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

FORM 10-Q
CROSS-REFERENCE INDEX

PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW
Summary Financial Data

($ in millions, except per share amounts)	Quarter ended Mar 31, 2019	Dec 31, 2018	Mar 31, 2018	% Change Mar 31, 2019 from 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

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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.

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.

Earnings Performance (continued)

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

	Quarter ended Mar 31,		%
(in millions)	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

	Quarter ended	
(in millions)	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

(in millions, except average balances which are in billions)	Quarter ended March 31, 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:			