 23.85% compared with a required minimum of 22.0%. Similar to the risk-based capital requirements, we determine minimum required TLAC based on the greater of RWAs determined under the Standardized and Advanced approaches.
In addition, as discussed in the "Risk Management – Asset/ Liability Management – Liquidity and Funding – Liquidity Standards" section in this Report, federal banking regulators have issued a final rule regarding the U.S. implementation of the Basel III LCR and a proposed rule regarding the NSFR.

Capital Planning and Stress Testing
Our planned long-term capital structure is designed to meet regulatory and market expectations. We believe that our long-term targeted capital structure enables us to invest in and grow our business, satisfy our customers' financial needs in varying environments, access markets, and maintain flexibility to return capital to our shareholders. Our long-term targeted capital structure also considers capital levels sufficient to exceed capital requirements including the G-SIB surcharge. Accordingly, based on the final Basel III capital rules under the lower of the Standardized or Advanced Approaches CET1 capital ratios, we currently target a long-term CET1 capital ratio at or in excess of 10%, which includes a 2% G-SIB surcharge. Our capital targets are subject to change based on various factors, including changes to the regulatory capital framework and expectations for large banks promulgated by bank regulatory agencies, planned capital actions, changes in our risk profile and other factors. As discussed above in the "Capital Management – Regulatory Capital Guidelines – Risk-Based Capital and Risk-Weighted Assets" section of this Report, the FRB has proposed including a stress capital buffer to replace the current 2.5% capital conservation buffer. Under the proposal, it is expected that the adoption of CECL accounting would be included in the calculation of the stress capital buffer. We expect that

implementation of the stress capital buffer may increase the level and volatility of minimum capital ratio requirements, which may cause our current long-term CET1 capital ratio target of 10% to increase.

Under the FRB's capital plan rule, large BHCs are required to submit capital plans annually for review to determine if the FRB has any objections before making any capital distributions. The rule requires updates to capital plans in the event of material changes in a BHC's risk profile, including as a result of any significant acquisitions. The FRB assesses, among other things, the overall financial condition, risk profile, and capital adequacy of BHCs when evaluating capital plans.

Our 2019 capital plan, which was submitted on April 4, 2019, as part of CCAR, included a comprehensive capital outlook supported by an assessment of expected sources and uses of capital over a given planning horizon under a range of expected and stress scenarios. As part of the 2019 CCAR, the FRB also generated a supervisory stress test, which assumed a sharp decline in the economy and significant decline in asset pricing using the information provided by the Company to estimate performance. The FRB is expected to review the supervisory stress results both as required under the Dodd-Frank Act using a common set of capital actions for all large BHCs and by taking into account the Company's proposed capital actions. The FRB has indicated that it will publish its supervisory stress test results as required under the Dodd-Frank Act, and the related CCAR results taking into account the Company's proposed capital actions, by June 30, 2019.

Federal banking regulators require stress tests to evaluate whether an institution has sufficient capital to continue to operate during periods of adverse economic and financial conditions. These stress testing requirements set forth the timing and type of stress test activities large BHCs and banks must undertake as well as rules governing stress testing controls, oversight and disclosure requirements. The rules also limit a large BHC's ability to make capital distributions to the extent its actual capital issuances were less than amounts indicated in its capital plan. As required under the FRB's stress testing rule, we must submit a mid-cycle stress test based on second quarter data and scenarios developed by the Company. We submitted the results of the mid-cycle stress test to the FRB and disclosed a summary of the results in October 2018. In October 2018, the FRB proposed a rule that would, among other things, eliminate the mid-cycle stress test requirement for banks beginning in 2020.

Securities Repurchases

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

In January 2018, the Board authorized the repurchase of 350 million shares of our common stock. In October 2018, the Board authorized the repurchase of an additional 350 million shares of our common stock. At March 31, 2019, we had remaining authority to repurchase approximately 298 million shares, subject to regulatory and legal conditions. For more information about share repurchases during first quarter 2019, see Part II, Item 2 in this Report.

Historically, our policy has been to repurchase shares under the "safe harbor" conditions of Rule 10b-18 of the Securities Exchange Act of 1934 including a limitation on the daily volume of repurchases. Rule 10b-18 imposes an additional daily volume limitation on share repurchases during a pending merger or acquisition in which shares of our stock will constitute some or all of the consideration. Our management may determine that during a pending stock merger or acquisition when the safe harbor would otherwise be available, it is in our best interest to repurchase shares in excess of this additional daily volume limitation. In such cases, we intend to repurchase shares in compliance with the other conditions of the safe harbor, including the standing daily volume limitation that applies whether or not there

is a pending stock merger or acquisition.

Regulatory Matters
Since the enactment of the Dodd-Frank Act in 2010, the U.S. financial services industry has been subject to a significant increase in regulation and regulatory oversight initiatives. This increased regulation and oversight has substantially changed how most U.S. financial services companies conduct business and has increased their regulatory compliance costs.
For a discussion of certain consent orders applicable to the Company, see the “Overview” section in this Report. For a discussion of other significant regulations and regulatory oversight initiatives that have affected or may affect our business, see the “Regulatory Matters” and “Risk Factors” sections in our 2018 Form 10-K.

Critical Accounting Policies

Our significant accounting policies (see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2018 Form 10-K) are fundamental to understanding our results of operations and financial condition because they require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. Five of these policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. These policies govern:

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

Management and the Board's Audit and Examination Committee have reviewed and approved these critical accounting policies. These policies are described further in the "Financial Review – Critical Accounting Policies" section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2018 Form 10-K.

Current Accounting Developments

Table 42 provides the significant accounting updates applicable to us that have been issued by the FASB but are not yet effective.

Table 42: Current Accounting Developments – Issued Standards

Standard	Description	Effective date and financial statement impact
Accounting Standard Update (ASU or Update) 2018-12 – Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts	The Update requires all features in long-duration insurance contracts that meet the definition of a market risk benefit to be measured at fair value through earnings with changes in fair value attributable to own credit risk recognized in other comprehensive income. Currently, two measurement models exist for these features, fair value and insurance accrual. The Update requires the use of a standardized discount rate and routine updates for insurance assumptions used in valuing the liability for future policy benefits for traditional long-duration contracts. The Update also simplifies the amortization of deferred acquisition costs.	The guidance becomes effective on January 1, 2021. Certain of our variable annuity reinsurance products meet the definition of market risk benefits and will be measured at fair value as of the earliest period presented. The cumulative effect of changes in own credit risk will be recognized in the beginning balance of accumulated other comprehensive income. The cumulative effect of the difference between fair value and carrying value, excluding the effect of own credit, will be recognized in the opening balance of retained earnings. As of March 31, 2019, we held $993 million in insurance-related reserves of which $414 million was in scope of the Update. A total of $359 million was associated with products that meet the definition of market risk benefits, and of this amount, $17 million was measured at fair value under current accounting standards. The market risk benefits are largely indexed to U.S. equity and fixed income markets. Upon adoption, we may incur periodic earnings volatility from changes in the fair value of market risk benefits primarily due to the long duration of these contracts. We plan to economically hedge this volatility, where feasible. The ultimate impact of these changes will depend on the composition of our market risk benefits portfolio at the date of adoption. Changes to the liability for future policy benefits for traditional long-duration contracts and deferred acquisition costs will be applied to all outstanding long-duration contracts on the basis of their existing carrying amounts at the beginning of the earliest period presented, and are not expected to be material.

Current Accounting Developments (continued)

Standard	Description	Effective date and financial statement impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and subsequent related Updates	The Update changes the accounting for credit losses measurement on loans and debt securities. For loans and held-to-maturity debt securities, the Update requires a current expected credit loss (CECL) measurement to estimate the allowance for credit losses (ACL) for the remaining estimated life of the financial asset (including off-balance sheet credit exposures) using historical experience, current conditions, and reasonable and supportable forecasts. The Update eliminates the existing guidance for PCI loans, but requires an allowance for purchased financial assets with more than insignificant deterioration since origination. In addition, the Update modifies the other-than-temporary impairment model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.	We expect to adopt the guidance in first quarter 2020. Our implementation process includes loss forecasting model development, evaluation of technical accounting topics, updates to our allowance documentation, reporting processes and related internal controls, and overall operational readiness for our adoption of the Update, which will continue throughout 2019, including parallel runs for CECL alongside our current allowance process. We are in the process of developing, validating, and implementing models used to estimate credit losses under CECL. We have completed substantially all of our loss forecasting models, and we expect to complete the validation process for our loan models during 2019. Our current planned approach for estimating expected life-time credit losses for loans and debt securities includes the following key components: • An initial forecast period of one year for all portfolio segments and classes of financing receivables and off-balance-sheet credit exposures. This period reflects management's expectation of losses based on forward-looking economic scenarios over that time. • A historical loss forecast period covering the remaining contractual life, adjusted for prepayments, by portfolio segment and class of financing receivables based on the change in key historical economic variables during representative historical expansionary and recessionary periods. • A reversion period of up to 2 years connecting the initial loss forecast to the historical loss forecast based on economic conditions at the measurement date. • We will utilize discounted cash flow (DCF) methods to measure credit impairment for loans modified in a TDR, unless they are collateral dependent and measured at the fair value of collateral. The DCF methods would obtain estimated life-time credit losses using the conceptual components described above. • For available-for-sale debt securities and certain beneficial interests classified as held-to-maturity, we

plan to utilize the DCF methods to measure the ACL, which will incorporate expected credit losses using the conceptual components described above.

Based on our portfolio composition as of March 31, 2019, and the current economic environment, we currently estimate an overall decrease in our ACL for loans in the range of $0 to $1 billion. The reduction reflects an expected decrease for commercial loans, given their short contractual maturities, partially offset by an expected increase for longer duration consumer loans. This expected reduction to our ACL does not include the impact of recently issued FASB guidance to consider subsequent increases in fair value of collateral for collateral dependent loans. Application of this guidance is expected to result in a further reduction to our ACL of approximately $1.5 billion, substantially all of which relates to residential mortgage loans that were previously written down below current recovery value estimates. We will continue to evaluate and refine the results of our loss estimates throughout 2019.

We will recognize an ACL for held-to-maturity and available-for-sale debt securities. The ACL on available-for-sale debt securities will be subject to a limitation based on the fair value of the debt securities. Based on the credit quality of our existing debt securities portfolio, we do not expect the ACL for held-to-maturity and available-for-sale debt securities to be significant.

The ultimate effect of CECL on our ACL will depend on the size and composition of our portfolio, the portfolio's credit quality and economic conditions at the time of adoption, as well as any refinements to our models, methodology and other key assumptions. At adoption, we will have a cumulative-effect adjustment to retained earnings for our change in the ACL, which will impact our capital. A decrease in our ACL will result in an increase to our regulatory capital amounts and ratios. Federal banking regulatory agencies have provided relief for an initial capital decrease from the Update by allowing a phased adoption over four years, on a straight-line basis.

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

- ASU 2019-04 – Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. This Update includes guidance on recoveries of financial assets, which has been included in the discussion for ASU 2016-13, above.
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- ASU 2018-17 – Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities
- ASU 2018-15 – Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)
- ASU 2018-13 – Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. This Update has been partially adopted; however, the remainder of this Update will be adopted at the effective date of January 1, 2020.
- ASU 2017-04 – Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

Forward-Looking Statements

This document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make forward-looking statements in our other documents filed or furnished with the SEC, and our management may make forward-looking statements orally to analysts, investors, representatives of the media and others. Forward-looking statements can be identified by words such as "anticipates," "intends," "plans," "seeks," "believes," "estimates," "expects," "target," "projects," "outlook," "forecast," "will," "may," "could," "should," "can" and sim future periods. In particular, forward-looking statements include, but are not limited to, statements we make about: (i) the future operating or financial performance of the Company, including our outlook for future growth; (ii) our noninterest expense and efficiency ratio; (iii) future credit quality and performance, including our expectations regarding future loan losses and allowance levels; (iv) the appropriateness of the allowance for credit losses; (v) our expectations regarding net interest income and net interest margin; (vi) loan growth or the reduction or mitigation of risk in our loan portfolios; (vii) future capital or liquidity levels or targets and our estimated Common Equity Tier 1 ratio under Basel III capital standards; (viii) the performance of our mortgage business and any related exposures; (ix) the expected outcome and impact of legal, regulatory and legislative developments, as well as our expectations regarding compliance therewith; (x) future common stock dividends, common share repurchases and other uses of capital; (xi) our targeted range for return on assets, return on equity, and return on tangible common equity; (xii) the outcome of contingencies, such as legal proceedings; and (xiii) the Company's plans, objectives and strategies.
Forward-looking statements are not based on historical facts but instead represent our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you, therefore, against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. While there is no assurance that any list of risks and uncertainties or risk factors is complete, important factors that could cause actual results to differ materially from those in the forward-looking statements include the following, without limitation:

- current and future economic and market conditions, including the effects of declines in housing prices, high unemployment rates, U.S. fiscal debt, budget and tax matters, geopolitical matters, and any slowdown in global economic growth;
- our capital and liquidity requirements (including under regulatory capital standards, such as the Basel III capital standards) and our ability to generate capital internally or raise capital on favorable terms;
- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on our revenue and businesses, including the Dodd-Frank Act and other legislation and regulation relating to bank products and services;
- developments in our mortgage banking business, including the extent of the success of our mortgage loan modification

efforts, the amount of mortgage loan repurchase demands that we receive, any negative effects relating to our mortgage servicing, loan modification or foreclosure practices, and the effects of regulatory or judicial requirements or guidance impacting our mortgage banking business and any changes in industry standards;

- our ability to realize any efficiency ratio or expense target as part of our expense management initiatives, including as a result of business and economic cyclicality, seasonality, changes in our business composition and operating environment, growth in our businesses and/or acquisitions, and unexpected expenses relating to, among other things, litigation and regulatory matters;
- the effect of the current interest rate environment or changes in interest rates on our net interest income, net interest margin and our mortgage originations, mortgage servicing rights and mortgage loans held for sale;
- significant turbulence or a disruption in the capital or financial markets, which could result in, among other things, reduced investor demand for mortgage loans, a reduction in the availability of funding or increased funding costs, and declines in asset values and/or recognition of other-than-temporary impairment on securities held in our debt securities and equity securities portfolios;
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- the effect of a fall in stock market prices on our investment banking business and our fee income from our brokerage, asset and wealth management businesses;
- negative effects from the retail banking sales practices matter and from other instances where customers may have experienced financial harm, including on our legal, operational and compliance costs, our ability to engage in certain business activities or offer certain products or services, our ability to keep and attract customers, our ability to attract and retain qualified team members, and our reputation;
- resolution of regulatory matters, litigation, or other legal actions, which may result in, among other things, additional costs, fines, penalties, restrictions on our business activities, reputational harm, or other adverse consequences;
- a failure in or breach of our operational or security systems or infrastructure, or those of our third-party vendors or other service providers, including as a result of cyber attacks;
- the effect of changes in the level of checking or savings account deposits on our funding costs and net interest margin;
- fiscal and monetary policies of the Federal Reserve Board; and
- the other risk factors and uncertainties described under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018.

In addition to the above factors, we also caution that the amount and timing of any future common stock dividends or repurchases will depend on the earnings, cash requirements and financial condition of the Company, market conditions, capital requirements (including under Basel capital standards), common stock issuance requirements, applicable law and regulations (including federal securities laws and federal banking regulations), and other factors deemed relevant by the Company’s Board of Directors, and may be subject to regulatory approval or conditions.

Forward-Looking Statements (continued)

For more information about factors that could cause actual results to differ materially from our expectations, refer to our reports filed with the Securities and Exchange Commission, including the discussion under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the Securities and Exchange Commission and available on its website at www.sec.gov.
Any forward-looking statement made by us speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Forward-looking Non-GAAP Financial Measures. From time to time management may discuss forward-looking non-GAAP financial measures, such as forward-looking estimates or targets for return on average tangible common equity. We are unable to provide a reconciliation of forward-looking non-GAAP financial measures to their most directly comparable GAAP financial measures because we are unable to provide, without unreasonable effort, a meaningful or accurate calculation or estimation of amounts that would be necessary for the reconciliation due to the complexity and inherent difficulty in forecasting and quantifying future amounts or when they may occur. Such unavailable information could be significant to future results.

Risk Factors
An investment in the Company involves risk, including the possibility that the value of the investment could fall substantially and that dividends or other distributions on the investment could be reduced or eliminated. For a discussion of risk factors that could adversely affect our financial results and condition, and the value of, and return on, an investment in the Company, we refer you to the “Risk Factors” section in our 2018 Form 10-K.

Controls and Procedures

Disclosure Controls and Procedures

The Company's management evaluated the effectiveness, as of March 31, 2019, of the Company's disclosure controls and procedures. The Company's chief executive officer and chief financial officer participated in the evaluation. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2019.

Internal Control Over Financial Reporting

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. No change occurred during first quarter 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

	Quarter ended March 31,	
(in millions, except per share amounts)	2019	2018
Interest income		
Debt securities	$3,941	3,414
Mortgage loans held for sale	152	179
Loans held for sale	24	24
Loans	11,354	10,579
Equity securities	210	231
Other interest income	1,322	920
Total interest income	17,003	15,347
Interest expense		
Deposits	2,026	1,090
Short-term borrowings	596	311
Long-term debt	1,927	1,576
Other interest expense	143	132
Total interest expense	4,692	3,109
Net interest income	12,311	12,238
Provision for credit losses	845	191
Net interest income after provision for credit losses	11,466	12,047
Noninterest income		
Service charges on deposit accounts	1,094	1,173
Trust and investment fees	3,373	3,683
Card fees	944	908
Other fees	770	800
Mortgage banking	708	934
Insurance	96	114
Net gains from trading activities	357	243
Net gains on debt securities (1)	125	1
Net gains from equity securities(2)	814	783
Lease income	443	455
Other	574	602
Total noninterest income	9,298	9,696
Noninterest expense		
Salaries	4,425	4,363
Commission and incentive compensation	2,845	2,768
Employee benefits	1,938	1,598
Equipment	661	617
Net occupancy	717	713
Core deposit and other intangibles	28	265
FDIC and other deposit assessments	159	324
Other	3,143	4,394
Total noninterest expense	13,916	15,042
Income before income tax expense	6,848	6,701
Income tax expense	881	1,374
Net income before noncontrolling interests	5,967	5,327
Less: Net income from noncontrolling interests	107	191
Wells Fargo net income	$5,860	5,136

Less: Preferred stock dividends and other	353	403
Wells Fargo net income applicable to common stock	$5,507	4,733
Per share information		
Earnings per common share	$1.21	0.97
Diluted earnings per common share	1.20	0.96
Average common shares outstanding	4,551.5	4,885.7
Diluted average common shares outstanding	4,584.0	4,930.7

(1) Total other-than-temporary impairment (OTTI) losses were $45 million and $17 million for first quarter 2019 and 2018, respectively. Of total OTTI, losses of $45 million and $10 million were recognized in earnings, and losses of $0 million and $7 million were recognized as non-credit-related OTTI in other comprehensive income for first quarter 2019 and 2018, respectively.

(2) Includes OTTI losses of $36 million and $20 million for first quarter 2019 and 2018, respectively.

The accompanying notes are an integral part of these statements.

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

	Quarter ended March 31,	
(in millions)	2019	2018
Wells Fargo net income	$5,860	5,136
Other comprehensive income (loss), before tax:		
Debt securities:		
Net unrealized gains (losses) arising during the period	2,831	(3,443)
Reclassification of net (gains) losses to net income	(81)	68
Derivatives and hedging activities:		
Net unrealized losses arising during the period	(35)	(242)
Reclassification of net losses to net income	79	60
Defined benefit plans adjustments:		
Net actuarial and prior service gains (losses) arising during the period	(4)	6
Amortization of net actuarial loss, settlements and other to net income	35	32
Foreign currency translation adjustments:		
Net unrealized gains (losses) arising during the period	42	(2)
Other comprehensive income (loss), before tax	2,867	(3,521)
Income tax (expense) benefit related to other comprehensive income	(694)	862
Other comprehensive income (loss), net of tax	2,173	(2,659)
Less: Other comprehensive income from noncontrolling interests	—	—
Wells Fargo other comprehensive income (loss), net of tax	2,173	(2,659)
Wells Fargo comprehensive income	8,033	2,477
Comprehensive income from noncontrolling interests	107	191
Total comprehensive income	$8,140	2,668

The accompanying notes are an integral part of these statements.

Wells Fargo & Company and Subsidiaries
Consolidated Balance Sheet

(in millions, except shares)	Mar 31, 2019	Dec 31, 2018
Assets	(Unaudited)	
Cash and due from banks	$20,650	23,551
Interest-earning deposits with banks	128,318	149,736
Total cash, cash equivalents, and restricted cash	148,968	173,287
Federal funds sold and securities purchased under resale agreements	98,621	80,207
Debt securities:		
Trading, at fair value	70,378	69,989
Available-for-sale, at fair value	268,099	269,912
Held-to-maturity, at cost (fair value $144,699 and $142,115)	144,990	144,788
Mortgage loans held for sale (includes $11,091 and $11,771 carried at fair value) (1)	15,016	15,126
Loans held for sale (includes $998 and $1,469 carried at fair value) (1)	1,018	2,041
Loans (includes $225 and $244 carried at fair value) (1)	948,249	953,110
Allowance for loan losses	(9,900)	(9,775)
Net loans	938,349	943,335
Mortgage servicing rights:		
Measured at fair value	13,336	14,649
Amortized	1,427	1,443
Premises and equipment, net	8,825	8,920
Goodwill	26,420	26,418
Derivative assets	11,238	10,770
Equity securities (includes $32,586 and $29,556 carried at fair value) (1)	58,440	55,148
Other assets	82,667	79,850
Total assets (2)	$1,887,792	1,895,883
Liabilities		
Noninterest-bearing deposits	$341,399	349,534
Interest-bearing deposits	922,614	936,636
Total deposits	1,264,013	1,286,170
Short-term borrowings	106,597	105,787
Derivative liabilities	7,393	8,499
Accrued expenses and other liabilities	74,717	69,317
Long-term debt	236,339	229,044
Total liabilities (3)	1,689,059	1,698,817
Equity		
Wells Fargo stockholders’ equity:		
Preferred stock	23,214	23,214
Common stock – $1-2/3 par value, authorized 9,000,000,000 shares; issued 5,481,811,474 shares	9,136	9,136
Additional paid-in capital	60,409	60,685
Retained earnings	160,776	158,163
Cumulative other comprehensive income (loss)	(3,682)	(6,336)
Treasury stock – 969,863,644 shares and 900,557,866 shares	(50,519)	(47,194)
Unearned ESOP shares	(1,502)	(1,502)
Total Wells Fargo stockholders’ equity	197,832	196,166
Noncontrolling interests	901	900
Total equity	198,733	197,066
Total liabilities and equity	$1,887,792	1,895,883

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

(2) Our consolidated assets at March 31, 2019, and December 31, 2018, include the following assets of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs: Cash and due from banks, $16 million and $139 million; Interest-earning deposits with banks, $8 million and $8 million; Debt securities, $55 million and $45 million; Net loans, $14.4 billion and $13.6 billion; Equity securities, $112 million and $85 million; Other assets, $252 million and $221 million; and Total assets, $14.8 billion and $14.1 billion, respectively.

(3) Our consolidated liabilities at March 31, 2019, and December 31, 2018, include the following VIE liabilities for which the VIE creditors do not have recourse to Wells Fargo: Accrued expenses and other liabilities, $205 million and $191 million; Long-term debt, $775 million and $816 million; and Total liabilities, $980 million and $1.0 billion, respectively.

The accompanying notes are an integral part of these statements.

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

	Preferred stock		Common stock	
(in millions, except shares)	Shares	Amount	Shares	Amount
Balance December 31, 2018	9,377,216	$23,214	4,581,253,608	$9,136
Cumulative effect from change in accounting policies (1)				
Balance January 1, 2019	9,377,216	$23,214	4,581,253,608	$9,136
Net income				
Other comprehensive income (loss), net of tax				
Noncontrolling interests				
Common stock issued			28,057,901	
Common stock repurchased			(97,363,710)	
Preferred stock issued to ESOP	—	—		
Preferred stock released by ESOP				
Preferred stock converted to common shares	(5)	—	31	
Common stock warrants repurchased/exercised				
Preferred stock issued	—	—		
Common stock dividends				
Preferred stock dividends				
Stock incentive compensation expense				
Net change in deferred compensation and related plans				
Net change	(5)	—	(69,305,778)	Balance—
Balance March 31, 2019	9,377,211	$23,214	4,511,947,830	$9,136
Balance December 31, 2017	11,677,235	$25,358	4,891,616,628	$9,136
Cumulative effect from change in accounting policies (2)				
Balance January 1, 2018	11,677,235	$25,358	4,891,616,628	$9,136
Net income				
Other comprehensive income (loss), net of tax				
Noncontrolling interests				
Common stock issued			28,425,759	
Common stock repurchased			(50,567,457)	
Preferred stock issued to ESOP	1,100,000	1,100		
Preferred stock released by ESOP				
Preferred stock converted to common shares	(231,000)	(231)	4,407,551	
Common stock warrants repurchased/exercised				
Preferred stock issued	—	—		
Common stock dividends				
Preferred stock dividends				
Stock incentive compensation expense				
Net change in deferred compensation and related plans				
Net change	869,000	869	(17,734,147)	—
Balance March 31, 2018	12,546,235	$26,227	4,873,882,481	$9,136

(1) Effective January 1, 2019, we adopted ASU 2016-02 – Leases (Topic 842) and subsequent related Updates, ASU 2017-08 – Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. See Note 1 (Summary of Significant Accounting Policies) for more information.

(2) Effective January 1, 2018, we adopted ASU 2016-04 – Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products, ASU 2016-01 – Financial Instruments – Overall

(Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, and ASU 2014-09 – Revenue from Contracts With Customers (Topic 606) and subsequent related Updates. See Note 1 (Summary of Significant Accounting Policies) in this Report for more information.

						Quarter ended March 31,	
Wells Fargo stockholders' equity							
Additional paid-in capital	Retained earnings	Cumulative other comprehensive income	Treasury stock	Unearned ESOP shares	Total Wells Fargo stockholders' equity	Noncontrolling interests	Total equity
60,685	158,163	(6,336)	(47,194)	(1,502)	196,166	900	197,066
	(492)	481			(11)		(11)
60,685	157,671	(5,855)	(47,194)	(1,502)	196,155	900	197,055
	5,860				5,860	107	5,967
		2,173			2,173	—	2,173
—					—	(106)	(106)
—	(329)		1,468		1,139		1,139
—			(4,820)		(4,820)		(4,820)
—				—	—		—
—				—	—		—
—			—		—		—
—					—		—
—					—		—
19	(2,073)				(2,054)		(2,054)
	(353)				(353)		(353)
544					544		544
(839)			27		(812)		(812)
(276)	3,105	2,173	(3,325)	—	1,677	1	1,678
60,409	160,776	(3,682)	(50,519)	(1,502)	197,832	901	198,733
60,893	145,263	(2,144)	(29,892)	(1,678)	206,936	1,143	208,079
	94	(118)			(24)		(24)
60,893	145,357	(2,262)	(29,892)	(1,678)	206,912	1,143	208,055
	5,136				5,136	191	5,327
		(2,659)			(2,659)	—	(2,659)
7					7	(376)	(369)
25	(231)		1,414		1,208		1,208
—			(3,029)		(3,029)		(3,029)
43				(1,143)	—		—
(19)				250	231		231
5			226		—		—
(157)					(157)		(157)
—					—		—
13	(1,924)				(1,911)		(1,911)
	(410)				(410)		(410)
437					437		437
(848)			35		(813)		(813)
(494)	2,571	(2,659)	(1,354)	(893)	(1,960)	(185)	(2,145)
60,399	147,928	(4,921)	(31,246)	(2,571)	204,952	958	205,910

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

	Quarter ended March 31,	
(in millions)	2019	2018
Cash flows from operating activities:		
Net income before noncontrolling interests	$5,967	5,327
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	845	191
Changes in fair value of MSRs, MLHFS and LHFS carried at fair value	1,144	(788)
Depreciation, amortization and accretion	1,449	1,431
Other net (gains)	(1,418)	(2,309)
Stock-based compensation	902	792
Originations and purchases of mortgage loans held for sale	(25,098)	(38,460)
Proceeds from sales of and paydowns on mortgage loans held for sale	17,148	31,236
Net change in:		
Debt and equity securities, held for trading	6,969	10,861
Loans held for sale	728	(602)
Deferred income taxes	312	484
Derivative assets and liabilities	(1,586)	(20)
Other assets	1,130	3,331
Other accrued expenses and liabilities	(541)	3,756
Net cash provided by operating activities	7,951	15,230
Cash flows from investing activities:		
Net change in:		
Federal funds sold and securities purchased under resale agreements	(18,414)	4,566
Available-for-sale debt securities:		
Proceeds from sales	1,680	3,458
Prepayments and maturities	6,001	6,909
Purchases	(4,937)	(14,179)
Held-to-maturity debt securities:		
Paydowns and maturities	2,123	2,304
Equity securities, not held for trading:		
Proceeds from sales and capital returns	1,180	1,920
Purchases	(1,352)	(1,234)
Loans:		
Loans originated by banking subsidiaries, net of principal collected	669	1,238
Proceeds from sales (including participations) of loans held for investment	3,410	3,803
Purchases (including participations) of loans	(331)	(268)
Principal collected on nonbank entities' loans	899	2,210
Loans originated by nonbank entities	(1,318)	(1,655)
Proceeds from sales of foreclosed assets and short sales	707	935
Other, net	657	154
Net cash provided (used) by investing activities	(9,026)	10,161
Cash flows from financing activities:		
Net change in:		
Deposits	(22,161)	(32,276)
Short-term borrowings	810	(5,165)
Long-term debt:		

Proceeds from issuance	17,338	15,517
Repayment	(11,898)	(11,625)
Preferred stock:		
Cash dividends paid	(294)	(418)
Common stock:		
Proceeds from issuance	181	382
Stock tendered for payment of withholding taxes	(264)	(307)
Repurchased	(4,820)	(3,029)
Cash dividends paid	(1,997)	(1,867)
Net change in noncontrolling interests	(83)	(113)
Other, net	(56)	(42)
Net cash used by financing activities	(23,244)	(38,943)
Net change in cash, cash equivalents, and restricted cash	(24,319)	(13,552)
Cash, cash equivalents, and restricted cash at beginning of period	173,287	215,947
Cash, cash equivalents, and restricted cash at end of period	$148,968	202,395
Supplemental cash flow disclosures:		
Cash paid for interest	$4,401	3,002
Cash paid for income taxes	126	158

The accompanying notes are an integral part of these statements. See Note 1 (Summary of Significant Accounting Policies) for noncash activities.

Note 1: Summary of Significant Accounting Policies (continued)

See the Glossary of Acronyms at the end of this Report for terms used throughout the Financial Statements and related Notes.

Note 1: Summary of Significant Accounting Policies

Wells Fargo & Company is a diversified financial services company. We provide banking, trust and investments, mortgage banking, investment banking, retail banking, brokerage, and consumer and commercial finance through banking locations, the internet and other distribution channels to consumers, businesses and institutions in all 50 states, the District of Columbia, and in foreign countries. When we refer to “Wells Fargo,” “the Company,” “we,” “our” or “us, we mean Wells Fargo & Company and Subsidiaries (consolidated). Wells Fargo & Company (the Parent) is a financial holding company and a bank holding company. We also hold a majority interest in a real estate investment trust, which has publicly traded preferred stock outstanding.

Our accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. For discussion of our significant accounting policies, see Note 1 (Summary of Significant Accounting Policies) in our Annual Report on Form 10-K for the year ended December 31, 2018 (2018 Form 10-K). To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period and the related disclosures. Although our estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that actual conditions could be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Management has made significant estimates in several areas, including:

- allowance for credit losses (Note 6 (Loans and Allowance for Credit Losses));
- valuations of residential mortgage servicing rights (MSRs) (Note 10 (Securitizations and Variable Interest Entities) and Note 11 (Mortgage Banking Activities));
- valuations of financial instruments (Note 15 (Derivatives) and Note 16 (Fair Values of Assets and Liabilities));
- liabilities for contingent litigation losses (Note 14 (Legal Actions)); and
- income taxes.

Actual results could differ from those estimates.

These unaudited interim financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The results of operations in the interim financial statements do not necessarily indicate the results that may be expected for the full year. The interim financial information should be read in conjunction with our 2018 Form 10-K.

Accounting Standards Adopted in 2019

In first quarter 2019, we adopted the following new accounting guidance:

- Accounting Standards Update (ASU or Update) 2018-16 – Derivatives and Hedging (Topic 815): Inclusion of the

Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes

- ASU 2017-08 – Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities
- ASU 2016-02 – Leases (Topic 842) and subsequent related Updates, including early adoption of ASU 2019-01 – Leases (Topic 842): Codification Improvements

ASU 2018-16 expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting. The Update adds the OIS rate based on SOFR as a U.S. benchmark interest rate to facilitate the LIBOR to SOFR transition and provide sufficient lead time for entities to prepare for changes to interest rate risk hedging strategies for both risk

management and hedge accounting purposes. The Update is applied prospectively for qualifying new or re-designated hedging relationships entered into on or after adoption date.
We adopted the guidance in first quarter 2019. The adoption did not have an impact as we did not designate SOFR OIS as a benchmark interest rate in any hedging relationships.

ASU 2017-08 changes the interest income recognition model for purchased callable debt securities carried at a premium, as the premium will be amortized to the earliest call date rather than to the contractual maturity date. Accounting for purchased callable debt securities held at a discount does not change, as the discount will continue to accrete to the contractual maturity date. The Update impacted our investments in purchased callable debt securities classified as available-for-sale (AFS) and held-to-maturity (HTM), which primarily consist of debt securities of U.S. states and political subdivisions.
We adopted the Update in first quarter 2019 and recorded a cumulative-effect adjustment as of January 1, 2019, that decreased total stockholders' equity by $111 million. Retained earnings was reduced by $592 million which reflects both the incremental premium amortization under the new guidance from the acquisition date of our impacted AFS and HTM debt securities through the date of adoption and the fact that the incremental premium amortization is not deductible for federal income tax purposes. Other comprehensive income (OCI) was increased by $481 million which reflects the corresponding adjustment to the adoption date unrealized gain or loss of impacted AFS debt securities. Going forward, interest income recognized prior to the call date will be reduced because the premium will be amortized over a shorter period.

ASU 2016-02 modifies the guidance used by lessors and lessees to account for leasing transactions. For our transition to the new guidance, we elected several available practical expedients, including to not reassess the classification of our existing leases, any initial direct costs associated with our leases, or whether any existing contracts are or contain leases. In addition, we elected not to provide a comparative presentation for 2018 and 2017 financial statements.
We adopted the Update in first quarter 2019 and recorded a cumulative-effect adjustment that increased retained earnings by $100 million related to deferred gains on our prior sale-leaseback transactions. We also recognized operating lease right-of-use

(ROU) assets and liabilities, substantially all of which relate to our leasing of real estate as a lessee, of $4.9 billion and $5.6 billion, respectively.

Leasing Activity
AS LESSOR We lease equipment to our customers under financing or operating leases.
Financing leases are presented in loans and are recorded at the discounted amounts of lease payments receivable plus the estimated residual value of the leased asset. Leveraged leases, which are a form of financing leases, are reduced by related non-recourse debt from third-party investors. Lease payments receivable reflect contractual lease payments adjusted for renewal or termination options that we believe the customer is reasonably certain to exercise. The residual value reflects our best estimate of the expected sales price for the equipment at lease termination based on sales history adjusted for recent trends in the expected exit markets. Many of our leases allow the customer to extend the lease at prevailing market terms or purchase the asset for fair value at lease termination.
Our allowance for loan losses for financing leases considers both the collectability of the lease payments receivable as well as the estimated residual value of the leased asset. We typically purchase residual value insurance on our financing leases so that our risk of loss at lease termination will be less than 10% of the initial value of the lease. Our risk to declines in residual values is further mitigated by the diversity of leased assets in our lease portfolio. In addition, we have several channels for re-leasing or marketing those assets.
In connection with a lease, we may finance the customer's purchase of other products or services from the equipment vendor and allocate the contract consideration between the use of the asset and the purchase of those products or services based on information obtained from the vendor. Amounts allocated to financing of vendor products or services are reported in loans as commercial and industrial loans, rather than as lease financing.
Our primary income from financing leases is interest income recognized using the effective interest method. Variable lease revenues, such as reimbursement for property taxes associated with the leased asset, are included in lease income within noninterest income.
Operating lease assets are presented in other assets, net of accumulated depreciation. Periodic depreciation expense is recorded on a straight-line basis to the estimated residual value over the estimated useful life of the leased asset. On a periodic basis, operating lease assets are reviewed for impairment and impairment loss is recognized if the carrying amount of operating lease assets exceeds fair value and is not recoverable. The carrying amount of leased assets is deemed not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the lease payments and the estimated residual value upon the eventual disposition of the equipment. Depreciation of leased assets and impairment loss are presented in operating leases expense within other noninterest expense.

Operating lease rental income for leased assets is recognized in lease income within noninterest income on a straight-line basis over the lease term. For leases of railcars, revenue for maintenance services provided under the lease is recognized in lease income.
We elected to exclude from revenues and expenses any sales tax incurred on lease payments which are reimbursed by the lessee. Substantially all of our leased assets are protected against casualty loss through third party insurance.

AS LESSEE We enter into lease agreements to obtain the right to use assets for our business operations, substantially all of which are real estate. Lease liabilities and ROU assets are recognized when we enter into operating or financing leases and represent our obligations and rights to use these assets over the period of the leases and may be re-measured for certain modifications, resolution of certain contingencies involving variable consideration, or our exercise of options (renewal, extension, or termination) under the lease.
Operating lease liabilities include fixed and in-substance fixed payments for the contractual duration of the lease, adjusted for renewals or terminations which were deemed probable of exercise when measured. The lease payments are discounted using a rate determined when the lease is recognized. As we typically do not know the discount rate implicit in the lease, we estimate a discount rate that we believe approximates a collateralized borrowing rate for the estimated duration of the lease. The discount rate is updated when re-measurement events occur. The related operating lease ROU assets may differ from operating lease liabilities due to initial direct costs, deferred or prepaid lease payments and lease incentives.

We present operating lease liabilities in accrued expenses and other liabilities and the related operating lease ROU assets in other assets. The amortization of operating lease ROU assets and the accretion of operating lease liabilities are reported together as fixed lease expense and are included in net occupancy expense within noninterest expense. The fixed lease expense is recognized on a straight-line basis over the life of the lease.

Some of our operating leases include variable lease payments which are periodic adjustments of our payments for the use of the asset based on changes in factors such as consumer price indices, fair market value, tax rates imposed by taxing authorities, or lessor cost of insurance. To the extent not included in operating lease liabilities and operating lease ROU assets, these variable lease payments are recognized as incurred in net occupancy expense within noninterest expense.

We account for amounts paid for maintenance or other services as lease payments. In addition, for certain asset classes, we have elected to exclude leases with original terms of less than one year from the operating lease ROU assets and lease liabilities. The related short-term lease expense is included in net occupancy expense.

Finance lease (formerly capital lease) liabilities are presented in long-term debt and the associated finance ROU assets are presented in premises and equipment.

Note 1: Summary of Significant Accounting Policies (continued)

Share Repurchases

From time to time we may enter into private forward repurchase contracts, written repurchase plans pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934, or a combination of the two to complement our open-market common stock repurchase strategies. The stock repurchase transactions allow us to manage our share repurchases in a manner consistent with our capital plans submitted annually under the Comprehensive Capital Analysis and Review (CCAR) and to provide an economic benefit to the Company.

Our payments to the counterparties for the private forward repurchase contracts are recorded in permanent equity in the quarter paid and are not subject to re-measurement. The classification of the up-front payments as permanent equity assures that we have appropriate repurchase timing consistent with our capital plans, which contemplate a fixed dollar amount available per quarter for share repurchases pursuant to the Board of Governors of the Federal Reserve System (FRB) supervisory

guidance. In return, the counterparty agrees to deliver a variable number of shares based on a per share discount to the volume-weighted average stock price over the contract period. There are no scenarios where the contracts would not either physically settle in shares or allow us to choose the settlement method. Our total number of outstanding shares of common stock is not reduced until settlement of the private share repurchase contract.

We did not enter into any private forward repurchase contracts in first quarter 2019 and we had no unsettled private share repurchase contracts at March 31, 2019.

Under a Rule 10b5-1 repurchase plan, payments and receipt of repurchased shares settle on the same day and the shares repurchased reduce the total number of outstanding shares of common stock upon the settlement of each trade under the plan.

Supplemental Cash Flow Information

Significant noncash activities are presented in Table 1.1.

Table 1.1: Supplemental Cash Flow Information

	Quarter ended March 31,	
(in millions)	2019	2018
Trading debt securities retained from securitization of MLHFS	$8,875	8,776
Transfers from loans to MLHFS	1,292	1,297
Transfers from loans to LHFS	3	1,973
Transfers from available-for-sale debt securities to held-to-maturity debt securities	2,407	4,451
Operating lease ROU assets acquired with operating lease liabilities (1)	5,127	—

(1) First quarter 2019 includes $4.9 billion from adoption of ASU 2016-02 – Leases (Topic 842) and $227 million attributable to new leases and changes from modified leases.

Subsequent Events

We have evaluated the effects of events that have occurred subsequent to March 31, 2019, and, except as disclosed elsewhere in the footnotes, there have been no material events that would

require recognition in our first quarter 2019 consolidated financial statements or disclosure in the Notes to the consolidated financial statements.

Note 2: Business Combinations

We regularly explore opportunities to acquire financial services companies and businesses. Generally, we do not make a public announcement about an acquisition opportunity until a definitive agreement has been signed.

We completed no acquisitions during first quarter 2019 and had no business combinations pending as of March 31, 2019.

Note 3: Cash, Loan and Dividend Restrictions

Cash and cash equivalents may be restricted as to usage or withdrawal. FRB regulations require that each of our subsidiary banks maintain reserve balances on deposit with the Federal Reserve Banks. Table 3.1 provides a summary of restrictions on cash equivalents in addition to the FRB reserve cash balance requirements.

Table 3.1: Nature of Restrictions on Cash Equivalents

(in millions)	Mar 31, 2019	Dec 31, 2018
Average required reserve balance for FRB (1)	$ 11,164	12,428
Reserve balance for non-U.S. central banks	746	517
Segregated for benefit of brokerage customers under federal and other brokerage regulations	913	1,135
Related to consolidated variable interest entities (VIEs) that can only be used to settle liabilities of VIEs	24	147

(1) FRB required reserve balance represents average for first quarter 2019 and for the year ended December 31, 2018.

We have a state-chartered subsidiary bank that is subject to state regulations that limit dividends. Under these provisions and regulatory limitations, our national and state-chartered subsidiary banks could have declared additional dividends of $7.3 billion at March 31, 2019, without obtaining prior regulatory approval. Our nonbank subsidiaries are also limited by certain federal and state statutory provisions and regulations covering the amount of dividends that may be paid in any given year. In addition, under a Support Agreement dated June 28, 2017, among Wells Fargo & Company, the parent holding company (the “Parent”), WFC Holdings, LLC, an intermediate holding company and subsidiary of the Parent (the “IHC”), and Wells Fargo Bank, N.A., Wells Fargo Securities, LLC, and Wells Fargo Clearing Services, LLC, each an indirect subsidiary of the Parent, the IHC may be restricted from making dividend payments to the Parent if certain liquidity and/or capital metrics fall below defined triggers. Based on retained earnings at March 31, 2019, our nonbank subsidiaries could have declared additional dividends of $24.9 billion at March 31, 2019, without obtaining prior regulatory approval. For additional information see Note 3 (Cash, Loan and Dividend Restrictions) in our 2018 Form 10-K.

The FRB’s Capital Plan Rule (codified at 12 CFR 225.8 of Regulation Y) establishes capital planning and prior notice and approval requirements for capital distributions including dividends by certain large bank holding companies. The FRB has also published guidance regarding its supervisory expectations for capital planning, including capital policies regarding the process relating to common stock dividend and repurchase decisions in the FRB’s SR Letter 15-18. The effect of this guidance is to require the approval of the FRB (or specifically under the Capital Plan Rule, a notice of non-objection) for the Company to repurchase or redeem common or perpetual preferred stock as well as to raise the per share quarterly dividend from its current level of $0.45 per share as declared by the Company’s Board of Directors on April 23, 2019, payable on June 1, 2019.

Note 4: Trading Activities

Table 4.1 presents a summary of our trading assets and liabilities measured at fair value through earnings.

Table 4.1: Trading Assets and Liabilities

(in millions)	Mar 31, 2019	Dec 31, 2018
Trading assets:		
Debt securities	$70,378	69,989
Equity securities	20,933	19,449
Loans held for sale	998	1,469
Gross trading derivative assets	30,002	29,216
Netting (1)	(20,809)	(19,807)
Total trading derivative assets	9,193	9,409
Total trading assets	101,502	100,316
Trading liabilities:		
Short sale	21,586	19,720
Gross trading derivative liabilities	28,994	28,717
Netting (1)	(22,810)	(21,178)
Total trading derivative liabilities	6,184	7,539
Total trading liabilities	$27,770	27,259

(1) Represents balance sheet netting for trading derivative asset and liability balances, and trading portfolio level counterparty valuation adjustments.

Table 4.2 provides a summary of the net interest income earned from trading securities, and net gains and losses due to the realized and unrealized gains and losses from trading activities.

Table 4.2: Net Interest Income and Net Gains (Losses) on Trading Activities

(in millions)	Quarter ended March 31, 2019	2018
Interest income (1):		
Debt securities	$793	631
Equity securities	115	141
Loans held for sale	23	8
Total interest income	931	780
Less: Interest expense (2)	136	128
Net interest income	795	652
Net gains (losses) from trading activities:		
Debt securities	688	(499)
Equity securities	2,067	(469)
Loans held for sale	14	8
Derivatives (3)	(2,412)	1,203
Total net gains from trading activities (4)	357	243
Total trading-related net interest and noninterest income	$1,152	895

(1) Represents interest and dividend income earned on trading securities.

(2) Represents interest and dividend expense incurred on trading securities we have sold but have not yet purchased.

(3) Excludes economic hedging of mortgage banking and asset/liability management activities, for which hedge results (realized and unrealized) are reported with the respective hedged activities.

(4)

Represents realized gains (losses) from our trading activities and unrealized gains (losses) due to changes in fair value of our trading positions, attributable to the type of asset or liability.

Note 5: Available-for-Sale and Held-to-Maturity Debt Securities
Table 5.1 provides the amortized cost and fair value by major categories of available-for-sale debt securities, which are carried at fair value, and held-to-maturity debt securities, which are carried at amortized cost. The net unrealized gains (losses) for

available-for-sale debt securities are reported on an after-tax basis as a component of cumulative OCI. Information on debt securities held for trading is included in Note 4 (Trading Activities) to Financial Statements in this Report.
Table 5.1: Amortized Cost and Fair Value

(in millions)	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
March 31, 2019				
Available-for-sale debt securities:				
Securities of U.S. Treasury and federal agencies	$ 15,168	4	(66)	15,106
Securities of U.S. states and political subdivisions (1)	48,566	1,194	(60)	49,700
Mortgage-backed securities:				
Federal agencies	151,182	749	(1,268)	150,663
Residential	1,432	24	—	1,456
Commercial	4,332	50	(10)	4,372
Total mortgage-backed securities	156,946	823	(1,278)	156,491
Corporate debt securities	6,188	204	(38)	6,354
Collateralized loan and other debt obligations (2)	35,304	169	(158)	35,315
Other (3)	5,074	73	(14)	5,133
Total available-for-sale debt securities	267,246	2,467	(1,614)	268,099
Held-to-maturity debt securities:				
Securities of U.S. Treasury and federal agencies	44,758	85	(150)	44,693
Securities of U.S. states and political subdivisions	6,163	102	(15)	6,250
Federal agency and other mortgage-backed securities (4)	94,009	419	(732)	93,696
Collateralized loan obligations	60	—	—	60
Total held-to-maturity debt securities	144,990	606	(897)	144,699
Total	$ 412,236	3,073	(2,511)	412,798
December 31, 2018				
Available-for-sale debt securities:				
Securities of U.S. Treasury and federal agencies	$ 13,451	3	(106)	13,348
Securities of U.S. states and political subdivisions (1)	48,994	716	(446)	49,264
Mortgage-backed securities:				
Federal agencies	155,974	369	(3,140)	153,203
Residential	2,638	142	(5)	2,775
Commercial	4,207	40	(22)	4,225
Total mortgage-backed securities	162,819	551	(3,167)	160,203
Corporate debt securities	6,230	131	(90)	6,271
Collateralized loan and other debt obligations (2)	35,581	158	(396)	35,343
Other (3)	5,396	100	(13)	5,483
Total available-for-sale debt securities	272,471	1,659	(4,218)	269,912
Held-to-maturity debt securities:				
Securities of U.S. Treasury and federal agencies	44,751	4	(415)	44,340
Securities of U.S. states and political subdivisions	6,286	30	(116)	6,200
Federal agency and other mortgage-backed securities (4)	93,685	112	(2,288)	91,509
Collateralized loan obligations	66	—	—	66
Total held-to-maturity debt securities	144,788	146	(2,819)	142,115

Total	$ 417,259	1,805	(7,037)	412,027

(1) Includes investments in tax-exempt preferred debt securities issued by investment funds or trusts that predominantly invest in tax-exempt municipal securities. The cost basis and fair value of these types of securities was $5.6 billion each at March 31, 2019, and $6.3 billion each at December 31, 2018.

(2) Includes collateralized debt obligations (CDOs) with a cost basis and fair value of $621 million and $755 million, respectively, at March 31, 2019, and $662 million and $800 million, respectively, at December 31, 2018.

(3) Primarily includes asset-backed securities collateralized by student loans.

(4) Predominantly consists of federal agency mortgage-backed securities at both March 31, 2019 and December 31, 2018.

Note 5: Available-for-Sale and Held-to-Maturity Debt Securities (continued)

Gross Unrealized Losses and Fair Value

Table 5.2 shows the gross unrealized losses and fair value of available-for-sale and held-to-maturity debt securities by length of time those individual securities in each category have been in a continuous loss position. Debt securities on which we have taken credit-related other-than-temporary impairment (OTTI) write-

downs are categorized as being "less than 12 months" or "12 months or more" in a continuous loss position based on the point in time that the fair value declined to below the cost basis and not the period of time since the credit-related OTTI write-down.

Table 5.2: Gross Unrealized Losses and Fair Value

	Less than 12 months		12 months or more		Total	
(in millions)	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
March 31, 2019						
Available-for-sale debt securities:						
Securities of U.S. Treasury and federal agencies	$—	—	(66)	6,220	(66)	6,220
Securities of U.S. states and political subdivisions	(13)	4,027	(47)	3,612	(60)	7,639
Mortgage-backed securities:						
Federal agencies	(5)	1,392	(1,263)	95,706	(1,268)	97,098
Residential	—	—	—	—	—	—
Commercial	(7)	1,542	(3)	105	(10)	1,647
Total mortgage-backed securities	(12)	2,934	(1,266)	95,811	(1,278)	98,745
Corporate debt securities	(17)	736	(21)	373	(38)	1,109
Collateralized loan and other debt obligations	(131)	19,572	(27)	2,513	(158)	22,085
Other	(7)	1,034	(7)	278	(14)	1,312
Total available-for-sale debt securities	(180)	28,303	(1,434)	108,807	(1,614)	137,110
Held-to-maturity debt securities:						
Securities of U.S. Treasury and federal agencies	—	—	(150)	30,379	(150)	30,379
Securities of U.S. states and political subdivisions	—	—	(15)	1,663	(15)	1,663
Federal agency and other mortgage-backed securities	—	—	(732)	64,315	(732)	64,315
Collateralized loan obligations	—	—	—	—	—	—
Total held-to-maturity debt securities	—	—	(897)	96,357	(897)	96,357
Total	$(180)	28,303	(2,331)	205,164	(2,511)	233,467
December 31, 2018						
Available-for-sale debt securities:						
Securities of U.S. Treasury and federal agencies	$(1)	498	(105)	6,204	(106)	6,702
Securities of U.S. states and political subdivisions	(73)	9,746	(373)	9,017	(446)	18,763
Mortgage-backed securities:						
Federal agencies	(42)	10,979	(3,098)	112,252	(3,140)	123,231
Residential	(3)	398	(2)	69	(5)	467
Commercial	(20)	1,972	(2)	79	(22)	2,051
Total mortgage-backed securities	(65)	13,349	(3,102)	112,400	(3,167)	125,749
Corporate debt securities	(64)	1,965	(26)	298	(90)	2,263
Collateralized loan and other debt obligations	(388)	28,306	(8)	553	(396)	28,859
Other	(7)	819	(6)	159	(13)	978
Total available-for-sale debt securities	(598)	54,683	(3,620)	128,631	(4,218)	183,314
Held-to-maturity debt securities:						
Securities of U.S. Treasury and federal agencies	(3)	895	(412)	41,083	(415)	41,978

Securities of U.S. states and political subdivisions	(4)	598	(112)	3,992	(116)	4,590
Federal agency and other mortgage-backed securities	(5)	4,635	(2,283)	77,741	(2,288)	82,376
Collateralized loan obligations	—	—	—	—	—	—
Total held-to-maturity debt securities	(12)	6,128	(2,807)	122,816	(2,819)	128,944
Total	$(610)	60,811	(6,427)	251,447	(7,037)	312,258

We have assessed each debt security with gross unrealized losses included in the previous table for credit impairment. As part of that assessment we evaluated and concluded that we do not intend to sell any of the debt securities and that it is more likely than not that we will not be required to sell prior to recovery of the amortized cost basis. We evaluate, where necessary, whether credit impairment exists by comparing the present value of the expected cash flows to the debt securities' amortized cost basis.

For descriptions of the factors we consider when analyzing debt securities for impairment, see Note 1 (Summary of Significant Accounting Policies) and Note 5 (Available-for-Sale and Held-to-Maturity Debt Securities) to Financial Statements in our 2018 Form 10-K. There were no material changes to our methodologies for assessing impairment in first quarter 2019.

Table 5.3 shows the gross unrealized losses and fair value of the available-for-sale and held-to-maturity debt securities by those rated investment grade and those rated less than investment grade, according to their lowest credit rating by Standard & Poor's Rating Services (S&P) or Moody's Investors

Service (Moody's). Credit ratings express opinions about the credit quality of a debt security. Debt securities rated investment grade, that is those rated BBB- or higher by S&P or Baa3 or higher by Moody's, are generally considered by the rating agencies and market participants to be low credit risk. Conversely, debt securities rated below investment grade, labeled as "speculative grade" by the rating agencies, are considered to be distinctively higher credit risk than investment grade debt securities. We have also included debt securities not rated by S&P or Moody's in the table below based on our internal credit grade of the debt securities (used for credit risk management purposes) equivalent to the credit rating assigned by major credit agencies. The unrealized losses and fair value of unrated debt securities categorized as investment grade based on internal credit grades were $11 million and $4.0 billion, respectively, at March 31, 2019, and $20 million and $5.2 billion, respectively, at December 31, 2018. If an internal credit grade was not assigned, we categorized the debt security as non-investment grade.

Table 5.3: Gross Unrealized Losses and Fair Value by Investment Grade

	Investment grade		Non-investment grade	
(in millions)	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
March 31, 2019				
Available-for-sale debt securities:				
Securities of U.S. Treasury and federal agencies	$(66)	6,220	—	—
Securities of U.S. states and political subdivisions	(48)	7,412	(12)	227
Mortgage-backed securities:				
Federal agencies	(1,268)	97,098	—	—
Residential	—	—	—	—
Commercial	(8)	1,636	(2)	11
Total mortgage-backed securities	(1,276)	98,734	(2)	11
Corporate debt securities	(8)	455	(30)	654
Collateralized loan and other debt obligations	(158)	22,085	—	—
Other	(8)	1,039	(6)	273
Total available-for-sale debt securities	(1,564)	135,945	(50)	1,165
Held-to-maturity debt securities:				
Securities of U.S. Treasury and federal agencies	(150)	30,379	—	—
Securities of U.S. states and political subdivisions	(15)	1,663	—	—
Federal agency and other mortgage-backed securities	(731)	64,185	(1)	130
Collateralized loan obligations	—	—	—	—
Total held-to-maturity debt securities	(896)	96,227	(1)	130
Total	$(2,460)	232,172	(51)	1,295
December 31, 2018				

Available-for-sale debt securities:				
Securities of U.S. Treasury and federal agencies	$(106)	6,702	—	—
Securities of U.S. states and political subdivisions	(425)	18,447	(21)	316
Mortgage-backed securities:				
Federal agencies	(3,140)	123,231	—	—
Residential	(2)	295	(3)	172
Commercial	(20)	1,999	(2)	52
Total mortgage-backed securities	(3,162)	125,525	(5)	224
Corporate debt securities	(17)	791	(73)	1,472
Collateralized loan and other debt obligations	(396)	28,859	—	—
Other	(7)	726	(6)	252
Total available-for-sale debt securities	(4,113)	181,050	(105)	2,264
Held-to-maturity debt securities:				
Securities of U.S. Treasury and federal agencies	(415)	41,978	—	—
Securities of U.S. states and political subdivisions	(116)	4,590	—	—
Federal agency and other mortgage-backed securities	(2,278)	81,977	(10)	399
Collateralized loan obligations	—	—	—	—
Total held-to-maturity debt securities	(2,809)	128,545	(10)	399
Total	$(6,922)	309,595	(115)	2,663

Note 5: Available-for-Sale and Held-to-Maturity Debt Securities (continued)

Contractual Maturities

Table 5.4 shows the fair value and contractual weighted-average yields (taxable-equivalent basis) of available-for-sale debt securities by contractual maturity. The remaining contractual principal maturities for mortgage-backed securities (MBS) do not

consider prepayments. Remaining expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations before the underlying mortgages mature.

Table 5.4: Available-for Sale Debt Securities - Fair Value by Contractual Maturity

				Remaining contractual maturity											
	Total			Within one year			After one year through five years			After five years through ten years			After ten years		
(in millions)	amount	Yield		Amount	Yield		Amount	Yield		Amount	Yield		Amount	Yield	
March 31, 2019															
Available-for-sale debt securities (1):															
Fair value:															
Securities of U.S. Treasury and federal agencies	$15,106	1.93	%	$2,154	1.63	%	$12,903	1.98	%	$49	1.89	%	$—	—	%
Securities of U.S. states and political subdivisions	49,700	4.81		3,665	2.81		5,986	3.39		4,274	3.47		35,775	5.41	
Mortgage-backed securities:															
Federal agencies	150,663	3.43		—	—		152	3.50		1,819	2.57		148,692	3.44	
Residential	1,456	2.97		—	—		1	5.17		—	—		1,455	2.96	
Commercial	4,372	3.72		—	—		—	—		341	3.60		4,031	3.73	
Total mortgage-backed securities	156,491	3.44		—	—		153	3.51		2,160	2.73		154,178	3.45	
Corporate debt securities	6,354	5.09		430	5.78		2,509	5.25		2,795	4.70		620	5.67	
Collateralized loan and other debt obligations	35,315	4.15		—	—		18	4.80		10,889	4.24		24,408	4.11	
Other	5,133	3.17		8	5.82		751	4.04		1,482	2.08		2,892	3.50	
Total available-for-sale debt securities at fair value	$268,099	3.73	%	$6,257	2.61	%	$22,320	2.81	%	$21,649	3.85	%	$217,873	3.85	%

(1) Weighted-average yields displayed by maturity bucket are weighted based on fair value and predominantly represent contractual coupon rates without effect for any related hedging derivatives.

Table 5.5 shows the amortized cost and weighted-average yields of held-to-maturity debt securities by contractual maturity.

Table 5.5: Held-to-Maturity Debt Securities - Amortized Cost by Contractual Maturity

			Remaining contractual maturity							
	Total		Within one year		After one year through five years		After five years through ten years		After ten years	
(in millions)	amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
March 31, 2019										

Held-to-maturity debt securities (1):														
Amortized cost:														
Securities of U.S. Treasury and federal agencies	$44,758	2.12	%	$—	—	%	$32,362	2.04	%	$12,396	2.32	%	$—	— %
Securities of U.S. states and political subdivisions	6,163	4.92		—	—		70	6.03		1,366	4.92		4,727	4.90
Federal agency and other mortgage-backed securities	94,009	3.11		—	—		15	3.82		—	—		93,994	3.11
Collateralized loan obligations	60	3.97		—	—		—	—		60	3.97		—	—
Total held-to-maturity debt securities at amortized cost	$144,990	2.88	%	$—	—	%	$32,447	2.05	%	$13,822	2.58	%	$98,721	3.19 %

(1) Weighted-average yields displayed by maturity bucket are weighted based on amortized cost and predominantly represent contractual coupon rates.

Table 5.6 shows the fair value of held-to-maturity debt securities by contractual maturity.

Table 5.6: Held-to-Maturity Debt Securities - Fair Value by Contractual Maturity

		Remaining contractual maturity			
	Total	Within one year	After one year through five years	After five years through ten years	After ten years
(in millions)	amount	Amount	Amount	Amount	Amount
March 31, 2019					
Held-to-maturity debt securities:					
Fair value:					
Securities of U.S. Treasury and federal agencies	$44,693	—	32,245	12,448	—
Securities of U.S. states and political subdivisions	6,250	—	70	1,403	4,777
Federal agency and other mortgage-backed securities	93,696	—	15	—	93,681
Collateralized loan obligations	60	—	—	60	—
Total held-to-maturity debt securities at fair value	$144,699	—	32,330	13,911	98,458

Realized Gains and Losses

Table 5.7 shows the gross realized gains and losses on sales and OTTI write-downs related to available-for-sale debt securities.

Table 5.7: Realized Gains and Losses

(in millions)	Quarter ended March 31, 2019	2018
Gross realized gains	$173	21
Gross realized losses	(3)	(10)
OTTI write-downs	(45)	(10)
Net realized gains from available-for-sale debt securities	$125	1

Other-Than-Temporarily Impaired Debt Securities

Table 5.8 shows the detail of total OTTI write-downs included in earnings for available-for-sale debt securities. There were no

OTTI write-downs on held-to-maturity debt securities during first quarter 2019 and 2018.

Table 5.8: Detail of OTTI Write-downs

(in millions)	Quarter ended March 31, 2019	2018
Debt securities OTTI write-downs included in earnings:		
Securities of U.S. states and political subdivisions	$29	2
Mortgage-backed securities:		
Residential	—	1
Commercial	14	7
Corporate debt securities	2	—
Total debt securities OTTI write-downs included in earnings	$45	10

Table 5.9 shows the detail of OTTI write-downs on available-for-sale debt securities included in earnings and the related changes in OCI for the same securities.

Table 5.9: OTTI Write-downs Included in Earnings and the Related Changes in OCI

(in millions)	Quarter ended March 31, 2019	2018
OTTI on debt securities		
Recorded as part of gross realized losses:		
Credit-related OTTI	$16	9
Intent-to-sell OTTI	29	1
Total recorded as part of gross realized losses	45	10
Changes to OCI for losses (reversal of losses) in non-credit-related OTTI (1):		
Securities of U.S. states and political subdivisions	—	(2)
Residential mortgage-backed securities	(1)	(1)
Commercial mortgage-backed securities	1	10
Total changes to OCI for non-credit-related OTTI	—	7
Total OTTI losses recorded on debt securities	$45	17

(1)

Represents amounts recorded to OCI for impairment of debt securities, due to factors other than credit, that have also had credit-related OTTI write-downs during the period. Increases represent initial or subsequent non-credit-related OTTI on debt securities. Decreases represent partial to full reversal of impairment due to recoveries in the fair value of debt securities due to non-credit factors.

Note 5: Available-for-Sale and Held-to-Maturity Debt Securities (continued)

Table 5.10 presents a rollforward of the OTTI credit loss that has been recognized in earnings as a write-down of available-for-sale debt securities we still own (referred to as "credit-impaired" debt securities) and do not intend to sell. Recognized credit loss represents the difference between the present value of expected

future cash flows discounted using the security's current effective interest rate and the amortized cost basis of the security prior to considering credit loss.

Table 5.10: Rollforward of OTTI Credit Loss

	Quarter ended March 31,	
(in millions)	2019	2018
Credit loss recognized, beginning of period	$562	742
Additions:		
For securities with initial credit impairments	2	—
For securities with previous credit impairments	14	9
Total additions	16	9
Reductions:		
For securities sold, matured, or intended/required to be sold	(346)	(101)
For recoveries of previous credit impairments (1)	—	(1)
Total reductions	(346)	(102)
Credit loss recognized, end of period	$232	649

(1) Recoveries of previous credit impairments result from increases in expected cash flows subsequent to credit loss recognition. Such recoveries are reflected prospectively as interest yield adjustments using the effective interest method.

Note 6: Loans and Allowance for Credit Losses

Table 6.1 presents total loans outstanding by portfolio segment and class of financing receivable. Outstanding balances include a total net reduction of $466 million and $1.3 billion at March 31, 2019, and December 31, 2018, respectively, for unearned income,

net deferred loan fees, and unamortized discounts and premiums.

Table 6.1: Loans Outstanding

(in millions)	Mar 31, 2019	Dec 31, 2018
Commercial:		
Commercial and industrial	$349,134	350,199
Real estate mortgage	122,113	121,014
Real estate construction	21,857	22,496
Lease financing	19,122	19,696
Total commercial	512,226	513,405
Consumer:		
Real estate 1-4 family first mortgage	284,545	285,065
Real estate 1-4 family junior lien mortgage	33,099	34,398
Credit card	38,279	39,025
Automobile	44,913	45,069
Other revolving credit and installment	35,187	36,148
Total consumer	436,023	