

**WELLS FARGO SECURITIES, LLC**  
(An Indirect Wholly-Owned Subsidiary of Wells Fargo & Company)

Statement of Financial Condition

June 30, 2018

**WELLS FARGO SECURITIES, LLC**  
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June 30, 2018

(Dollars in thousands)

(Unaudited)

**Assets**

Cash	\$ 96,430
Cash segregated pursuant to federal regulations	439,635
Securities borrowed	36,634,051
Securities purchased under agreements to resell	15,421,976
Receivable from broker-dealers and clearing organizations	19,308,125
Receivable from customers, net	4,330,838
Financial instruments owned, at fair value (\$41,774,988 pledged as collateral)	55,615,264
Property, equipment, and leasehold improvements, net	467
Goodwill	79,687
Other assets	595,698
	<hr/>
Total assets	\$ <u><u>132,522,171</u></u>

**Liabilities and Member's Equity**

Liabilities:	
Securities sold under agreements to repurchase	\$ 74,643,302
Securities loaned	8,538,555
Payable to customers	12,379,558
Payable to broker-dealers and clearing organizations	525,917
Payable to non-customers	529,738
Financial instruments sold, not yet purchased, at fair value	17,915,170
Borrowings	5,029,044
Other liabilities	624,887
	<hr/>
Total liabilities	120,186,171
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Subordinated borrowings	7,300,000
Member's equity:	
Member's contributions	1,565,243
Accumulated earnings	3,470,757
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Total member's equity	5,036,000
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Total liabilities and member's equity	\$ <u><u>132,522,171</u></u>

See accompanying notes to statement of financial condition

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**(1) Organization**

Wells Fargo Securities, LLC (the Company) is organized as a Limited Liability Company. The Company is a wholly-owned subsidiary of Everen Capital Corporation (Everen). On December 18, 2017, Everen's equity was contributed to WFC Holdings, LLC (WFCH) and became a wholly owned subsidiary of WFCH. WFCH is a wholly owned subsidiary of Wells Fargo & Company (the Holding Company). The Holding Company is registered with the Federal Reserve Board as a financial holding company in accordance with the Gramm-Leach-Bliley Act of 1999 (GLBA).

The Company is registered as a broker-dealer with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investment Protection Corporation (SIPC). The Company is also a registered Futures Commission Merchant (FCM) with the Commodities Futures Trading Commission (CFTC) and a member of the National Futures Association (NFA). The Company engages in a wide variety of securities activities in accordance with its status as an affiliate of a financial holding company under the provisions of the GLBA. In general, securities sold by the Company are not bank deposits and are not insured by the Federal Deposit Insurance Corporation.

The Company clears some of its customers' transactions through Wells Fargo Clearing Services, LLC (WFCS), an affiliated broker-dealer, on a fully disclosed basis.

The Company self clears the majority of its institutional customer accommodation and market-making transactions. Some futures are carried and cleared by an unaffiliated broker-dealer.

The Company clears some customer transactions for Wells Fargo Prime Services, LLC (WFPS), an affiliated broker-dealer, on a fully disclosed basis.

The Company is approved to act as a clearing prime broker. The Company is also designated as a Primary Dealer in U.S. government securities by the Federal Reserve Bank of New York.

The Company is a member of various exchanges where it is approved to trade, execute and clear interest rate swaps, futures and options.

On February 7, 2018, Standard & Poor's Ratings Services (S&P) revised its long and short-term issuer credit ratings to A+/A-1 on the Company and revised its outlook from negative to stable. The ratings on the Company are based on its core status to the Holding Company under S&P's group ratings methodology.

**(2) Summary of Significant Accounting Policies**

*(a) Accounting Standards Adopted in 2018*

Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606) and subsequent related updates modified the guidance used to recognize revenue from contracts with customers for transfers of goods or services and transfers of nonfinancial assets, unless those contracts are within the scope of other guidance. This guidance also requires new qualitative and quantitative disclosures, including disaggregation of revenues and descriptions of performance obligations.

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The Company adopted this new guidance on January 1, 2018, using the modified retrospective method. The Company performed an assessment and concluded that the implementation of this guidance did not have a material impact on the measurement or recognition of revenue of prior periods. The following describes the changes in accounting policies and procedures of the Company as a result of this new guidance.

The Company incurs costs in connection with investment banking advisory and underwriting services for debt and equity issuances for customers. The Company previously presented these costs as an offset against their respective revenues. Under the new guidance, the Company concluded that an underwriter acts as a principal in the delivery of underwriting services for the portion of the issuance that they are responsible for selling, but are agent for expenses incurred on behalf of other underwriters. Similarly, the Company concludes that that an investment banker advisor acts as principal in delivery of the advisory service. Therefore, beginning in January 2018, the Company presented costs for advisory and underwriting services in which it acts as a principal as expenses in the statement of income.

In 2018, the Company is adopting the additional required qualitative and quantitative disclosures required by this guidance to describe the disaggregation of revenues and performance obligations.

***(b) Accounting Policies Not Yet Adopted***

ASU 2016-02 *Leases* (Topic 842) requires lessees to recognize leases on the Statement of Financial Condition with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. The Company expects to adopt the guidance in January 2019 using the modified retrospective method and practical expedients for transition. The practical expedients allow the Company to largely account for its existing leases consistent with current guidance except for the incremental Statement of Financial Condition recognition for lessees. The Company is still evaluating the impact of its leasing contracts and activities. The Company is evaluating its existing disclosures and may provide additional information as a result of adoption of the new guidance.

ASU 2016-13 *Measurement of Credit Losses on Financial Instruments* (Topic 326) changes the accounting for credit losses on loans and debt securities. For loans and held-to-maturity debt securities, the new guidance requires a current expected credit loss (CECL) approach to determine the allowance for credit losses. CECL requires loss estimates for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts.

***(c) Securities Purchased/Sold Under Agreements to Resell/Repurchase***

Transactions involving securities purchased under agreements to resell (reverse repurchase agreements) or securities sold under agreements to repurchase (repurchase agreements) are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts. These transactions are primarily repurchase agreements of United States government and agency securities and corporate bonds. The Company's exposure to credit risk associated with the nonperformance of customers in fulfilling these contractual obligations can be directly affected by volatile trading markets, which may impair the customers' ability to satisfy their obligations to the Company. It is the Company's policy to report reverse repurchase agreements and repurchase

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agreements with the same counterparty on a net basis when the conditions for netting as specified in U.S. generally accepted accounting principles (U.S. GAAP) are met.

It is the Company's policy to obtain possession of securities purchased under agreements to resell. The Company manages the credit risk associated with these transactions by monitoring the market value of the collateral obtained, including accrued interest, and by requesting additional collateral when deemed appropriate.

***(d) Securities Transactions***

Financial instruments owned and financial instruments sold, not yet purchased are carried at fair value on a trade-date basis.

Customers' securities transactions are recorded on a settlement date basis with related commission revenue and expenses recorded on a trade-date basis. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the financial statements as the Company does not have title to those assets. In the event of uncompleted transactions on settlement date, the Company records corresponding receivables and payables, respectively. The carrying value of the receivables and payables approximates their fair values.

***(e) Securities Lending Activity***

Securities borrowed and securities loaned are reported as collateralized financing transactions and are carried at the contracted amounts of cash collateral received or paid in connection with those transactions. The Company receives collateral generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

In accordance with U.S. GAAP, when the Company borrows securities against securities collateral, the Company is not required to record those transactions in the Statement of Financial Condition.

***(f) Derivatives***

Derivative financial instruments are used for trading purposes, including economic hedges of trading instruments, and are recorded at fair value. Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter derivative financial instruments, principally interest rate, credit default or total return swaps, forwards, and options, are based on quoted market prices for similar instruments, pricing models and discounted cash flow analyses, and are included in financial instruments owned and financial instruments sold, not yet purchased in the accompanying Statement of Financial Condition.

Most of the Company's derivative transactions are executed under master netting arrangements. The Company reflects all derivative balances and related cash collateral subject to enforceable master netting arrangements on a net basis in the Statement of Financial Condition. Statement of Financial Condition netting adjustments are determined based on the terms specified within each master netting arrangement. Balance sheet netting adjustments are determined at the counterparty level for which there may be multiple contract types. For disclosure purposes, adjustments are allocated to the contract type for each counterparty proportionately based upon gross amounts recognized by counterparty. As a result, the net amounts disclosed by contract type may not

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represent the actual exposure upon settlement of the contracts. Statement of Financial Condition netting does not include non-cash collateral that is received and pledged.

In 2017, the Company adopted Settlement to Market treatment for the cash collateralizing our interest rate derivative contracts with certain centrally cleared counterparties. As a result of this adoption, derivative balances with these counterparties are considered settled by the collateral.

**(g) Benefit Plans**

The Holding Company sponsors a frozen noncontributory qualified defined benefit retirement plan, the Wells Fargo & Company Cash Balance Plan (Cash Balance Plan), which covers eligible employees of Wells Fargo. The Cash Balance Plan was frozen on July 1, 2009, and no new benefits accrue after that date. Prior to July 1, 2009, eligible employees' Cash Balance Plan accounts were allocated a compensation credit based on a percentage of their certified compensation; the freeze discontinued the allocation of compensation credits after June 30, 2009. Investment credits continue to be allocated to participants' accounts based on their accumulated balances.

The Holding Company provides health care and life insurance benefits for certain retired employees and we reserve the right to amend, modify or terminate any of the benefits at any time.

The Holding Company sponsors a defined contribution retirement plan, the Wells Fargo & Company 401(k) Plan (401(k) Plan). Under the 401(k) Plan, after one month of service, eligible employees may contribute up to 50% of their certified compensation, subject to statutory limits. Eligible employees who complete one year of service are eligible for quarterly company matching contributions, which are generally dollar for dollar up to 6% of an employee's eligible certified compensation. Matching contributions are 100% vested. The 401(k) Plan includes an employer discretionary profit sharing contribution feature to allow the Holding Company to make a contribution to eligible employees' 401(k) Plan accounts for a plan year. Eligible employees who complete one year of service are eligible for profit sharing contributions. Profit sharing contributions are vested after three years of service.

The Holding Company allocates costs to the Company for the defined benefit pension plan, defined contribution retirement plan, and postretirement benefits.

**(h) Income Taxes**

The Company is a single-member limited liability company ("SMLLC") and is treated as a disregarded entity pursuant to Treasury Regulation 301.7701-3 for Federal income tax purposes. Generally, disregarded entities are not subject to entity-level Federal or state income taxation and as such, the Company is not required to provide for income taxes. The Company's taxable income is primarily reported in the tax return of Everen. There is no tax-sharing arrangement between the Company and Everen. Furthermore, the company has paid no dividends to Everen for tax reimbursement and the Company has no intention to distribute dividends to Everen for tax reimbursement.

Certain state and local jurisdictions will subject the Company to entity-level taxation as a SMLLC. Related deferred tax assets and liabilities and payments associated with these jurisdictions are not material to the Statement of Financial Condition.

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Due to the Company's status as a disregarded entity for income tax purposes, the related balance sheet accounts including income tax receivable/payable and deferred tax assets and liabilities are immaterial to the Statement of Financial Condition.

Based upon its evaluation, the Company has concluded that there are no significant uncertain income tax positions relevant to the jurisdictions where it is required to file income tax returns requiring recognition in the Statement of Financial Condition. Management monitors proposed and issued tax law, regulations and cases to determine the potential impact to uncertain income tax positions. At June 30, 2018, management had not identified any potential subsequent events that would have a material impact on unrecognized income tax benefits within the next twelve months.

The Company files tax returns in various states and local jurisdictions and it is subject to income tax examinations by tax authorities for years 2011 and forward.

*(i) Goodwill*

Goodwill is not subject to amortization but is subject to impairment testing on an annual basis, or more often if events or circumstances indicate possible impairment. The Company initially performs a qualitative assessment of goodwill to test for impairment. If, based on qualitative review, it is concluded that more likely than not a reporting unit's fair value is less than carrying amount, then quantitative steps are completed to determine if there is goodwill impairment. If it is concluded that fair value is not less than carrying amount, further quantitative tests are not required. Various quantitative valuation methodologies are applied when required to compare the estimated fair value to the carrying value. Valuation methodologies include discounted cash flow and earnings multiple approaches. If the reporting unit's fair value is less than the carrying amount, an additional test is required to measure the amount of impairment. The Company recognizes impairment losses as a charge to expenses and an adjustment to the carrying value of the goodwill asset. The Company's impairment evaluation for the year ended December 31, 2017, indicated that none of the Company's goodwill is impaired and there are no events or circumstances that indicate possible impairment as of December 31, 2017. At December 31, 2017, WFS had one reporting unit.

*(j) Property, Equipment, and Leasehold Improvements*

Property, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation of property and equipment is recognized on a straight-line basis using estimated useful lives, which generally range from three to ten years. Leasehold improvements are amortized over the lesser of the estimated useful life of the improvement or the term of the lease.

*(k) Other*

The Company's financial statements are prepared in accordance with U.S. GAAP. The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Statement of Financial Condition. Actual results could differ from those estimates.

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**(3) Cash and Securities and Securities Segregated Pursuant to Federal Regulations**

Under the provisions of Rule 15c3-3 of the Securities and Exchange Commission (SEC), there is no required deposit for customer accounts as of June 30, 2018, and therefore no cash or securities were on deposit. There is no required deposit for the proprietary accounts of brokers (PAB), and therefore no cash or securities were on deposit at June 30, 2018.

As an FCM, the Company is required to segregate funds in a cleared swap customer account, a secured funds account and a segregated funds account under rules mandated by the CFTC. For these purposes, \$164,828, \$36,133, and \$13,189, respectively, is held in accounts at non affiliate banks and is reflected in cash segregated pursuant to federal regulations in the Statement of Financial Condition. In addition, \$142,712 of client cleared swaps funds, \$4,310 of secured funds and \$78,463 of segregated funds are held in accounts at an affiliate bank and reflected in cash segregated pursuant to Federal regulations in the Statement of Financial Condition.

The Company is required to post margin at exchanges to meet customer and firm requirements. The Company deposited \$1,976,153 of investments of customer funds in securities with clearing organizations as margin at June 30, 2018. These segregated securities are included in financial instruments owned, at fair value in the Statement of Financial Condition. The Company also entered into securities purchased under agreement to resell contracts using \$10,008 of customers' secured funds at June 30, 2018.

Additionally, the Company segregated \$3,999,085 of customer specific owned securities deposited at non-affiliated banks and clearing organizations at June 30, 2018. These segregated securities are not included in the Statement of Financial Condition.

**(4) Receivable from and Payable to Customers**

Receivable from and payable to customers represent the net amounts receivable from and payable to customers in connection with the settlement of normal cash securities, derivative and securities-based lending transactions. Receivables from customers also include margin loans to customers and customer cash debits. Payable to customers includes customer free credits. It is the Company's policy to report margin loans and payables that arise due to positive cash flows in the same customer's accounts on a net basis when the conditions for netting as specified in U.S. GAAP are met. The amounts receivable from customers are generally collateralized by securities owned by the customer, the value of which is not reflected in the accompanying Statement of Financial Condition. At June 30, 2018, customer receivables of \$78,281 were unsecured.

The company has established an allowance for doubtful accounts to offset amounts deemed uncollectible from unsecured customer balances receivable. Receivable from customers is reported net of the allowance for doubtful accounts in the amount of \$1,631 as of June 30, 2018.



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**(5) Receivable from and Payable to Broker-Dealers and Clearing Organizations**

Receivable from and payable to broker-dealers and clearing organizations consist of the following at June 30, 2018:

Receivable from broker-dealers and clearing organizations:

Unsettled trades, net	\$ 15,361,682
Receivable from derivative clearing organizations	3,197,897
Securities failed to deliver	171,455
Clearing fund deposits	166,367
Syndicate receivable	158,338
Guaranty deposits	108,966
Receivable from carrying brokers	101,082
Receivable from clearing corporations	39,143
Other	3,195
	<u>\$ 19,308,125</u>

Payable to broker-dealers and clearing organizations:

Securities failed to receive	\$ 355,414
Syndicate payable	109,452
Payable to derivative clearing organizations	61,051
	<u>\$ 525,917</u>

**(6) Payable to Non-Customers**

Payable to Non-Customers represent payable to affiliates for their futures, options and cleared swaps accounts that the Company clears for them. The balance consists of the following at June 30, 2018:

Payable to Wells Fargo Bank, N.A.	\$ 442,013
Payable to Wells Fargo Commodities, LLC	66,879
Payable to Wells Fargo Fund Management, LLC	17,578
Payable to Union Hamilton Reinsurance, Ltd.	3,268
	<u>\$ 529,738</u>

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**(7) Financial Instruments Owned and Financial Instruments Sold, Not Yet Purchased**

At June 30, 2018, financial instruments owned and financial instruments sold, not yet purchased consisted of trading securities and derivatives reported at fair value as presented below:

	<b>Financial instruments owned</b>	<b>Financial instruments sold, not yet purchased</b>
Corporate obligations	\$ 10,442,812	(4,922,463)
Collateralized loan obligations and asset-backed securities	2,098,994	-
Mortgage-backed securities	27,022,727	(226)
U.S. government, U.S. agency and municipal government obligations	13,582,260	(10,585,815)
Equity securities	2,179,140	(2,085,244)
Derivatives:		
Interest rate contracts	247,509	(321,384)
Equity contracts	41,602	-
Foreign exchange contracts	48	-
Credit contracts	172	(38)
	<u>\$ 55,615,264</u>	<u>(17,915,170)</u>

U.S. government securities of \$978,766 have been pledged to clearing organizations as of June 30, 2018. Financial instruments owned at June 30, 2018, included debt securities issued by the Holding Company with a fair value of \$153,216 are included in corporate obligations in the table above.

**(8) Variable Interest Entities (VIEs) and Securitizations**

The Company acts as underwriter for other subsidiaries of the Holding Company and third parties that securitize financial assets, and may make a market in these securitized financial assets. These securities are accounted for at fair value and are included in financial instruments owned, at fair value in the Statement of Financial Condition.

The Company purchases and sells financial instruments in VIEs in connection with its market-making activities. These financial instruments in VIEs include senior and subordinated tranches of collateralized mortgage obligations (CMOs), collateralized debt obligations (CDOs), collateralized loan obligations (CLOs), and other asset-backed securities. The Company has made no liquidity arrangements, guarantees or commitments with third parties related to these holdings. The Company's maximum exposure to loss related to these VIEs is limited to the carrying amount of the financial instruments owned.

During the period ended June 30, 2018, there were no transfers of debt securities into VIEs. The securitizations are primarily U.S. government agency or U.S. Government-Sponsored Enterprise (GSE) sponsored collateralized mortgage obligations. These securitizations are done principally on behalf of customers to facilitate their purchase of agency-backed mortgage securities that conform to their investment profile. The Company is not the primary

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beneficiary of these VIEs because it does not have the power to direct the activities that most significantly impact the U.S. government agency or U.S. GSE sponsored collateralized mortgage obligation entities. As of June 30 2018, the Company held \$121,729 of securities related to securitizations for which the Company included in financial instruments owned, at fair value in the Statement of Financial Condition.

The Company would consolidate a VIE if it is the primary beneficiary, which is defined as the party that has both the power to direct the activities that most significantly impact the VIE's performance and the obligation to absorb losses or right to receive benefits that could potentially be significant to the VIE. The Company was not required to consolidate any interest in VIEs.

The following tables provide a summary of unconsolidated VIEs with which the Company has significant continuing involvement. Significant continuing involvement includes transactions where the Company was the sponsor or transferor and has other significant forms of involvement. Sponsorship includes transactions with unconsolidated VIEs where the Company solely or materially participated in the initial design or structuring of the entity or marketing of the transaction to investors. When the Company transfers assets to a VIE and accounts for the transfer as a sale, the Company is considered the transferor. The tables do not include offsetting financial instruments that are held to mitigate the risks associated with these variable interest entities.

In the following tables, "Total VIE assets" represents the remaining principal balance of assets held by unconsolidated VIEs using the most current information available. "Carrying value" is the amount in our Statement of Financial Condition related to our involvement with the unconsolidated VIEs. "Maximum exposure to loss" from our involvement with off-balance sheet entities equals the carrying value of involvement with off-balance sheet (unconsolidated) VIEs as of June 30, 2018, as the Company does not have any other commitments or guarantees with those entities.

	Total VIE assets	Carrying value - asset (liability)	
		Debt and equity interests	Total Assets
Residential mortgage loan securitizations:			
Conforming	\$ 71,582,388	121,729	121,729
Other/nonconforming (1)	292,338	-	-
Commercial mortgage securitizations	3,020,273	-	-
	<u>\$ 74,894,999</u>	<u>121,729</u>	<u>121,729</u>

(1) Nonconforming residential mortgage loan securitizations are those comprised of loans that do not conform to either government-sponsored entity or Federal Housing Administration standards.

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	Maximum exposure to loss	
	Debt and equity	
	interests	total exposure
Residential mortgage loan securitizations:		
Conforming	\$ 121,729	121,729
Other/nonconforming	-	-
Commercial mortgage securitizations	-	-
Total	\$ 121,729	121,729

**(9) Fair Value Measurements**

In accordance with FASB ASC 820, Fair Value Measurement, the Company groups its assets and liabilities measured at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of marker comparable pricing, option pricing models, discounted cash flow models and similar techniques.

In the determination of the classification of financial instruments in Level 2 or Level 3 of the fair value hierarchy, the Company considers all available information, including observable market data, indications of market liquidity and orderliness, and the Company’s understanding of the valuation techniques and significant inputs used. Based upon the specific facts and circumstances of each instrument or instrument category, judgments are made regarding the significance of the Level 3 inputs to the instruments’ fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3.

The following sections describe the valuation methodologies used by the Company to measure classes of financial instruments at fair value and specify the level in the fair value hierarchy where various financial instruments are generally classified. Valuation models, significant inputs to those models and any significant assumptions are included where appropriate.

The Company uses quoted prices in active markets, where available, and classifies such instruments within Level 1 of the fair value hierarchy. Examples include exchange-traded equity securities and some highly liquid government securities such as U.S. Treasuries. When instruments are traded in secondary markets and quoted market prices do not exist for such securities, the Company generally relies on internal valuation techniques or

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on prices obtained from third-party pricing services (vendors) or brokers or combination thereof, and accordingly, classifies these instruments as Level 2 or 3.

Financial instruments are mostly valued using internal trader prices that are subject to price verification procedures performed by independent internal personnel. The majority of fair values derived using internal valuation techniques are verified against multiple pricing sources, including prices obtained from third-party vendors. Vendors compile prices from various sources and often apply matrix pricing for similar securities when no price is observable. The Company reviews pricing methodologies provided by the vendors in order to determine if observable market information is being used, versus unobservable inputs. When evaluating the appropriateness of an internal trader price compared with vendor prices, considerations include the range and quality of vendor prices. Vendor or broker prices are used to ensure the reasonableness of a trader price; however valuing financial instruments involves judgments acquired from knowledge of a particular market. If a trader asserts that a vendor or broker price is not reflective of market value, justification for using the trader price, including recent sales activity where possible, must be provided to and approved by the appropriate levels of management.

Similarly, while trading securities traded in secondary markets are typically valued using unadjusted vendor prices, these prices are reviewed and may be adjusted using quoted market prices for similar securities if determined necessary. These securities are classified as Level 2 of the hierarchy. Examples include certain U.S. government, U.S. agency and municipal government obligations, corporate obligations, and certain mortgage-backed securities (MBS).

Security fair value measurements using significant inputs that are unobservable in the market due to limited activity or a less liquid market are classified as Level 3 in the fair value hierarchy. Such measurements include securities valued using internal models or a combination of multiple valuation techniques such as weighting of internal models and vendor or broker pricing, where the unobservable inputs are significant to the overall fair value measurement. Securities classified as Level 3 include certain residential and commercial MBS, other asset-backed securities, CDOs and certain CLOs, and certain residual and retained interests in residential mortgage loan securitizations. The Company values CDOs using the prices of similar instruments, the pricing of completed or pending third party transactions or the pricing of the underlying collateral within the CDO. Where vendor or broker prices are not readily available, the Company uses management's best estimate.

The Company enters into both exchange-traded and over-the-counter (OTC) derivatives. Quoted market prices are available and used for the Company's exchange-traded derivatives, such as certain interest rate futures and option contracts, which the Company classifies as Level 1. However, a majority of the Company's derivatives are traded in OTC markets where quoted market prices are not readily available. OTC derivatives are valued using internal valuation techniques. Valuation techniques and inputs to internally developed models depend on the type of derivative and nature of the underlying rate, price or index upon which the derivative's value is based. Key inputs can include yield curves, credit curves, foreign-exchange rates, prepayment rates, volatility measurements and correlation of such inputs. Where model inputs can be observed in a liquid market and the model does not require significant judgment, such derivatives are typically classified as Level 2 of the fair value hierarchy. Examples of derivatives classified as Level 2 include generic interest rate swaps and certain option and forward contracts. When instruments are traded in less liquid markets and significant inputs are unobservable, such derivatives are classified as Level 3. Examples of derivatives classified as Level 3 include complex and highly

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structured derivatives such as certain credit default swaps. Additionally, significant judgments are required when classifying financial instruments within the fair value hierarchy, particularly between Level 2 and 3, as is the case for certain derivatives.

Assets and liabilities measured at fair value at June 30, 2018 on a recurring basis are summarized below:

	<b>Assets and Liabilities Recorded at Fair Value on a Recurring Basis</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Netting (a)</b>	<b>Total</b>
<b>Financial instruments owned (excluding derivatives):</b>					
Corporate obligations	\$ -	10,407,211	35,601	-	10,442,812
Collateralized loan obligations and asset-backed securities	-	1,823,486	275,508	-	2,098,994
Mortgage-backed securities	-	27,022,727	-	-	27,022,727
US government, US agency and municipal government obligations	11,798,741	1,780,874	2,645	-	13,582,260
Equity securities	1,170,906	1,000,672	7,562	-	2,179,140
<b>Derivatives:</b>					
Interest rate contracts	-	521,043	-	(273,534)	247,509
Equity contracts	251,328	4,164	2,408	(216,298)	41,602
Foreign exchange contracts	-	1,516	-	(1,468)	48
Credit contracts	-	44,976	-	(44,804)	172
	<u>\$ 13,220,975</u>	<u>42,606,669</u>	<u>323,724</u>	<u>(536,104)</u>	<u>55,615,264</u>
<b>Financial instruments sold, not yet purchased (excluding derivatives):</b>					
Corporate obligations	\$ -	(4,922,450)	(13)	-	(4,922,463)
Mortgage-backed securities	-	(226)	-	-	(226)
US government, US agency and municipal government obligations	(10,176,198)	(409,617)	-	-	(10,585,815)
Equity securities	(2,082,889)	(2,355)	-	-	(2,085,244)
<b>Derivatives:</b>					
Interest rate contracts	-	(580,337)	-	258,953	(321,384)
Equity contracts	(209,695)	(5,869)	(4,137)	219,701	-
Foreign exchange contracts	-	(1,402)	-	1,402	-
Credit contracts	-	(48,173)	(600)	48,735	(38)
	<u>\$ (12,468,782)</u>	<u>(5,970,429)</u>	<u>(4,750)</u>	<u>528,791</u>	<u>(17,915,170)</u>

(a) Derivative assets and derivative liabilities subject to an enforceable master netting arrangement and related cash collateral are netted on the accompanying statement of financial condition when GAAP conditions have been met.

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***Changes in Fair Value Levels***

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy and transfer between Level 1, Level 2, and Level 3 accordingly. Observable market data includes but is not limited to quoted prices and market transactions. Changes in economic conditions or market liquidity generally will drive changes in availability of observable market data. Changes in availability of observable market data, which also may result in changing the valuation technique used, are generally the cause of transfers between Level 1, Level 2, and Level 3.

The amounts reported as transfers represent the fair value as of the beginning of the period in which the transfer occurred. For the period ended June 30, 2018, the Company transferred \$(10,277), net, of financial instruments from Level 2 to Level 3 and \$(4,986), of financial instruments from Level 3 to Level 2, each due to changes in observable market inputs. There were no transfers between Level 1 and Level 2 during the period.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the period ended June 30, 2018 are summarized in the table below.

	<b>Changes in Level 3 Assets and Liabilities on a Recurring Basis</b>					
	<b>Beginning balance January 1, 2018</b>	<b>Total net gains/(losses) included in earnings</b>	<b>Purchases, issuances, sales and settlements, net</b>	<b>Transfers into Level 3</b>	<b>Transfers out of Level 3</b>	<b>Ending balance June 30, 2018</b>
<b>Financial instruments owned (excluding derivatives):</b>						
Corporate obligations	\$ 31,135	(142)	5,768	54	(1,214)	35,601
Collateralized loan obligations and asset-backed securities	354,409	(3,453)	(75,448)	-	-	275,508
Mortgage-backed securities	-	-	-	-	-	-
US government, US agency and municipal government obligations	2,684	-	(39)	-	-	2,645
Equity securities	46	1,066	(1)	10,223	(3,772)	7,562
	<u>\$ 388,274</u>	<u>(2,529)</u>	<u>(69,720)</u>	<u>10,277</u>	<u>(4,986)</u>	<u>321,316</u>
<b>Financial instruments sold, not yet purchased (excluding derivatives):</b>						
Corporate obligations	\$ (13)	-	-	-	-	(13)
	<u>\$ (13)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13)</u>
<b>Net derivative assets and liabilities:</b>						
Equity contracts, net	(4,424)	2,447	248	-	-	(1,729)
Credit contracts, net	(725)	283	(158)	-	-	(600)
	<u>\$ (5,149)</u>	<u>2,730</u>	<u>90</u>	<u>-</u>	<u>-</u>	<u>(2,329)</u>

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The following table presents gross purchases, sales, issuances and settlements related to the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the period ended June 30, 2018.

<b>Purchases, Sales, Issuances and Settlements Related to Changes in Level 3 Assets and Liabilities</b>					
	<u>Purchases</u>	<u>Sales</u>	<u>Issuances</u>	<u>Settlements</u>	<u>Net</u>
<b>Financial instruments (excluding derivatives):</b>					
Corporate obligations, net	\$ 7,393	(1,625)	-	-	5,768
Collateralized loan obligations and asset-backed securities	247,622	(222,842)	-	(100,229)	(75,449)
US government, US agency and municipal government obligations	-	-	-	(38)	(38)
Equity securities	-	(1)	-	-	(1)
	<u>\$ 255,015</u>	<u>(224,468)</u>	<u>-</u>	<u>(100,267)</u>	<u>(69,720)</u>
<b>Derivatives (net):</b>					
Equity contracts, net	-	-	-	248	248
Credit contracts, net	-	-	-	(158)	(158)
	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>90</u>	<u>90</u>

**Valuation Techniques – Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The following table provides quantitative information about the valuation techniques and significant unobservable inputs used in the valuation of substantially all Level 3 assets and liabilities measured at fair value on a recurring basis which is used as an internal model.

	Fair value amount reported (Level 3)	Valuation technique	Significant unobservable input	Range of unobservable inputs		Weighted average
				Low end of range	High end of range	
<b>Financial instruments (excluding derivatives):</b>						
Corporate obligations	\$ 35,588	Market comparable pricing	Comparability adjustment	-4.98%	1.41%	-2.07%
Collateralized loan obligations	275,508	Market comparable pricing	Comparability adjustment	-22.00%	19.50%	3.04%
US government, US agency and municipal government obligations	2,646	Market comparable pricing	Comparability adjustment	0.00%	100.00%	88.97%
Equity securities	<u>7,562</u>	Market comparable pricing	Comparability adjustment	0.00%	0.00%	0.00%
Total financial instruments owned	<u>\$ 321,304</u>					
<b>Derivatives (net):</b>						
Equity contracts	(1,729)	Option pricing model	Volatility factor	8.75%	100.00%	23.28%
			Correlation factor	-75.00%	98.00%	56.94%
Credit contracts	<u>(600)</u>	Market comparable pricing	Comparability adjustment	2.90%	2.90%	2.90%
Total derivatives	<u>\$ (2,329)</u>					



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The valuation techniques used for Level 3 assets and liabilities, as presented in the previous tables, are described as follows:

- Market Comparable Pricing – Used to determine the fair value of certain instruments by incorporating known inputs such as recent transaction prices, pending transactions, or prices of other similar investments which require significant adjustment to reflect differences in instrument characteristics.
- Option Price Modeling – Generally used for instruments in which the holder has a contingent right or obligation based on the occurrence of a future event, such as the price of a referenced asset going above or below a predetermined strike price. Option pricing models estimate the likelihood of the specified event occurring by incorporating assumptions such as volatility estimates, price of the underlying instrument and expected rate of return.

Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the preceding tables. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument.

Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated to one another), which may counteract or magnify the fair value impact.

Significant unobservable inputs presented in the previous tables are those considered significant to the fair value of the Level 3 asset or liability. Unobservable inputs are considered to be significant, if by their exclusion, the fair value of the Level 3 asset or liability would be impacted by a predetermined percentage change or based on qualitative factors, such as nature of the instrument, type of valuation techniques used, and the significance of the unobservable inputs relative to other inputs used within the valuation. Following is a description of the significant unobservable inputs provided in the tables.

- Comparability adjustment – is an adjustment made to observed market data, such as a transaction price in order to reflect dissimilarities in underlying collateral, issuer, rating, or other factors used within a market valuation approach expressed as a percentage of an observed price.
- Volatility factor – is the extent of change in price an item is estimated to fluctuate over a specified period of time expressed as a percentage of relative change in price over a period over time.
- Correlation factor – is the likelihood of one instrument changing in price relative to another based on an established relationship expressed as a percentage of relative change in price over a period over time.

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***Fair Value Option***

The fair value option is an irrevocable election, generally only permitted upon initial recognition of financial assets or liabilities, to measure eligible financial instruments at fair value with changes in fair value reflected in earnings. We may elect the fair value option to align the measurement model with how the financial assets or liabilities are managed or to reduce complexity or accounting asymmetry.

As of June 30, 2018, the fair value carrying amount of assets for which we have elected the fair value option was \$43,834. These assets consist of nonmarketable equity investments carried at fair value, which are included in financial instruments owned, at fair value in the Statement of Financial Condition.

***Disclosures about Fair Value of Financial Assets and Liabilities***

The table below is a summary of fair value estimates for financial assets and liabilities, excluding financial instruments recorded at fair value on a recurring basis, which are included within the Assets and Liabilities Recorded at Fair Value on a Recurring Basis table included earlier in this Note. The carrying amounts in the following table are recorded on the Statement of Financial Condition under the indicated captions.

	Carrying amount	Estimated Fair Value Hierarchy			Total estimated fair value
		Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Cash	\$ 96,430	96,430	-	-	96,430
Cash segregated pursuant to federal regulations	439,635	439,635	-	-	439,635
Securities borrowed	36,634,051	-	36,634,051	-	36,634,051
Securities purchased under agreements to resell	15,421,976	-	15,421,976	-	15,421,976
Receivable from broker-dealers and clearing organizations	19,308,125	-	19,308,125	-	19,308,125
Receivable from customers, net	4,330,838	-	4,330,838	-	4,330,838
<b>Financial liabilities</b>					
Securities sold under agreements to repurchase	\$ 74,643,302	-	74,643,302	-	74,643,302
Securities loaned	8,538,555	-	8,538,555	-	8,538,555
Payable to customers	12,379,558	-	12,379,558	-	12,379,558
Payable to broker-dealers and clearing organizations	525,917	-	525,917	-	525,917
Payable to non-customers	529,738	-	529,738	-	529,738
Borrowings	5,029,044	-	5,029,044	-	5,029,044
Subordinated borrowings	7,300,000	-	7,300,000	-	7,300,000

There were no circumstances which required the Company to measure any assets or liabilities at fair value on a nonrecurring basis as of June 30, 2018.

**(10) Collateral Arrangements**

The Company has accepted securities, which it is permitted to repledge or sell, as collateral for securities borrowed transactions and for securities purchased under agreements to resell transactions. At June 30, 2018, the fair value of this collateral was \$66,637,321 of which \$59,409,653 was repledged or sold by the Company. The collateral is received primarily from other broker-dealers or institutional customers and is used by the Company

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to enter into securities lending agreements, securities sold with agreements to repurchase transactions and settlements related to financial instruments sold, not yet purchased.

**(11) Property, Equipment, and Leasehold Improvements**

Property, equipment, and leasehold improvements consist of the following at June 30, 2018:

Property and leasehold improvements	\$	1,841
Furniture and equipment		379
Communications and computer equipment		<u>5,764</u>
		7,984
Less: accumulated depreciation and amortization		<u>7,517</u>
Total	\$	<u>467</u>

**(12) Transactions with Affiliated Parties**

The following items present the Company's significant transactions with affiliated parties.

**(a) Securities Purchased Under Agreements to Resell and Securities Borrowed**

The Company enters into securities purchased under agreements to resell transactions with affiliates, of which \$5,063,087 is outstanding at June 30, 2018. The agreements are generally overnight transactions. Included in interest receivable at June 30, 2018, is \$1,030 due from affiliates.

The Company also enters into securities borrowed transactions with affiliates, of which \$1,239,381 is outstanding at June 30, 2018. Included in interest receivable at June 30 2018, related to these transactions is \$2,696 due from affiliates

**(b) Securities Sold Under Agreements to Repurchase and Securities Loaned.**

The Company enters into securities sold under agreements to repurchase transactions with affiliates, of which \$4,613,360 is outstanding at June 30, 2018. The agreements are generally overnight transactions. Included in accrued interest payable at June 30, 2018, from these agreements is \$1,152 due to affiliates.

The Company also enters into securities loaned transactions with affiliates, of which \$754,070 is outstanding at June 30, 2018. Included in interest payable at June 30, 2018, from these transactions is \$1,001 due to affiliates.

**(c) Services Provided by Affiliates to the Company**

Approximately \$17,573 of payables in other liabilities at June 30, 2018 are primarily related to expense reimbursements due to affiliates.

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**(d) *Services Provided by the Company to Affiliates***

The Company acts as an agent for the Holding Company and its subsidiaries providing various services. Approximately \$13,271 of receivables in other assets at June 30, 2018 are primarily related to expense reimbursements due from affiliates.

**(e) *Interest Rate, Equity and Credit Default Swap Transactions***

The Company has entered into interest rate, equity, and credit default swap transactions with Wells Fargo Bank, N.A. (WFBNA), an affiliated bank, to economically hedge its financial instrument positions. At June 30, 2018, the notional value of interest rate swaps are a net sale of payments of fixed interest rates of \$1,920,736, equity swaps are a net sale of protection of \$246,571 and credit default swaps are a net sale of protection of \$43,039. The estimated fair values of the interest rate, equity and credit default swaps at June 30, 2018, are \$72,661, (\$1,674) and (\$3,821) respectively, which are included net in financial instruments owned in the Statement of Financial Condition. There was cash margin on deposit of \$8,790 in support of this activity at June 30, 2018. Additionally, securities with a market value of \$121,525 have been pledged by WFBNA to the Company.

The Company also clears certain interest rate swaps and futures for WFBNA as well as other affiliates.

**(f) *Clearing Services***

The Company has entered into a fully disclosed clearing agreement with WFCS to clear some of its customers' securities transactions. The agreement provides for the Company to pay WFCS on a cost plus reimbursement arrangement. At June 30, 2018, \$35 was receivable from WFCS in connection with this fully disclosed clearing arrangement.

**(g) *Fails to Deliver and Fails to Receive***

The Company entered into securities transactions with affiliates registered as brokers and/or dealers. At June 30, 2018, fails to deliver of \$208,159 and fails to receive of \$109,851 resulting from these transactions are included in receivables from and payable to broker-dealers and clearing organizations, respectively.

**(h) *Subordinated Borrowings and Other Borrowings***

The Company has a revolving subordinated loan facility for \$8,000,000 with a subsidiary of the Holding Company, WFC Holdings, LLC (WFCH). Approvals were obtained from the Financial Industry Regulatory Authority (FINRA) and the Chicago Mercantile Exchange (CME) effective May 26, 2017. The interest rate is reset monthly based on 3 month LIBOR plus 135 basis points. Interest payable to WFCH related to these borrowings totaled \$22,313 at June 30, 2018. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. The Company's outstanding borrowings under subordination agreements at June 30, 2018 totaled \$7,300,000 under an \$8,000,000 revolving subordinated note facility due December 28, 2021 and carried a variable interest rate of 3.67% at June 30, 2018.

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In addition, the Company has unsecured borrowing agreements with WFCH as of June 30, 2018 and are listed in the following table:

<b>Description</b>	<b>Committed / Uncommitted</b>	<b>At June 30, 2018</b>		
		<b>Notional</b>	<b>Outstanding Balance</b>	<b>Interest Payable</b>
Short Term Promisory Note	Uncommitted	500,000	29,044	209
Line of Credit	Uncommitted	6,000,000	1,000,000	2,275
Line of Credit	Committed	8,000,000	4,000,000	9,345
		18,500,000	5,029,044	11,829

**(i) Deferred Compensation and Stock Plans**

The Company participates in the Holding Company's unfunded deferred compensation plan in which a select group of management or highly compensated individuals are participants, as defined. This plan automatically defers a portion of the individuals' incentive award using a four-tiered scale ranging from 20% to 60% on awards greater than \$100,000. Deferred portion of the award further takes the form of RSRs and Long Term Cash. Deferred cash incentive awards generally vest over a three-year period while the RSRs vest over 4 years.

The Company participates in various stock plans of the Holding Company under which restricted shares, restricted stock rights (RSRs) and performance share awards (PSAs) may be granted periodically to certain employees. Restricted stock RSRs and PSAs generally vest over three to five years, during which time the holder may be entitled to receive additional RSRs, PSAs or cash payments equal to the cash dividends that would have been paid had the RSRs or PSAs been issued and outstanding shares of common stock. RSRs and PSAs granted as dividend equivalents are subject to the same vesting schedule and conditions as the underlying award.

The transactions with affiliates described above and the effect thereof on the accompanying Statement of Financial Condition may not necessarily be indicative of the effect that might have resulted from dealing with non-affiliated parties.

**(13) Derivatives**

The Company is a party to derivative financial instruments and commitments in the normal course of business to meet the financing needs of customers, conduct trading activities, and manage market risks. These derivative financial instruments include futures, options, swaps, swaptions, forward commitments to purchase and sell securities, securities purchased and sold on a when-issued basis (when-issued securities), and firm underwriting commitments. These instruments and commitments involve, to varying degrees, elements of credit and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to the terms of the contract. Market risk is the possibility that a change in interest rates, the underlying assets, indices or a combination of these factors will cause an unfavorable change in the value of a financial instrument.

The Company controls the credit risk arising from these instruments and commitments through its credit approval process and through the use of risk control limits and monitoring procedures. It evaluates each customer's or other

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broker-dealer's creditworthiness on a case-by-case basis. If collateral is deemed necessary to reduce credit risk, the amount and nature of the collateral obtained is based on management's credit evaluation of the other party. Based on the Company's assessment of each of its counterparties, additional collateral was not required by the Company at June 30, 2018.

The notional principal or contractual amounts of derivative financial instruments exceed the probable loss that could arise from counterparty default or market-related risks. The fair value of derivative financial instruments represents principally the estimated unrealized gain (asset) or loss (liability) and is recorded in financial instruments owned, at fair value or financial instruments sold, not yet purchased in the Statement of Financial Condition. The market risk associated with trading financial instruments, including derivatives, the prices of which are constantly fluctuating, is managed by imposing limits as to the type, amounts, and degree of risk that traders may undertake. These limits are approved by senior management, and the risk positions of traders are reviewed on a daily basis to monitor compliance with the limits.

As of June 30, 2018, the following were the notional or contractual amounts of derivative financial instruments and their related fair values:

<b>Derivative instruments</b>	<b>Notional or contractual amount</b>	<b>Fair value</b>	
		<b>Derivative assets</b>	<b>Derivative liabilities</b>
Interest rate contracts	\$ 291,512,025	521,043	(580,337)
Equity contracts	19,197,086	257,900	(219,701)
Foreign exchange contracts	349,397	1,516	(1,402)
Credit contracts - protection sold	1,003,131	35,051	(12,971)
Credit contracts - protection purchased	970,093	9,925	(35,802)
Sub-total	<u>313,031,732</u>	<u>825,435</u>	<u>(850,213)</u>
Netting (1)	-	<u>(536,104)</u>	<u>528,791</u>
Total	<u>\$ 313,031,732</u>	<u>289,331</u>	<u>(321,422)</u>

<sup>(1)</sup> Represents balance sheet netting of derivative asset and liability balances and related cash collateral. See the next table in this Note for further information.

Forward and commodity contracts are contracts for delayed delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date of a specified instrument, at a specified price or yield. Equity contracts are contracts that allow the holder of the option to purchase or sell a financial instrument at a specified price and within a specified period of time from the seller or writer of the option. As a writer of options, the Company receives a premium at the outset and then bears the risk of an unfavorable change in the price of the financial instrument underlying the option and other market risk factors that may impact the fair value of the option.

The following table provides information on the gross fair values of assets and liabilities, the Statement of Financial Condition netting adjustments and the resulting net fair value amount recorded in the Statement of Financial Condition, as well as the non-cash collateral associated with such arrangements. The "Net Amounts"

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column within the following table represents the aggregate of our net exposure to each counterparty after considering the Statement of Financial Condition and disclosure-only netting adjustments. We manage derivative exposure by monitoring the credit risk associated with each counterparty using counterparty specific credit limits, using master netting arrangements and obtaining collateral. Derivative contracts executed in over-the-counter markets include bilateral contractual arrangements that are not cleared through a central clearing organization but are typically subject to master netting arrangements. The percentage of our bilateral derivative transactions outstanding at period end in such markets, based on gross fair value, is provided within the following table. Other derivative contracts executed in over-the-counter or exchange-traded markets are settled through a central clearing organization and are excluded from this percentage. In addition to the netting amounts included in the table, we also have balance sheet netting related to resale and repurchase agreements that are disclosed within Note 15. The Company has no derivatives that contain features that are contingent upon the credit ratings of the Company or its affiliates.

	<u>Gross amounts recognized</u>	<u>Gross amounts offset in statement of financial condition (1)</u>	<u>Net amounts in statement of financial condition (2)</u>	<u>Gross amounts not offset in statement of financial condition (Disclosure- only netting) (3)</u>	<u>Net amounts</u>	<u>Percentage exchanged in over-the counter market (4)</u>
<b>Derivative assets</b>						
Interest rate contracts	\$ 521,043	(273,534)	247,509	-	247,509	52%
Equity contracts	257,900	(216,298)	41,602	-	41,602	3%
Foreign exchange contracts	1,516	(1,468)	48	-	48	100%
Credit contracts - protection sold	35,051	(35,051)	-	-	-	100%
Credit contracts - protection purchased	9,925	(9,753)	172	-	172	100%
	<u>\$ 825,435</u>	<u>(536,104)</u>	<u>289,331</u>	<u>-</u>	<u>289,331</u>	
<b>Derivative liabilities</b>						
Interest rate contracts	\$ (580,337)	258,953	(321,384)	-	(321,384)	66%
Equity contracts	(219,701)	219,701	-	-	-	5%
Foreign exchange contracts	(1,402)	1,402	-	-	-	100%
Credit contracts - protection sold	(12,971)	12,933	(38)	-	(38)	100%
Credit contracts - protection purchased	(35,802)	35,802	-	-	-	100%
	<u>\$ (850,213)</u>	<u>528,791</u>	<u>(321,422)</u>	<u>-</u>	<u>(321,422)</u>	

- (1) Represents amounts with counterparties subject to enforceable master netting arrangements that have been offset in the statement of financial condition, including related cash collateral and portfolio level counterparty valuation adjustments. There were no counterparty valuation adjustments related to derivative assets or derivative liabilities at June 30, 2018. Additionally, cash collateral amounts of \$33,250 and \$28,422 were netted against derivative assets and liabilities, respectively, at June 30, 2018.
- (2) Net derivative assets are classified in financial instruments owned, at fair value, and Net derivative liabilities are classified in financial instruments sold, not yet purchased, at fair value, in the statement of financial condition.
- (3) Represents non-cash collateral pledged and received against derivative assets and liabilities with the same counterparty that are subject to enforceable master netting arrangements. U.S. GAAP does not permit netting of such non-cash collateral balances in the statement of financial condition, but requires disclosure of these amounts.
- (4) Represents derivatives executed in over-the-counter markets that are not settled through a central clearing organization. Over-the-counter percentages are calculated based on gross amounts recognized as of the statement of financial condition date. The remaining percentage represents derivatives settled through a central clearing organization, which are executed in either over-the-counter or exchange-traded markets.

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***Credit Derivatives***

The Company uses credit derivatives to manage exposure to credit risk related to its customer accommodation and market-making activity. This may include protection purchased to offset securities owned or sold protection. This credit risk management provides an ability to recover a significant portion of any amounts that would be paid under the credit derivatives written by the Company. The majority of the credit contracts are executed with an affiliate, WFBNA, and the Company would be required to perform under the noted credit derivatives in the event of a default by the referenced obligors. Excluded from maximum exposure are written credit protection contracts with a notional amount of \$427,200 where the Company has also purchased offsetting credit protection with the same counterparty, WFBNA, on the same referenced obligation and where the term and amount of the purchased protection equals or exceeds the term of the written credit protection. Events of default include events such as bankruptcy, capital restructuring or lack principal and/or interest payment. In certain cases, other triggers may exist, such as the credit downgrade of the referenced obligors.

The following table provides details of sold and purchased credit derivatives as of June 30, 2018.

		Notional amount					
	Fair value liability	Protection sold (A)	Protection sold - non-investment grade	Protection purchased with identical underlyings (B)	Net protection sold (A) - (B)	Other protection purchased	Range of maturities
Credit default swaps – corporate bonds	\$ (11,152)	438,590	116,850	207,200	231,390	321,740	2018-2022
Credit default swaps – structured products	(600)	5,000	-	-	5,000	5,000	2022
Credit protection - commercial MBS	(1,219)	255,000	255,000	220,000	35,000	-	2047-2058
Total credit derivatives	\$ (12,971)	698,590	371,850	427,200	271,390	326,740	

The Protection sold – non-investment grade category is based on the portion of the maximum loss exposure for which there is a greater risk that the Company will be required to make a payment or perform under the credit derivative. The current status of the risk of payment or performance being required is considered high if the underlying assets under the credit derivative have an external rating that is below investment grade or an internal credit default grade that would be equivalent to below investment grade external rating. It is important to note that the Protection sold – non-investment grade represents the amount of exposure which would be incurred under an assumed hypothetical circumstance and, accordingly, this disclosure is not an indication of expected loss for which payment is of a high likelihood. Such payment may not result in a loss. As such, the Protection sold – non-investment grade column is not an indication of loss probability.

**(14) Guarantees, Commitments, and Contingent Liabilities**

***Underwriting Commitments***

In the normal course of business, the Company enters into debt and equity underwriting commitments. Transactions relating to such underwriting commitments that were open at June 30, 2018, and were subsequently settled had no material impact on the Company's Statement of Financial Condition.



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***Lease Commitments***

The Company leases office space related to its branch offices under operating leases expiring at various dates through 2021. Minimum future rental payments required under such leases, that have initial or remaining non-cancelable lease terms in excess of one year at June 30, 2018 are as follows:

Years ending December 31:	<u>Operating leases</u>
2018	868
2019	1,699
2020	1,632
2021	916
After 2021	-
Total	<u><u>5,115</u></u>

Minimum future rental commitments do not include operating leases entered into by affiliates for which the Company shares office space. The affiliates allocate rent expense to the Company for its share of rent expense incurred under these operating leases, under an expense sharing agreement.

***Litigation***

The Company has been named as a defendant in various legal actions arising from its normal business activities in which damages in various amounts are claimed. When establishing a liability for contingent litigation losses, the Company determines a range of potential losses for each matter that is both probable and estimable, and records the amount it considers to be the best estimate within the range. For these matters and others where an unfavorable outcome is reasonably possible but not probable, there may be a range of possible losses in excess of the established liability that cannot be estimated. Based on information currently available, advice of counsel, available insurance coverage and established reserves, the Company believes that the eventual outcome of the actions against it will not, individually or in the aggregate, have a material adverse effect on the Company's financial position. However, in the event of unexpected future developments, it is possible that the ultimate resolution of those matters, if unfavorable, may be material to the Company's Statement of Financial Condition for any particular period.

***Exchange and Clearing House Guarantees***

The Company is a member of exchanges and clearing houses that the Company uses to clear its trades and those of the Company's customers. It is common that all members in these organizations are required to collectively guarantee the performance of other members. Our obligations under the guarantees are based on a fixed amount or a multiple of the collateral we are required to maintain with these organizations. We have not recorded a liability for these arrangements because we believe the likelihood of loss is remote. The maximum exposure to

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loss represents the estimated loss that would be incurred under an assumed hypothetical circumstance, despite what we believe is its extremely remote possibility, where the value of our interests and any associated collateral declines to zero. The maximum exposure to loss related to our clearing house arrangements at June 30, 2018 is \$2,605,722. The Company has made deposits with clearing organization in the form of cash of \$317,396. The Company has also made deposits with clearing organizations with pledged collateral of \$978,766.

The Company clears transactions on behalf of its clients through various clearing houses, and the Company stands behind the performance of its clients on such trades. The Company mitigates its exposure to loss in the event of a client default by requiring that clients provide appropriate amounts of margin at the inception and throughout the life of the transaction. The Company may cease providing clearing services to clients if they do not adhere to their obligations under the clearing agreement. It is difficult to estimate the Company's maximum exposure under such transactions, as this would require an assessment of transactions that clients may execute in the future. The Company manages the exposure through setting credit limits for clients and maintaining termination right over clearing contracts. However, based upon historical experience, the Company believes it is unlikely that it will have to make any material payments under these arrangements and the risk of loss is expected to be remote.

***Other Contingencies***

The Company introduces certain of its customer transactions to an affiliated clearing broker, WFCS, with whom it has a correspondent relationship for clearance and depository services in accordance with the terms of the clearance agreement. In connection therewith, the Company has agreed to indemnify WFCS for credit losses that WFCS may sustain as a result of the failure of the Company's customers to satisfy their obligations in connection with their securities transactions. As of June 30, 2018, substantially all customer obligations were collateralized by securities with a market value in excess of the obligations.

Some contracts that the Company enters into in the normal course of business include indemnification provisions that obligate the Company to make payments to the counterparty or others in the event certain events occur. The contingencies generally relate to the changes in the value of underlying assets, liabilities, or equity securities or upon the occurrence of events, such as an adverse litigation judgment or an adverse interpretation of the tax law. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business based on an assessment that the risk of loss would be remote. Since there are no stated or notional amounts included in the indemnification clauses and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur, the Company is not able to estimate the maximum potential amount of future payments under these indemnification clauses. There are no amounts reflected in the Statement of Financial Condition as of June 30, 2018, related to these indemnifications.

On February 2, 2018, WFC entered into a consent order with the Board of Governors of the Federal Reserve System (FRB). As required by the consent order, WFC submitted to the FRB a plan to further enhance the WFC Board of Directors' governance and oversight of WFC, and WFC submitted to the FRB a plan to further improve WFC's compliance and operational risk management program. The consent order also requires WFC, following the FRB's acceptance and approval of the plans and WFC's adoption and implementation of the plans, to complete third-party reviews of the enhancements and improvements provided for in the plans. Until these third-party reviews are complete and the plans are approved and implemented to the satisfaction of the FRB, WFC's total consolidated assets will be limited to the level as of December 31, 2017. Compliance with this asset cap will be

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measured on a two-quarter daily average basis to allow for management of temporary fluctuations. WFC has had constructive dialogue with, and has received detailed feedback from, the FRB regarding the plans. In order to have enough time to incorporate this feedback into the plans in a thoughtful manner and to complete the required third-party reviews, which were initially due September 30, 2018, WFC is planning to operate under the asset cap through the first part of 2019. A second third-party review must be conducted to assess the efficacy and sustainability of the improvements.

**(15) Securities Financing Activities**

The Company enters into resale and repurchase agreements and securities borrowing and lending agreements (collectively, “securities financing activities”) primarily to finance inventory positions, acquire securities to cover short trading positions, accommodate customers’ financing needs, and settle other securities obligations. The majority of securities financing activities involve high quality, liquid securities such as U.S. Treasury securities and government agency securities, and to a lesser extent, less liquid securities, including equity securities, corporate bonds and asset-backed securities. These transactions are accounted for as collateralized financings which are typically received or pledged securities as collateral. These financing transactions generally do not have material credit risk given the collateral provided and the related monitoring processes.

***Offsetting of resale and repurchase agreements and securities borrowing and lending agreements***

The table below presents resale and repurchase agreements subject to master repurchase agreements (MRA) and securities borrowing and lending agreements subject to master securities lending agreements (MSLA). The Company accounts for transactions subject to these agreements as collateralized financings, and those with a single counterparty are presented net on the balance sheet, provided certain criteria are met that permit balance sheet netting. Most transactions subject to these agreements do not meet those criteria and thus are not eligible for balance sheet netting. There were no securities borrowing or lending agreements subject to MSLAs that were eligible for netting.

Collateral pledged consists of non-cash instruments, such as securities or loans, and is not netted on the balance sheet against the related liability. Collateral received includes securities or loans and is not recognized in the Statement of Financial Condition. Collateral pledged or received may be increased or decreased over time to maintain certain contractual thresholds as the assets underlying each arrangement fluctuate in value. Generally, these agreements require collateral to exceed the asset or liability recognized in the Statement of Financial Condition. The following table includes the amount of collateral pledged or received related to exposures subject to enforceable MRAs or MSLAs.

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While these agreements are typically over-collateralized, U.S. GAAP requires disclosure in this table to limit the amount of such collateral to the amount of the related recognized asset or liability for each counterparty:

**Assets:**

Resale and securities borrowing agreements		
Gross amounts recognized	\$	66,051,857
Gross amounts offset in statement of financial condition <sup>(1)</sup>		(13,995,830)
		Net amounts in statement of financial condition <sup>(2)</sup> 52,056,027
Collateral not recognized in statement of financial condition <sup>(3)</sup>		(51,273,355)
		Net amount <sup>(4)</sup> \$ 782,672

**Liabilities:**

Repurchase and securities lending agreements		
Gross amounts recognized	\$	97,177,687
Gross amounts offset in statement of financial condition <sup>(1)</sup>		(13,995,830)
		Net amounts in statement of financial condition <sup>(5)</sup> 83,181,857
Collateral pledged but not netted in statement of financial condition <sup>(6)</sup>		(82,948,550)
		Net amount <sup>(7)</sup> \$ 233,307

<sup>(1)</sup> Represents recognized amount of resale and repurchase agreements with counterparties subject to enforceable MRAs that have been offset in the statement of financial condition.

<sup>(2)</sup> At June 30, 2018, includes \$15.4 billion, classified on our statement of financial condition in Securities purchased under agreements to resell, and \$36.6 billion in Securities borrowed.

<sup>(3)</sup> Represents the fair value of collateral we have received under enforceable MRAs or MSLAs, limited for table presentation purposes to the amount of the recognized asset due from each counterparty. At June 30, 2018, we have received total collateral with a fair value of \$66.6 billion, all of which we have the right to sell or repledge. These amounts include amounts we have sold or repledged to others with a fair value of \$59.4 billion.

<sup>(4)</sup> Represents the amount of our exposure that is not collateralized and/or is not subject to an enforceable MRA.

<sup>(5)</sup> At June 30, 2018, includes \$74.6 billion, classified on our statement of financial condition in Securities sold under agreements to repurchase, and \$8.5 billion in Securities loaned

<sup>(6)</sup> Represents the fair value of collateral we have pledged, related to enforceable MRAs or MSLAs, limited for table presentation purposes to the amount of the recognized liability owed to each counterparty. At June 30, 2018, we have pledged total collateral with a fair value of \$99.3 billion, all of which the counterparty has the right to sell or repledge.

<sup>(7)</sup> Represents the amount of our exposure that is not covered by pledged collateral and/or is not subject to an enforceable MRA or MSLA.

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***Repurchase and securities lending agreements***

Securities sold under repurchase agreements and securities lending arrangements are effectively short-term collateralized borrowings. In these transactions, cash is received in exchange for transferring securities as collateral and an obligation is recognized to reacquire the securities for cash at the transactions' maturity. These types of transactions create risks, including (1) the counterparty may fail to return the securities at maturity; (2) the fair value of the securities transferred may decline below the amount of our obligation to reacquire the securities, and therefore create an obligation for us to pledge additional amounts; and (3) the counterparty may accelerate the maturity on demand, requiring the Company to reacquire the security prior to contractual maturity. The Company attempts to mitigate these risks by the fact that the majority of our securities financing activities involve highly liquid securities; we underwrite and monitor the financial strength of our counterparties; we monitor the fair value of collateral pledged relative to contractually required repurchase amounts; and we monitor that our collateral is properly returned through the clearing and settlement process in advance of our cash repayment. The following table provides the underlying collateral types of our gross obligations under repurchase and securities lending agreements.

		<u>Total Gross Obligation</u>
Repurchase agreements:		
Corporate obligations	\$	5,142,606
Collateralized loan obligations and asset-backed securities		2,033,444
Mortgage-backed securities		33,799,831
U.S. government, U.S. agency and municipal government obligations		46,257,082
Equity securities		1,369,494
Other		36,675
Total repurchases		<u>88,639,132</u>
Securities lending:		
Corporate obligations	\$	149,640
U.S. government, U.S. agency and municipal government obligations		27,871
Equity securities (1)		8,361,044
Total securities lending		<u>8,538,555</u>
Total repurchases and securities lending	\$	<u><u>97,177,687</u></u>

(1) Equity securities are generally exchange traded and either re-hypothecated under margin lending agreements or obtained through contemporaneous securities borrowing transactions with other counterparties.

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The following table provides the contractual maturities of gross obligations under repurchase and securities lending agreements.

	<u>Overnight/ Continuous</u>	<u>Up to 30 days</u>	<u>30-90 days</u>	<u>&gt;90 days</u>	<u>Total Gross Obligation</u>
Repurchase agreements	\$ 76,266,630	4,199,502	2,910,000	5,263,000	88,639,132
Securities lending	8,023,339	221,000	294,216	—	8,538,555
Total (1)	<u>\$ 84,289,969</u>	<u>4,420,502</u>	<u>3,204,216</u>	<u>5,263,000</u>	<u>97,177,687</u>

- (1) Repurchase and securities lending transactions are primarily conducted under enforceable master lending agreements that allow either party to terminate the transaction on demand. These transactions have been reported as continuous obligations unless the MRA or MSLA has been modified with an overriding agreement that specifies an alternative termination date.

**(16) Net Capital**

The Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1) and the Commodities Futures Trading Commission (CFTC) Regulation 1.17 which requires the maintenance of minimum net capital. Under SEC Rule 15c3-1, the Company has elected to use the alternative method, permitted by the rule, which requires that the Company maintain minimum net capital, as defined, or 2% of combined aggregate debit balances arising from customer transactions. Under CFTC Regulation 1.17, the Company is required to maintain an adjusted net capital equivalent to the greater of \$1,500 or \$802,942, which was 8% of the total risk margin requirements for all positions carried in customer and non-customer accounts plus additional net capital requirements related to certain reverse repurchase agreements. At June 30, 2018, the Company had net capital of \$7,956,106, which was 60.09% of aggregate debit items and \$7,153,164 in excess of the minimum net capital requirement.

**(17) Subsequent Events**

The Company has evaluated the effects of events that have occurred subsequent to June 30, 2018 through August 29, 2018, the date the Company issued its Statement of Financial Condition. During this period, there have been no material subsequent events that would require recognition or disclosure in the Statement of Financial Condition.