WELLS FARGO & COMPANY/MN
Form 10-Q
November 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

Commission file number 001-2979

WELLS FARGO & COMPANY
(Exact name of registrant as specified in its charter)

Delaware	No. 41-0449260
(State of incorporation)	(I.R.S. Employer Identification No.)

420 Montgomery Street, San Francisco, California 94163
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 1-866-249-3302

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

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

Large accelerated filer	þ	Accelerated filer o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company o Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Yes o No þ

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

	Shares Outstanding October 25, 2017
Common stock, $1-2/3 par value	4,924,261,449

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PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW
Summary Financial Data

	Quarter ended			% Change Sep 30, 2017 from		Nine months ended		
($ in millions, except per share amounts)	Sep 30, 2017	Jun 30, 2017	Sep 30, 2016	Jun 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016	% Change
For the Period								
Wells Fargo net income	$4,596	5,810	5,644	(21)%	(19)	$15,863	16,664	(5)%
Wells Fargo net income applicable to common stock	4,185	5,404	5,243	(23)	(20)	14,645	15,501	(6)
Diluted earnings per common share	0.84	1.07	1.03	(21)	(18)	2.91	3.03	(4)
Profitability ratios (annualized):								
Wells Fargo net income to average assets (ROA)	0.94 %	1.21	1.17	(22)	(20)	1.10 %	1.19	(8)
Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders' equity (ROE)	9.06	11.95	11.60	(24)	(22)	10.83	11.68	(7)
Return on average tangible common equity (ROTCE) (1)	10.79	14.26	13.96	(24)	(23)	12.94	14.08	(8)
Efficiency ratio (2)	65.5	61.1	59.4	7	10	63.1	58.7	7
Total revenue	$21,926	22,169	22,328	(1)	(2)	$66,097	66,685	(1)
Pre-tax pre-provision profit (PTPP) (3)	7,575	8,628	9,060	(12)	(16)	24,413	27,523	(11)
Dividends declared per common share	0.390	0.380	0.380	3	3	1.150	1.135	1
Average common shares outstanding	4,948.6	4,989.9	5,043.4	(1)	(2)	4,982.1	5,061.9	(2)
Diluted average common shares outstanding	4,996.8	5,037.7	5,094.6	(1)	(2)	5,035.4	5,118.2	(2)
Average loans	$952,343	956,879	957,484	—	(1)	$957,581	945,197	1
Average assets	1,938,523	1,927,079	1,914,586	1	1	1,932,242	1,865,694	4
Average total deposits	1,306,356	1,301,195	1,261,527	—	4	1,302,273	1,239,287	5
Average consumer and small business banking deposits (4)	755,094	760,149	739,066	(1)	2	758,443	726,798	4
Net interest margin	2.87 %	2.90	2.82	(1)	2	2.88 %	2.86	1
At Period End								
Investment securities	$414,633	409,594	390,832	1	6	$414,633	390,832	6
Loans	951,873	957,423	961,326	(1)	(1)	951,873	961,326	(1)
	11,078	11,073	11,583	—	(4)	11,078	11,583	(4)

Allowance for loan losses								
Goodwill	26,581	26,573	26,688	—	—	26,581	26,688	—
Assets	1,934,939	1,930,871	1,942,124	—	—	1,934,939	1,942,124	—
Deposits	1,306,706	1,305,830	1,275,894	—	2	1,306,706	1,275,894	2
Common stockholders' equity	182,128	181,428	179,916	—	1	182,128	179,916	1
Wells Fargo stockholders' equity	205,929	205,230	203,028	—	1	205,929	203,028	1
Total equity	206,824	206,145	203,958	—	1	206,824	203,958	1
Tangible common equity (1)	152,901	152,064	149,829	1	2	152,901	149,829	2
Capital ratios (5)(6):								
Total equity to assets	10.69 %	10.68	10.50	—	2	10.69 %	10.50	2
Risk-based capital:								
Common Equity Tier 1	12.10	11.87	10.93	2	11	12.10	10.93	11
Tier 1 capital	13.95	13.68	12.60	2	11	13.95	12.60	11
Total capital	17.21	16.91	15.40	2	12	17.21	15.40	12
Tier 1 leverage	9.27	9.28	9.11	—	2	9.27	9.11	2
Common shares outstanding	4,927.9	4,966.8	5,023.9	(1)	(2)	4,927.9	5,023.9	(2)
Book value per common share (7)	$36.96	36.53	35.81	1	3	$36.96	35.81	3
Tangible book value per common share (1) (7)	31.03	30.62	29.82	1	4	31.03	29.82	4
Common stock price:								
High	56.45	56.60	51.00	—	11	59.99	53.27	13
Low	49.28	50.84	44.10	(3)	12	49.28	44.10	12
Period end	55.15	55.41	44.28	—	25	55.15	44.28	25
Team members (active, full-time equivalent)	268,000	270,600	268,800	(1)	—	268,000	268,800	—

(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 investments and held-for-sale assets, 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 with Transition Requirements. Accordingly, the total capital ratio was calculated under the Advanced Approach and the other ratios were calculated under the Standardized Approach, for each of the periods presented.

(6)

See the “Capital Management” section and Note 19 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report for additional information.

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

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Overview (continued)

This Quarterly Report, including the Financial Review and the Financial Statements and related Notes, contains forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results may differ materially from our forward-looking statements due to several factors. Factors that could cause our actual results to differ materially from our forward-looking statements are described in this Report, including in the "Forward-Looking Statements" section, and the "Risk Factors" and "Regulation and Supervision" sections of our Annual Report on Form 10-K for the year ended December 31, 2016 (2016 Form 10-K).

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

Financial Review

Overview

Wells Fargo & Company is a diversified, community-based financial services company with $1.93 trillion in assets. Founded in 1852 and headquartered in San Francisco, we provide banking, insurance, investments, mortgage, and consumer and commercial finance through more than 8,400 locations, 13,000 ATMs, digital (online, mobile and social), and contact centers (phone, email and correspondence), and we have offices in 42 countries and territories to support customers who conduct business in the global economy. With approximately 268,000 active, full-time equivalent team members, we serve one in three households in the United States and ranked No. 25 on Fortune's 2017 rankings of America's largest corporations. We ranked third in assets and second in the market value of our common stock among all U.S. banks at September 30, 2017.

We use our Vision and Values to guide us toward growth and success. Our vision is to satisfy our customers' financial needs, help them succeed financially, be recognized as the premier financial services company in our markets, and be one of America's great companies. 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 provide the foundation for everything we do. First, we value and support our people as a competitive advantage and strive to attract, develop, retain, and motivate the most talented people we can find. Second, we strive for the highest ethical standards with our team members, our customers, our communities, and our shareholders. Third, with respect to our customers, we strive to base our decisions and actions on what is right for them in everything we do. Fourth, for team members we strive to build and sustain a diverse and inclusive culture – one where they feel valued and respected for who they are as well as for the skills and experiences they bring to our company. Fifth, we also look to each of our team members to be leaders in establishing, sharing, and communicating our vision. 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 announced six long-term goals for the Company in March 2017, which entail becoming the leader in the following areas:

- Customer service and advice – provide best-in-class service and guidance to our customers to help them reach their financial goals.
- Team member engagement – be a company where people matter, teamwork is rewarded, everyone feels respected and empowered to speak up, diversity and inclusion are embraced, and "how" our work gets done is just as important as getting the work done.
- Innovation – create new kinds of lasting value for our customers and businesses by using innovative technologies and moving quickly to bring about change.

- Risk management – desire to set the global standard in managing all forms of risk.
- Corporate citizenship – make better every community in which we live and do business.
- Shareholder value – earn the confidence of shareholders by maximizing long-term value.

Over the past year, our Board of Directors (Board) has taken a series of actions to enhance Board oversight and governance. The actions the Board has taken to date, many of which reflect the feedback we received from our shareholders and other stakeholders, include separating the roles of Chairman of the Board and Chief Executive Officer, amending Wells Fargo's By-Laws to require that the Chairman be an independent director, adding two new independent directors in February 2017, and amending Board committee charters to enhance oversight of conduct risk. In August 2017, the Board announced additional Board composition and governance changes that reflected a thoughtful and deliberate process by the Board that was informed by the Company's engagement with shareholders and other stakeholders, as well as the Board's annual self-evaluation that was conducted in advance of its typical year-end timing and facilitated by a third party. The Board's composition and governance actions taken in third quarter 2017 included the following:

- Elizabeth A. "Betsy" Duke was elected to serve as our new independent Board chair, effective January 1, 2018;
- Juan A. Pujadas, a retired principal of PricewaterhouseCoopers LLP, was elected to the Board as a new independent director, effective September 1, 2017;
- Changes to the leadership and composition of key Board committees were made, including appointing new chairs of the Board's Risk Committee and Governance and Nominating Committee, effective September 1, 2017; and
- To help facilitate Board refreshment and provide for an appropriate transition of committee membership, three long-serving directors, Cynthia H. Milligan, Stephen W. Sanger and Susan G. Swenson, will retire from the Board at year-end 2017.

In addition, the Board announced that it expects to name up to three additional independent directors before the 2018 annual shareholders' meeting. As has been our practice, we will continue our engagement efforts with our shareholders and other stakeholders.

Sales Practices Matters

As we have previously reported, on September 8, 2016, we announced settlements with the Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of the Currency (OCC), and the Office of the Los Angeles City Attorney, and entered into consent orders with the CFPB and the OCC, in connection with allegations that some of our retail customers received products and services they did not request. As a result, it remains our top priority to rebuild trust through a comprehensive action plan that includes making things right for our customers, team members, and other stakeholders, and to build a better Company for the future.

The job of rebuilding trust in Wells Fargo is a long-term effort – one requiring our commitment and perseverance. As we move forward, Wells Fargo has a specific action plan in place focused on reaching out to stakeholders who may have been affected by improper retail banking sales practices, including our communities, our customers, our regulators, our team members, and our investors.

Our priority of rebuilding trust has included the following additional actions, which have been focused on identifying potential financial harm and customer remediation:

Identifying Potential Financial Harm

- In the fall of 2016, the Board and management undertook an enterprise-wide review of sales practices issues. This review is ongoing.
- A third-party consulting firm performed an initial review of accounts opened from May 2011 to mid-2015 to identify financial harm stemming from potentially unauthorized accounts. The phrase “potentially unauthorized” does not mean that we are certain that the accounts are unauthorized, but rather describes the accounts that the third party analysis identified as showing patterns that could indicate a lack of authorization. Since the analysis was intentionally inclusive and erred on the side of the customer, the number of potentially unauthorized accounts likely includes a population of accounts that were in fact authorized by our customers. The initial account analysis reviewed 93.5 million current and former customer accounts and identified approximately 2.1 million potentially unauthorized accounts.
- We expanded the time periods of this review to cover the entire consent order period of January 2011 through September 2016, and to perform a voluntary review of accounts from 2009 to 2010. The expanded analysis reviewed more than 165 million retail banking accounts opened over the nearly eight-year period and identified a new total of approximately 3.5 million potentially unauthorized consumer and small business accounts. The 3.5 million potentially unauthorized accounts total is composed of the following:

The original time period, which was re-examined following refinements to the practices and methodologies previously used by the third party to determine potentially unauthorized accounts: 2.55 million accounts identified as potentially unauthorized; and

The additional periods back to January 2009 and forward to September 2016: 981,000 accounts identified as potentially unauthorized.

- In connection with these 3.5 million potentially unauthorized accounts, approximately 190,000 accounts incurred fees and charges, up from 130,000 previously identified accounts that incurred fees and charges.
- In addition, the expanded analysis included a review of online bill pay services, as required by the consent orders. During the almost eight-year review period, the analysis identified approximately 528,000 potentially unauthorized online bill pay enrollments.

For all periods of the expanded analysis (other than some periods in 2009 and 2010 for which we do not have sufficient information), the maximum impact of the 3.5 million potentially unauthorized accounts and 528,000 potentially unauthorized online bill pay enrollments on the originally reported Community Banking cross-sell metric was, in any one quarter, 0.03 products per household (or 0.5% of the originally reported metric). Due to our historical processes, which removed from the calculation of the cross-sell metric certain accounts and other products that were inactive over various time frames, not all of these potentially unauthorized accounts affected the cross-sell metric at any one time.

Customer Remediation

- We refunded $3.3 million to customers under the stipulated judgment with the Los Angeles City Attorney and under the CFPB and OCC consent orders, covering the period from May 2011 to mid-2015. In connection with the expanded account analysis, we will now provide a total of $2.9 million in additional refunds and credits on top of the $3.3 million previously refunded as a result of the initial account review. In addition, we will refund $910,000 to customers who incurred fees or charges as a result of potentially unauthorized online bill pay enrollments.
- As of September 30, 2017, we had paid $5.45 million in additional payments to customers nationwide through our ongoing complaints process and free mediation services that were put in place in connection with the sales practices matters.
- Customers also may receive compensation under the $142 million class-action settlement concerning improper retail sales practices for claims dating back to 2002. After plaintiffs' attorneys' fees and costs of administration, the class-action settlement will provide reimbursement of fees not already paid and compensation for increased borrowing costs due to credit-score impact associated with a potentially unauthorized account. Remaining funds will be distributed to the participants in the class on a per account basis.
- We are working to complete the requirements of our consent orders, which include the development of an action plan that addresses the findings of the independent review. The independent consultant's report, which is regulatory supervisory information that cannot be publicly disclosed, was received in August 2017.

For additional information regarding sales practices matters, including related legal matters, see the "Risk Factors" section in our 2016 Form 10-K and Note 11 (Legal Actions) to Financial Statements in this Report.

Additional Efforts to Rebuild Trust

Our priority of rebuilding trust has also included an effort to identify other areas or instances where customers may have experienced financial harm. We are working with our regulatory agencies in this effort. As part of this effort, we are focused on the following key areas:

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Overview (continued)

- Practices concerning the origination, servicing, and/or collection of consumer automobile loans, including related insurance products. For example:
In July 2017, the Company announced a plan to remediate customers who may have been financially harmed due to issues related to automobile collateral protection insurance (CPI) policies purchased through a third-party vendor on their behalf. Commencing in August 2017, the Company began sending letters and refund checks to affected customers for policies placed between January 1, 2012, and September 30, 2016. The practice of placing CPI was discontinued by the Company on September 30, 2016. The time period in which customers may be eligible to claim or otherwise receive remediation compensation for certain CPI placements has now been extended back to October 15, 2005. The Company currently estimates that it will provide approximately $100 million in cash remediation and $30 million in account adjustments under the plan. The amount of remediation may be affected as the Company continues to work with its regulators on the remediation plan.
The Company has identified certain issues related to the unused portion of guaranteed automobile protection waiver or insurance agreements between the dealer and, by assignment, the lender, which may result in refunds to customers in certain states.
- In October 2017, the Company announced plans to reach out to all home lending customers who paid fees for mortgage rate lock extensions requested from September 16, 2013, through February 28, 2017, and to refund customers who believe they should not have paid those fees. The plan to issue refunds follows an internal review that determined that a rate lock extension policy implemented in September 2013 was, at times, not consistently applied, resulting in some borrowers being charged fees in cases where the Company was primarily responsible for the delays that made the extensions necessary. Effective March 1, 2017, the Company changed how it manages the mortgage rate lock extension process to ensure more consistency by establishing a centralized review team that reviews all rate lock extension requests for consistent application of policy. A total of approximately $98 million in rate lock extension fees were assessed to about 110,000 borrowers during the period in question, although the Company believes a substantial number of those fees were appropriately charged under its policy. The amount ultimately refunded likely will be lower, as not all of the fees assessed were actually paid and some fees already have been refunded.
- Practices related to certain consumer “add-on” products (e.g., identity theft and debt protection), including those products that are subject to an OCC consent order entered into in June 2015. Based on our ongoing review of "add-on" products, we expect remediation will be required.
- Procedures regarding the freezing (and, in many cases, closing) of consumer deposit accounts after the Company detected suspected fraudulent activity (by third-parties or account holders) that affected those accounts.

For more information, see the “Risk Factors” section in our 2016 Form 10-K and Note 11 (Legal Actions) to Financial Statements in this Report.

This effort to identify similar instances in which customers may have experienced harm is ongoing, and it is possible that we may identify other areas of potential concern.

Financial Performance

Wells Fargo net income was $4.6 billion in third quarter 2017 with diluted earnings per common share (EPS) of $0.84, compared with $5.6 billion and $1.03, respectively, a year ago. Third quarter 2017 results included the impact of a $1.0 billion, or ($0.20) per share, discrete litigation accrual, which was not tax-deductible, for previously disclosed, pre-financial crisis mortgage-related regulatory investigations.

Other financial results in third quarter 2017 included:
- revenue was $21.9 billion, down $402 million compared with a year ago, with net interest income up 4% from a year ago;
- average loans were $952.3 billion, down $5.1 billion, or 1%, from a year ago;
- total deposits were $1.3 trillion, up $30.8 billion, or 2%, from a year ago;
- Wealth and Investment Management (WIM) total client assets reached a record high of $1.9 trillion;
-

our credit results improved with a net charge-off rate of 0.30% (annualized) of average loans in third quarter 2017, compared with 0.33% a year ago; and

- we returned $4.0 billion to shareholders through common stock dividends and net share repurchases, which was the ninth consecutive quarter of returning more than $3 billion.

Balance Sheet and Liquidity

Our balance sheet remained strong during third quarter 2017 with high levels of liquidity and capital. Our total assets were $1.93 trillion at September 30, 2017. Cash and other short-term investments increased $5.5 billion from December 31, 2016, reflecting lower loan balances and growth in deposits. Investment securities reached a record $414.6 billion, with approximately $31 billion of gross purchases during third quarter 2017, partially offset by runoff and the sale of approximately $13 billion of lower-yielding short-duration securities. Loans were down $15.7 billion, or 2%, from December 31, 2016, largely due to a decline in junior lien mortgage and automobile loans.

Average deposits in third quarter 2017 reached a record $1.31 trillion, up $44.8 billion, or 4%, from third quarter 2016. Our average deposit cost in third quarter 2017 was 26 basis points, up 15 basis points from a year ago, primarily driven by an increase in commercial and WIM deposit rates.

Credit Quality

Solid overall credit results continued in third quarter 2017 as losses remained low and we continued to originate high quality loans, reflecting our long-term risk focus. Net charge-offs were $717 million, or 0.30% (annualized) of average loans, in third quarter 2017, compared with $805 million a year ago (0.33%). The decrease in net charge-offs in third quarter 2017, compared with a year ago, was driven by lower losses in the commercial and industrial loan portfolio, including in the oil and gas portfolio. Our total oil and gas loan exposure, which includes unfunded commitments and loans outstanding, was down 8% from a year ago.

Our commercial portfolio net charge-offs were $113 million, or 9 basis points of average commercial loans, in third quarter 2017, compared with net charge-offs of $215 million, or 17 basis points, a year ago. Net consumer credit losses increased to 53 basis points (annualized) of average consumer loans in third quarter 2017 from 51 basis points (annualized) in third quarter 2016. Our commercial real estate portfolios were in a net recovery position for the 19th consecutive quarter, reflecting our conservative risk discipline and improved market conditions. Net losses on our consumer real estate portfolios improved by $84 million, or 122%, to a net recovery of $15 million from a year ago, reflecting the benefit of the continued improvement in the housing market and our continued focus on originating high quality loans. Approximately 77% of the consumer first mortgage portfolio outstanding at September 30, 2017, was originated after 2008, when more stringent underwriting standards were implemented.

The allowance for credit losses as of September 30, 2017, decreased $585 million compared with a year ago and decreased $431 million from December 31, 2016. The allowance for credit losses at September 30, 2017 included $450 million for coverage of our preliminary estimate of potential hurricane-related losses from Hurricanes Harvey, Irma and Maria. The allowance coverage for total loans was 1.27% at September 30, 2017, compared with 1.32% a year ago and 1.30% at December 31, 2016. The allowance covered 4.3 times annualized third quarter net charge-offs, compared with 4.0 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 $717 million in third quarter 2017, down from $805 million a year ago, primarily reflecting improvement in the oil and gas portfolio.

Nonperforming assets decreased $512 million, or 5%, from June 30, 2017, the sixth consecutive quarter of decreases, with improvement across our consumer and commercial portfolios and lower foreclosed assets. Nonperforming assets were only 0.98% of total loans, the lowest level since the merger with Wachovia in 2008. Nonaccrual loans decreased $437 million from the prior quarter primarily due to a $276 million decrease in commercial nonaccruals. In addition, foreclosed assets were down $75 million from the prior quarter.

Capital

Our financial performance in third quarter 2017 resulted in strong capital generation, which increased total equity to a record $206.8 billion at September 30, 2017, up $6.3 billion from December 31, 2016. Third quarter 2017 was the first quarter our 2017 Capital Plan was effective and we returned $4.0 billion to shareholders in third quarter 2017 through common stock dividends and net share repurchases, an increase of 24% from a year ago. Our net payout ratio (which is the ratio of (i) common stock dividends and share repurchases less issuances and stock compensation-related items, divided by (ii) net income applicable to common stock) was 95%, up from 63% in the prior quarter. We continued to reduce our common shares outstanding through the repurchase of 49.0 million common shares in the quarter. We also entered into a $1 billion forward repurchase contract with an unrelated third party in October 2017 that is expected to settle in first quarter 2018 for approximately 19 million shares. We expect to reduce our common shares outstanding through share repurchases throughout the remainder of 2017.

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 11.82% at September 30, 2017, well above our internal target level of 10%. The growth in our CET1 ratio reflected lower risk-weighted assets (RWA), driven by lower loan balances and commitments, as well as improved RWA efficiency. Likewise, our other regulatory capital ratios remained strong. See the "Capital Management" section in this Report for more information regarding our capital, including the calculation of our regulatory capital amounts.

Earnings Performance

Wells Fargo net income for third quarter 2017 was $4.6 billion ($0.84 diluted earnings per common share), compared with $5.6 billion ($1.03 diluted per share) for third quarter 2016. Net income for the first nine months of 2017 was $15.9 billion ($2.91), compared with $16.7 billion ($3.03) for the same period a year ago. Our financial performance in the first nine months of 2017, compared with the same period a year ago, benefited from a $1.9 billion increase in net interest income and a $1.1 billion decrease in our provision for credit losses, offset by a $2.5 billion decrease in noninterest income and a $2.5 billion increase in noninterest expense. In the first nine months of 2017, net interest income represented 56% of revenue, compared with 53% for the same period in 2016. Noninterest income was $28.8 billion in the first nine months of 2017, representing 44% of revenue, compared with $31.3 billion (47%) in the first nine months of 2016.

Revenue, the sum of net interest income and noninterest income, was $21.9 billion in third quarter 2017, compared with $22.3 billion in third quarter 2016. Revenue for the first nine months of 2017 was $66.1 billion, compared with $66.7 billion for the first nine months of 2016. The decrease in revenue for the third quarter and first nine months of 2017, compared with the same periods in 2016, was due to a decline in noninterest income, partially offset by an increase in interest income from loans and investment securities.