

## WELLS FARGO

# 2Q12 10-Q Review: Possible Legal and Repurchase Loss Estimates Increased

### New/forward-looking disclosures from WFC's 2Q12 10-Q include:

**EPS:** It expects NIM pressure (3.91% at 2Q) as a result of the current rate environment. Expenses in 4Q are expected to exceed its \$11.25bn target due to mortgage revenue opportunities; however, its efficiency ratio is expected to remain within its 55-59% target (58.2% at 2Q) and expenses should decline. It expects further loan loss reserve releases (\$400mn in 2Q) and modestly improved credit performance for the remainder of 2012. Mortgage apps (+\$20bn) and pipeline (+\$23bn) both increased in 2Q.

**Capital:** Based on its current interpretation of the Fed's NPR, WFC estimates its Tier 1 common ratio at 7.78% (7.84% at 1Q). It repurchased 53.4mn shares in 2Q, leaving 56mn (1.1% of outstanding) remaining on its buyback. In June, it entered into a \$350mn forward repurchase agreement that expires in 3Q. Additionally, in 2Q it redeemed \$2.7bn of TruPS (6.33% coupon) and \$2.2bn (2% yield) of sub-debt.

**Legal:** On July 12 it settled with the DOJ concerning the impact of certain mortgages on some minority communities. It denied wrongdoing, but agreed to pay \$125mn to affected borrowers and \$50mn to a community improvement fund. While not part of the settlement, it did announce the termination of its wholesale mortgage business (5% of volume). At 2Q, the high end of possible losses above its mortgage repurchase reserve was \$2.6bn (+\$0.3bn, +13%), on top of its \$1.8bn (+\$0.6bn) reserve. The high end of possible losses above its legal reserve was \$1.2bn (+\$0.3bn; +29%).

**Rates:** Its EPS at risk was less than 1% (same as 1Q) due to change in rates. Unrealized AFS debt gains were \$9.5bn (+\$1.2bn), while equity gains were \$369mn (-\$49mn).

### WFC: Quarterly and Annual EPS (USD)

FY Dec	2011		2012		2013		Change y/y		
	Actual	Old	New	Cons	Old	New	Cons	2012	2013
Q1	0.67A	0.75A	0.75A	0.75A	N/A	N/A	0.85E	12%	N/A
Q2	0.70A	0.82A	0.82A	0.82A	N/A	N/A	0.91E	17%	N/A
Q3	0.72A	0.85E	0.85E	0.86E	N/A	N/A	0.95E	18%	N/A
Q4	0.73A	0.85E	0.85E	0.88E	N/A	N/A	0.96E	16%	N/A
Year	2.82A	3.27E	3.27E	3.32E	3.70E	3.70E	3.66E	16%	13%
P/E	12.0		10.4			9.2			

Source: Barclays Research.  
Consensus numbers are from Thomson Reuters

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 15.

**Stock Rating**
**OVERWEIGHT**

Unchanged

**Industry View**
**POSITIVE**

Unchanged

**Price Target**
**USD 42.00**

Unchanged

Price (06-Aug-2012)	USD 34.00
Potential Upside/Downside	+24%
Tickers	WFC

Market Cap (USD mn)	179447
Shares Outstanding (mn)	5277.85
Free Float (%)	99.89
52 Wk Avg Daily Volume (mn)	32.8
Dividend Yield (%)	2.0
Return on Equity TTM (%)	11.73
Current BVPS (USD)	25.17

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 34.80-22.58


[Link to Barclays Live for interactive charting](#)

### U.S. Large-Cap Banks

**Jason M. Goldberg, CFA**

1.212.526.8580

jason.goldberg@barclays.com

BCI, New York

**Matthew J. Keating, CFA**

1.212.526.8572

matthew.keating@barcap.com

BCI, New York

**Brian Morton, CFA**

1.212.526.2163

brian.morton@barcap.com

BCI, New York

**James McGlinch**

1.212.526.0971

james.mcglinch@barcap.com

BCI, New York

## COMPANY SNAPSHOT

Wells Fargo

U.S. Large-Cap Banks

Income statement (\$mn)	2011A	2012E	2013E	2014E	CAGR
Net interest income	43,460.0	44,911.9	45,634.9	47,916.6	3.3%
Operating expenses	46,365	47,694	47,157	48,344	1.4%
Pre-provision earnings	33,591	37,210	38,873	40,534	6.5%
Loan loss provisions	7,899	7,134	6,119	6,425	-6.7%
Pre-tax income	23,656	28,511	31,227	32,947	11.7%
Net income (adj)	15,025	17,438	19,242	20,366	10.7%

Balance sheet (\$bn)	Average				
Total assets	1,314	1,377	1,463	1,536	1,423
Risk-weighted assets	1,006	1,040	1,105	1,160	1,078
Non-performing loans (\$mn)	21,304	19,500	17,550	15,795	18,537
Allowance for loan losses	19	17	15	14	17
Loans	769.6	798.6	838.6	880.5	821.8
Deposits	920	966	1,015	1,066	992
Tier 1 capital	114	122	130	140	126
Tier 1 common capital	95	106	114	124	110
Shareholders' equity	129	140	149	158	144
Tangible common equity	95	107	116	125	111
Loan/deposit ratio (%)	86.8	83.0	83.0	83.0	84.0

Valuation and leverage metrics	Average				
P/E (reported) (x)	12.0	10.4	9.2	8.5	10.0
P/BV (tangible) (x)	1.9	1.7	1.5	1.4	1.6
Dividend yield (%)	1.4	2.6	3.3	3.5	2.7
P/PPE (x)	5.4	4.9	4.5	4.3	4.8
Tier 1 (%)	11.33	11.71	11.80	12.04	11.72
Tier 1 Common (%)	9.46	10.15	10.34	10.65	10.15
Tang assets/tang equity (x)	13.5	12.6	12.4	12.0	12.6

Margin and return data	Average				
Return on RWAs (%)	1.6	1.8	1.8	1.9	1.8
ROA (%)	1.3	1.4	1.4	1.4	1.4
ROE (tangible common) (%)	17.1	17.5	17.7	17.2	17.4
Fee income/revenue (%)	45.6	47.1	47.0	46.1	46.4
Net interest margin (%)	3.9	3.9	3.7	3.7	3.8
Cost/income (%)	58.0	56.2	54.8	54.4	55.8

Credit quality ratios	Average				
Loan loss provs/loans (%)	1.0	0.9	0.7	0.7	0.9
NCO ratio (%)	1.5	1.1	1.0	0.8	1.1
Coverage ratio (%)	90.9	89.1	87.4	91.7	89.8
NPL ratio (%)	2.8	2.4	2.1	1.8	2.3
Reserves/loans (%)	2.5	2.2	1.8	1.6	2.0

Per share data (\$)	Average				
EPS (reported)	2.82	3.27	3.70	4.00	3.45
DPS	0.48	0.88	1.11	1.20	0.92
BVPS (tangible)	18.2	20.5	22.7	25.0	21.6
Payout ratio (%)	17.0	26.9	30.0	30.0	26.0
Diluted shares (mn)	5,323.4	5,336.4	5,193.6	5,089.7	5,235.8

Source: Company data, Barclays Research  
Note: FY End Dec

Stock Rating	OVERWEIGHT
Industry View	POSITIVE
Price (06-Aug-2012)	USD 34.00
Price Target	USD 42.00
Ticker	WFC

## Investment case

**Why Overweight?** WFC benefits from a talented management team, diversified business mix, and a retail deposit base that helps drive the highest NIM amongst its U.S. large-cap peers. We expect its cross-selling traction to continue as it drives further revenue and expense synergies from its WB acquisition.

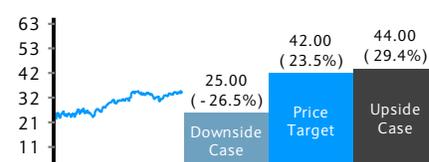
Upside case USD 44.00

If mortgage banking activity comes in better than the MBA's current forecast and loan growth accelerates from our 5% expectations, its 2012 EPS could increase to \$3.45 from \$3.20 and allow its shares to trade at 13x earnings or \$44.

Downside case USD 25.00

If the U.S. housing market were to experience another 10%-15% decline, we could envision a scenario in which WFC shares trade back down to their 1.3x price to tangible book minimum over the past two years or \$25.00.

## Upside/Downside scenarios



08-Aug-11 06-Aug-12

Source: Barclays Research

## Forward Looking Statements

- **Expense initiative:** Expense management is important to WFC; however, its efforts are not intended to adversely affect revenue. Its current company-wide expense management initiative, which it publicly announced at 2Q11, is focused on removing unnecessary complexity and eliminating duplication as a way to improve its customers' experience and the work process of its team members. Its expenses, however, are driven in part by its revenue opportunities. **Given the continued momentum in revenue opportunities in 2Q12, including a record number of mortgage applications, and its continued reinvestment in its businesses, it currently expects 4Q12 noninterest expense to be higher than its previously announced target of \$11.25bn.** Reflecting these higher revenue opportunities, it believes its efficiency ratio, which measures noninterest expense as a percentage of total revenue, is a better measure of its expense management than specific dollar estimates. It currently targets an efficiency ratio of 55%-59% (58.2% at 2Q12). **For the remainder of 2012, it expects noninterest expense to decline from 2Q12 levels and that it will operate within its targeted efficiency ratio range.**
- **NPR:** In June 2012, the three federal banking agencies, including the Board of Governors of the Federal Reserve System, jointly published notices of proposed rulemaking, which would substantially amend the risk-based capital rules for banks. The proposed capital rules are intended to implement in the U.S. the Basel III regulatory capital reforms, comply with changes required by the Dodd-Frank Act, and replace the existing Basel I-based capital requirements. **Based on its current interpretation of the proposed Basel III capital rules contained in the notices of proposed rulemaking, WFC estimates its Tier 1 common equity ratio at 7.78% at 2Q12.**
- **DOJ settlement:** On July 12, 2012, WFC entered into a settlement agreement with the DOJ resolving the DOJ's claims that some of its mortgages may have had a disparate impact on some African-American and Hispanic borrowers. The DOJ claims were based on a statistical survey of WFC Home Mortgage loans between 2004 and 2009, and the claims primarily relate to mortgages priced and sold to consumers by independent mortgage brokers. **In the settlement, WFC denied the claims, but agreed to pay \$125mn to borrowers that the DOJ believes were adversely impacted by mortgages priced and sold by independent mortgage brokers through the wholesale division of WFC Home Mortgage.** The settlement also resolved pending litigation filed in 2009 by the State of Illinois and an investigative complaint filed by the Pennsylvania Human Relations Commission. As part of the settlement, WFC also agreed to pay \$50mn to fund a community support program in 8 cities or metropolitan statistical areas, as to be agreed upon between the DOJ and WFC, and agreed to undertake an internal lending compliance review of a small percentage of subprime mortgages delivered through its retail channel during the period of 2004 to 2008 and will rebate borrowers as appropriate. Expenses related to the settlement were fully accrued for as of the end of 2Q12. **While not part of the settlement, WFC also announced that as of July 13, 2012, it voluntarily discontinued the funding of mortgages that are originated, priced and sold by independent mortgage brokers through the WFC Home Mortgage wholesale division (5% of volume).**
- **Shares outstanding:** At July 31, 2012, WFC had 5,282,185,586 shares outstanding which compares to the 5,275,700,000 shares it had outstanding at 2Q12 (+0.1%). During 2Q12, WFC repurchased 53.4mn shares at an average price of \$31.63. At 2Q12,

56mn shares (1.1% of outstanding) remained under its board authorized repurchase program.

- **Forward repurchase contract agreements:** In April 2012, WFC entered into a private forward repurchase contract with an unrelated third party. This contract settled in 2Q12 for 11mn shares of common stock. **Then in June 2012, it entered into a similar private forward repurchase contract and paid \$350mn to an unrelated third party. This contract expires in 3Q12.** The amount it paid to the counterparty meets accounting requirements to be treated as a permanent equity reduction.
- **TruPS/debt redemptions:** On March 13, 2012, the Fed notified WFC that it did not object to its 2012 capital plan included in its 2012 CCAR. **In accordance with its plan, WFC redeemed \$2.7bn of TruPS in 2Q12 (6.33% average coupon) and purchased an aggregate \$2.2bn of its subordinated debt with an effective yield of 2.02%.**
- **Loan acquisitions:** At 2Q12, included in its core loan growth was \$6.9bn of commercial loans (\$5.4bn C&I and \$1.5bn foreign) acquired during 2Q12 in connection with the acquisition of BNP Paribas' North American energy lending business and WestLB's subscription finance loan portfolio and \$858mn of commercial asset-based loans acquired with the acquisition of Burdale Financial Holdings Limited and the portfolio of Burdale Capital Finance in 1Q12.
- **Net interest margin:** While its net interest margin declined 10bps y-o-y, it was stable on a linked quarter basis at 3.91% due to the accretion of PCI income. **It expects continued pressure on its net interest margin as its balance sheet reprices in the current low interest rate environment.**
- **Range of legal losses above reserve:** WFC establishes a liability for contingent litigation losses when it determines that a potential loss is both probable and estimable. In addition, for significant matters, it determines a range of potential loss that is reasonably possible. **The high end of its range of reasonably possible potential litigation losses in excess of its liability for probable and estimable losses was \$1.2bn (\$927bn at 1Q12) at 2Q12.**
- **Mortgage repurchase reserve:** Its liability for mortgage repurchases, included in "Accrued expenses and other liabilities" in its consolidated balance sheet, was \$1.8bn at 2Q12, and \$1.2bn at 1Q12. **The high end of this range of reasonably possible losses in excess of its recorded mortgage repurchase liability was \$2.6bn (\$2.3bn at 1Q12) at 2Q12.**
- **Credit quality:** Absent significant deterioration in the economy, WFC expects continued but more modest improvement in credit performance for the remainder of the year. Additionally, it continues to expect future allowance releases in 2012 (\$400mn in 2Q12).
- **Eurozone exposure:** At 2Q12, foreign loans represented 5% (5% at 1Q12) of its total consolidated loans outstanding and 3% (3%) of its total assets. Its largest foreign country exposure on an ultimate risk basis was the United Kingdom, which amounted to \$12.5bn, or 1% of its total assets, and included \$1.7bn of sovereign claims. Its United Kingdom sovereign claims arise primarily from deposits it has placed with the Bank of England pursuant to regulatory requirements in support of its London branch. **At 2Q12, its Eurozone exposure, including cross-border claims on an ultimate risk basis, and foreign exchange and derivative products, aggregated to \$10.9bn, including \$352mn of sovereign claims, compared with \$11.4bn at 1Q12, which included**

**\$396mn of sovereign claims.** Its Eurozone exposure is relatively small compared to its overall risk exposure and is diverse by country, type, and counterparty.

- **Cross-sell metrics:** Its retail bank household cross-sell increased each quarter during 2011 and in 1Q12. In May 2012, its cross-sell was 6.00 products per household, up from 5.98 in February 2012. It believes there is more opportunity for cross-sell as it continues to earn more business from its customers. Its goal is eight products per customer, which is about half of its estimate of potential demand for an average U.S. household. Currently, one of every four of its retail banking households has eight or more products.
- **Intangible asset amortization:** Its amortization expense was \$477mn in 2Q12 and it estimates it at \$950mn for the remainder of 2012, \$1.72bn for 2013, \$1.55bn for 2014, \$1.41bn for 2015, \$1.26bn for 2016, and \$1.14bn for 2017.

## Interest Rates & Balance Sheet

- **At 2Q12, its most recent simulation indicated estimated earnings at risk of less than 1.0% (1.0% at 1Q12) of its most likely earnings plan over the next 12 months** using a scenario in which the federal funds rate remains unchanged (same as 1Q12) and the 10-year Constant Maturity Treasury bond yield averages below 1.20% (1.65%) and a scenario in which the federal funds rate rises to 3.75% (same as 1Q) and the 10-year Constant Maturity Treasury bond yield increases to 5.10% (same as 1Q).
- **At 2Q12, WFC held \$224.0bn (\$227.1bn at 1Q12) of debt securities in AFS, with net unrealized gains of \$9.5bn vs. \$8.3bn at 1Q12.** It also held \$2.8bn (\$3.2bn at 1Q12) of marketable equity securities AFS at 2Q12, with net unrealized gains of \$369mn (\$418mn at 1Q12). **The weighted-average expected remaining maturity of the debt securities within its AFS portfolio was 5.2 years (5.3 years at 1Q12) at 2Q12.** Because 61% (61% at 1Q12) of this portfolio is MBS, the expected remaining maturity may differ from contractual maturity because borrowers generally have the right to prepay obligations before the underlying mortgages mature. The estimated effect of a 200bp move in interest rates on the fair value of the MBS available for sale securities at 2Q12 was -\$3.1bn (-\$4.8bn at 1Q12) for an increase in rates and +\$9.9bn (+\$11.3bn) for a decrease in rates.
- **At 2Q12, its debt securities available for sale included \$37.3bn (\$34bn at 1Q12) of municipal bonds, of which 80% (79%) were rated “A-” or better** based on external, and in some cases internal, ratings. Some of these bonds are guaranteed against loss by bond insurers.
- **WFC has \$18.1bn (\$14.9bn at 1Q12) of securities with losses of \$1.8bn (\$1.6bn) at 2Q12 that have been in an unrealized loss position for greater than 12 months,** with CMBS (\$4.8bn fair value, \$609mn of unrealized losses), RMBS (\$3.4bn, \$208mn unrealized losses) and municipal bonds (\$4.7bn, \$574mn of unrealized losses) accounting for the majority of these losses.
- **Nonmarketable investments of \$17.0bn (\$17.0bn at 1Q12) included private equity investments of \$3.7bn (\$3.6bn at 1Q12) accounted for under the cost method, \$4.8bn (\$4.8bn) of private equity accounted for under the equity method.**
- **At 2Q12, its level 3 assets totaled \$55.6bn (4% of assets; \$55.6bn at 1Q12),** of which \$29.6bn (\$33.5bn) related to AFS securities and \$12.1bn was MSR (\$13.6bn).

## Asset Quality

- Total loans stood at \$766.5bn (\$766.5bn at 1Q12) at 2Q12.** Its loan mix at 2Q12 was 55% (55% at 1Q12) consumer and 45% (45%) commercial/CRE. Its commercial/CRE categorical mix was commercial 23% of total loans (22% at 1Q12), commercial mortgage 14% (14%), real estate construction 2% (2%), lease financing 2% (2%), and foreign 5% (5%). Its consumer book included residential mortgage 30% (30%), home equity 10% (11%), card 3% (3%) and other 11% (11%). **The carrying value of its net loans of \$738.2bn exceeded their fair value of \$737.7bn by \$0.5bn (0.1%).**
- Nonperforming assets decreased by \$1.8bn to \$24.9bn at 2Q12, from \$26.6bn at 1Q12. YTD nonperforming assets have declined \$1.1bn, which is inclusive of the offsetting impact of the reclassification of \$1.7bn of performing second liens behind a delinquent first in 1Q12.
- The improvement in its credit portfolio in 2Q12 was due in part to the continued decline in balances in its non-strategic/liquidating loan portfolios, which decreased \$5.1bn linked quarter, and \$87.7bn in total since the beginning of 2009, to \$103.1bn at 2Q12.** These portfolios consist primarily of its Pick-a-Pay mortgage portfolio (\$62.0bn) acquired from WB as well as some portfolios from legacy WFC Home Equity (\$5.2bn) and WFC Financial (\$15.5bn). Effective in 1Q11, it added its education finance government guaranteed loan portfolio (\$13.8bn) to the non-strategic and liquidating portfolios as there is no longer a U.S. Government guaranteed student loan program available to private financial institutions pursuant to legislation in 2010.

Figure 1: Non-Strategic and Liquidating Loan Portfolios

(in millions)	Outstanding balance				
	June 30, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
<b>Commercial:</b>					
Legacy Wachovia commercial and industrial, CRE and foreign PCI loans	\$ 4,278	5,695	7,935	12,988	18,704
<b>Total commercial</b>	<b>4,278</b>	<b>5,695</b>	<b>7,935</b>	<b>12,988</b>	<b>18,704</b>
<b>Consumer:</b>					
Pick-a-Pay mortgage	62,045	65,652	74,815	85,238	95,315
Liquidating home equity	5,199	5,710	6,904	8,429	10,309
Legacy Wells Fargo Financial indirect auto	1,454	2,455	6,002	11,253	18,221
Legacy Wells Fargo Financial debt consolidation	15,511	16,542	19,020	22,364	25,299
Education Finance - government guaranteed	13,823	15,376	17,510	21,150	20,465
Legacy Wachovia other PCI loans	818	896	1,118	1,688	2,478
<b>Total consumer</b>	<b>98,850</b>	<b>106,631</b>	<b>125,369</b>	<b>150,122</b>	<b>172,087</b>
<b>Total non-strategic and liquidating loan portfolios</b>	<b>\$ 103,128</b>	<b>112,326</b>	<b>133,304</b>	<b>163,110</b>	<b>190,791</b>

Source: Company reports and Barclays Research

- Its real estate 1-4 family mortgage loans to borrowers in California represented 13% of total loans (2% of this amount were PCI loans from WB) at 2Q12, mostly within the larger metropolitan areas, with no single California metropolitan area consisting of more than 3% of total loans. It tracks delinquency, FICO scores and collateral values (LTV/CLTV) on its entire real estate 1-4 family mortgage loan portfolio. These metrics continued to improve in 2Q12 on the non-PCI mortgage portfolio. Loans 30 days or more delinquent at 2Q12, totaled \$16.1bn, or 6%, of total non-PCI mortgages, compared with \$16.7bn, or 6%, at 1Q12. Loans with FICO scores lower than 640 totaled \$40.5bn at 2Q12, or 14% of all non-PCI mortgages, compared with \$42.8bn, or 15%, at 1Q12. Mortgages with a LTV/CLTV greater than 100% totaled \$66.9bn at 2Q12, or 24% of total non-PCI mortgages, compared with \$72.8bn, or 26%, at 1Q12.

- Its Pick-a-Pay portfolio was one of the consumer residential first mortgage portfolios it acquired from WB. It considered a majority of the Pick-a-Pay loans to be PCI loans. **Its Pick-a-Pay portfolio had an outstanding balance of \$68.8bn (\$71.2bn at 1Q12) and a carrying value of \$62.0bn (\$64.0bn) at 2Q12.** It is a liquidating portfolio, as WB ceased originating new Pick-a-Pay loans in 2008. The Pick-a-Pay portfolio includes loans that offer payment options (Pick-a-Pay option payment loans), loans that were originated without the option payment feature, loans that no longer offer the option feature as a result of its modification efforts since the acquisition, and loans where the customer voluntarily converted to a fixed-rate product.
- Due to better-than-expected performance observed on the Pick-a-Pay portfolio compared with the original acquisition estimates, it has reclassified \$2.4bn from the nonaccretable difference to the accretable yield since acquisition. This performance is primarily attributable to significant modification efforts as well as the portfolio's delinquency stabilization. The resulting increase in the accretable yield will be realized over the remaining life of the portfolio, which is estimated to have a weighted-average remaining life of 11.4 years at 2Q12. The accretable yield percentage at 2Q12 was 4.32%, down from 4.45% at the end of 2011.
- In 2Q12, it completed more than 2,600 proprietary and HAMP Pick-a-Pay loan modifications and has completed more than 105,000 modifications since the WB acquisition, resulting in \$4.3bn of principal forgiveness to its Pick-a-Pay customers as well as an additional \$548mn of conditional forgiveness that can be earned by borrowers through performance over the next three years.
- Its home equity liquidating portfolio was \$5.2bn at 2Q12, compared with \$5.5bn at 1Q12. The loans in this liquidating portfolio represent less than 1% of its total loans outstanding at 2Q12, and contain some of the highest risk in its \$101.0bn Home Equity portfolio, with a loss rate of 8.14% compared with 2.60% for the core portfolio. The loans in the liquidating portfolio are largely concentrated in geographic markets that have experienced the most abrupt and steepest declines in housing prices. The core portfolio was \$95.8bn (\$98.0bn at 1Q12) at 2Q12. California loans represent the largest state concentration in each of these portfolios and have experienced among the highest early-term delinquency and loss rates. **At 2Q12, 36% (37% at 1Q12) of the outstanding balance of the core home equity portfolio was associated with loans that had a combined loan to value (CLTV) ratio in excess of 100%.**
- Its CRE portfolio, consists of both CRE mortgage loans and CRE construction loans, totaled \$123.3bn, or 16%, of total loans at 2Q12. CRE construction loans totaled \$17.6bn at 2Q12, and CRE mortgage loans totaled \$105.7bn. CRE nonaccrual loans totaled 4% of the non-PCI CRE outstanding balance. The portfolio is diversified both geographically and by property type. **The largest geographic concentrations of combined CRE loans are in California and Florida, which represented 25% and 9% of the total CRE portfolio, respectively.** By property type, the largest concentrations are office buildings at 26% and industrial/warehouse at 11% of the portfolio. At 2Q12, it had \$20.5bn of criticized non-PCI CRE mortgage loans, a decrease of 9% from 4Q11, and \$5.3bn of criticized non-PCI CRE construction loans, a decrease of 22% from 4Q11.
- **Its total troubled debt restructurings (TDRs) at 2Q12 were \$22.9bn (\$5.4bn commercial and \$17.5bn consumer), down from \$23.0bn at 1Q12. Of this amount, \$16.0bn (\$15.9bn at 1Q12) was on accrual status, while \$6.9bn (\$7.1bn) was on nonaccrual.**

## Off-Balance Sheet Arrangements

- At 2Q12, WFC had unconsolidated VIEs worth \$46.9bn (\$50.0bn at 1Q12), with total assets of \$1.6 trillion (\$1.5trn). Its maximum loss exposure related to these entities was \$59.0bn (\$60.9bn at 1Q12) at 2Q12.
- Through the issuance of trust preferred securities it had junior subordinated debt financing with a carrying value of \$5.0bn at 2Q12, \$7.5bn at 1Q12, and \$2.5bn of preferred stock at 2Q12, 1Q12, and 4Q11, respectively. In 1H12, it redeemed \$2.7bn of trust preferred securities that will no longer count as Tier 1 capital under the Dodd-Frank Act and the Basel Committee recommendations known as the Basel III standards.
- WFC had outstanding guarantees with carrying values of \$1.8bn (\$1.4bn at 1Q12) and \$59.9bn (\$57.7bn) of maximum loss exposure (including \$41.1bn of standby letters of credit, and \$11.5bn of written put options).
- WFC had net derivative assets of \$29.3bn (\$24.5bn at 1Q12) at 2Q12 and net derivative liabilities of \$16.7bn (\$13.9bn).

## Accounting

- ASU 2011-11 expands the disclosure requirements for financial instruments and derivatives that may be offset in accordance with enforceable master netting agreements or similar arrangements. The disclosures are required regardless of whether the instruments have been offset (or netted) in the statement of financial position. Under ASU 2011-11, companies must describe the nature of offsetting arrangements and provide quantitative information about those agreements, including the gross and net amounts of financial instruments that are recognized in the statement of financial position. **These changes are effective for WFC in 1Q13 with retrospective application. This Update will not affect its consolidated financial results since it amends only the disclosure requirements for offsetting financial instruments.**
- During 2Q12, WFC recognized in income \$24mn released from the nonaccretable difference related to commercial PCI loans due to payoffs and other resolutions. It also transferred \$84mn from the nonaccretable difference to the accretable yield for PCI loans with improving credit-related cash flows and absorbed \$531mn of losses in the nonaccretable difference from loan resolutions and write-downs.
- Since the WB acquisition, it has released \$6.3bn (\$6.2bn at 1Q12) in nonaccretable difference for certain PCI loans and pools of PCI loans, including \$4.5bn (\$4.4bn) transferred from the nonaccretable difference to the accretable yield and \$1.8bn (\$1.8bn) released to income through loan resolutions. It has provided \$1.8bn (\$1.8bn) in the allowance for credit losses for certain PCI loans or pools of PCI loans that have had credit-related decreases to cash flows expected to be collected. The net result is a \$4.5bn (\$4.4bn at 1Q12) reduction from 4Q08 through 1Q12, in its initial expected losses on all PCI loans.
- **PCI loans had an unpaid principal balance of \$50.2bn (\$53.4bn at 1Q12) at 2Q12, and a carrying value, before the deduction of the allowance for loan losses, of \$35.8bn (\$35.5bn at 1Q12).**
- **PCI-related accretion in 2Q12 totaled \$630mn (\$514mn at 1Q12) and had a +22bp (+18bp) impact on its net interest margin.**

- Net gains on debt and equity securities totaled \$181mn for 2Q12 and \$357mn for 1Q12, after other-than-temporary impairment (OTTI) write-downs of \$120mn for 2Q12 and \$65mn for 1Q12.

## Mortgage Banking

- Mortgage banking noninterest income, consisting of net servicing income and net gains on loan origination/sales activities, totaled \$2.9bn in 2Q12, compared with \$2.9bn in 1Q12 and \$1.6bn in 2Q11. Compared to a year ago, net gains on mortgage loan origination/sale activities came in higher.
- Net mortgage loan servicing income includes amortization of commercial mortgage servicing rights (MSRs), changes in the fair value of residential MSRs during the period as well as changes in the value of derivatives (economic hedges) used to hedge the residential MSRs. Net servicing income for 2Q12 included a \$377mn net MSR valuation gain (\$1.63bn decrease in the fair value of the MSRs offset by a \$2.01bn hedge gain). 1H12 net servicing income included \$319mn net MSR valuation gain, down from \$753mn in 1H11. The \$434mn decline compared to 1H11 was primarily the result of a reduction in the fair value of its residential MSRs to include a higher discount rate (increased capital return requirements). The valuation of its MSRs for both 1H12 and 1Q11 reflected its assessment of expected future amounts of servicing and foreclosure costs.
- Its portfolio of loans serviced for others was \$1.91trn at 2Q12 and \$1.89trn at 1Q12. The total carrying value of its residential and commercial MSRs was \$13.2bn at 2Q12, and \$14.7bn at 1Q12. The weighted-average note rate on its portfolio of loans serviced for others was 4.97% at 2Q12, and 5.05% at 1Q12. **Its total MSRs represented 0.69% of mortgage loans serviced for others at 2Q12, compared with 0.77% at 1Q12.**
- Income from mortgage loan origination/sale activities was \$2.2bn in 2Q12 compared with \$2.6bn in 1Q12 and \$742mn in 2Q11. The y-o-y increase was driven by higher loan origination volume and margins. **Residential real estate originations were \$131bn (\$129bn in 1Q12) in 2Q12, compared with \$64bn a year ago.**
- **Mortgage applications were \$208bn in 2Q12, compared with \$188bn in 1Q12 and \$109bn in 2Q11. Its 1-4 family first mortgage unclosed pipeline was \$102bn (\$79bn at 1Q12) at 2Q12, and \$51bn at 2Q11.**

## Reserve For Mortgage Loan Repurchase Losses

- Net gains on mortgage loan origination/sales activities include the cost of any additions to the mortgage repurchase liability. Mortgage loans are repurchased from third parties based on standard representations and warranties, and early payment default clauses in mortgage sale contracts. **Additions to the mortgage repurchase liability that were charged against net gains on mortgage loan origination/sales activities during 2Q12 totaled \$669mn (compared with \$430mn for 1Q12),** of which \$597mn (\$368mn for 1Q12) was for subsequent increases in estimated losses on prior year's loan sales.
- **Currently, its repurchase demands primarily relate to 2006 through 2008 vintages and to GSE-guaranteed MBS.**
- During 2Q12, it continued to experience elevated levels of repurchase activity measured by the number of investor repurchase demands and its level of repurchases. **It**

repurchased or reimbursed investors for incurred losses on mortgage loans with original balances of \$847mn in 2Q12, compared with \$659mn in 1Q12. It incurred net losses on repurchased loans and investor reimbursements totaling \$349mn in 2Q12 compared with \$312mn in 1Q12.

- The overall level of unresolved repurchase demands and mortgage insurance rescissions outstanding at 2Q12, was down from a year ago in both number of outstanding loans and in total dollar balances as it continued to work through the demands and mortgage insurance rescissions. Customary with industry practice, it has the right of recourse against correspondent lenders from whom it has purchased loans with respect to representations and warranties. **Of its total repurchase demands and mortgage insurance rescissions outstanding at 2Q12, 20% (25% at 1Q12) relate to loans purchased from correspondent lenders.** Due primarily to the financial difficulties of some correspondent lenders, it is currently recovering on average 45% (45% at 1Q12) of losses from these lenders. Historical recovery rates as well as projected lender performance are incorporated in the establishment of its mortgage repurchase liability.

Figure 2: Unresolved Repurchase Demands and Mortgage Insurance Rescissions (\$s in mn)

(\$ in millions)	Government sponsored entities		Private		Mortgage insurance rescissions with no demand		Total	
	Number of loans	Original loan balance	Number of loans	Original loan balance	Number of loans	Original loan balance	Number of loans	Original loan balance
<b>June 30,</b>	<b>5,687</b>	<b>\$ 1,265</b>	<b>913</b>	<b>\$ 213</b>	<b>840</b>	<b>\$ 188</b>	<b>7,440</b>	<b>1,666</b>
March 31,	6,333	1,398	857	241	970	217	8,160	1,856
2011								
December 31,	7,066	1,575	470	167	1,178	268	8,714	2,010
September 30,	6,577	1,500	582	208	1,508	314	8,667	2,022
June 30,	6,876	1,565	695	230	2,019	444	9,590	2,239
March 31,	6,210	1,395	1,973	424	2,885	674	11,068	2,493

Source: Company Reports and Barclays Research

- **Its liability for mortgage repurchases, included in “Accrued expenses and other liabilities” in its consolidated balance sheet, was \$1.8bn at 2Q12, and \$1.4bn at 1Q12.** In 2Q12, it recorded an additional \$669mn to the liability, which reduced net gains on mortgage loan origination/sales activities, compared with an additional liability of \$430mn in 1Q12. **Its provision for 2Q12 reflected an increase in projections of future GSE repurchase demands, net of appeals, for the 2006 through 2008 vintages to incorporate the impact of recent trends in file requests and repurchase demand activity (comprising 70% of the 2Q12 provision), an increase in probable loss estimates for mortgage insurance rescissions (10%), new loan sales (10%) and various other observed trends affecting its repurchase liability including higher than anticipated loss severity (10%).** The increase in projected future GSE repurchase demands in 2Q12 was predominately a result of higher than anticipated GSE file requests, a key leading indicator of future demand activity, and higher repurchase demands, both related to loans with characteristics that did not historically result in either file reviews or repurchases. This trend was partially offset by an improving appeals success rate which reflects the on-going dialogue with the GSEs over what qualifies for repurchase.
- **The high end of this range of reasonably possible losses in excess of its recorded mortgage repurchase liability was \$2.6bn (\$2.3bn at 1Q12) at 2Q12,** and was determined based upon modifying the assumptions utilized in its best estimate of

probable loss to reflect what it believes to be the high end of reasonably possible adverse assumptions.

- **WFC believes it has a high quality residential mortgage loan servicing portfolio.** Of its \$1.9trn (\$1.8trn at 1Q12) residential mortgage loan servicing portfolio at 2Q12, 93% (93%) was current, less than 2% (2%) was subprime at origination, and less than 1% (~1%) were home equity securitizations. Its combined delinquency and foreclosure rate on this portfolio was 7.14% (6.89% at 1Q12) at 2Q12. In this portfolio 5% (5% at 1Q12) are private securitizations where it originated the loan and therefore has some repurchase risk. For this private securitization segment of its residential mortgage loan servicing portfolio, 58% (58% at 1Q12) are loans from 2005 vintages or earlier (weighted average age of 75 months); 79% (79%) were prime at origination and 65% (65%) are jumbo loans. The weighted-average LTV at 2Q12, for this private securitization segment was 76% (80% at 1Q12). It believes the highest risk segment of these private securitizations is the subprime loans originated in 2006 and 2007. These subprime loans have seller representations and warranties and currently have LTVs close to or exceeding 100%, and represent 9% of the 5% private securitization portion of the residential mortgage servicing portfolio. It had only \$58mn (\$3mn in 1Q12) of repurchased loans related to private securitizations in 2Q12. Of its servicing portfolio, 4% is non-agency acquired servicing and 1% is private whole loan sales. It did not underwrite and securitize the non-agency acquired servicing and therefore has no obligation on that portion of its servicing portfolio to the investor for any repurchase demands arising from origination practices. For the private whole loan segment, while it does have repurchase risk on these prior loan sales, less than 2% (2% at 1Q12) were subprime at origination and loans that were sold and subsequently securitized are included in its private securitization segment.

## Capital/Other

- **Capital ratios:** Its Tier 1 capital ratio stood at 11.69% (11.78% at 1Q12) at 2Q12, its total capital ratio was 14.85% (15.13%), and its leverage ratio stood at 9.25% (9.35%). Its Tier 1 common ratio increased to 10.08% (9.98%). **Under its interpretation of current Basel III capital proposals, it estimated its Tier 1 common equity ratio at 7.78% (7.84% at 1Q12) at 2Q12.** At 2Q12, WFC and each of its subsidiary banks were “well capitalized” under the applicable regulatory capital adequacy guidelines.
- **Capital actions:** In 1H12, WFC redeemed \$2.7bn of trust preferred securities that will no longer count as Tier 1 capital under the Dodd-Frank Act and the Basel Committee recommendations known as the Basel III standards. This redemption was consistent with its 2012 approved CCAR plan. **In June 2012, it purchased an aggregate of \$2.2bn of its subordinated debt with an effective yield of 2.02% in tender offers for such securities.**
- In April 2012, WFC entered into a private forward repurchase contract with an unrelated third party. This contract settled in 2Q12 for approximately 11mn shares of common stock. It entered into this transaction to complement its open-market common stock repurchase strategies, to allow it to manage its share repurchases in a manner consistent with its CCAR plan, and to provide an economic benefit to WFC. In connection with this contract, it paid \$350mn to the counterparty, which was recorded in permanent equity in the quarter paid and was not subject to re-measurement. The classification of the up-front payment as permanent equity assured that it would have

appropriate repurchase timing consistent with its 2012 CCAR plan, which contemplated a fixed dollar amount available per quarter for share repurchases pursuant to Federal Reserve Board (FRB) supervisory guidance. In return, the counterparty agreed to deliver a variable number of shares based on a per share discount to the volume-weighted average stock price over the contract period. The counterparty had the right to accelerate settlement with delivery of shares prior to the contractual settlement. There were no scenarios where the contracts would not either physically settle in shares or allow WFC to choose the settlement method. **In June 2012, it entered into a similar private forward repurchase contract and paid \$350mn to an unrelated third party. This contract expires in 3Q12. The amount it paid to the counterparty meets accounting requirements to be treated as a permanent equity reduction.**

- **Deposits:** About 93% of its average core deposits are in checking and savings deposits, one of the highest percentages in the industry.
- **Trust and brokerage balances:** It earns trust, investment and IRA (Individual Retirement Account) fees from managing and administering assets, including mutual funds, corporate trust, personal trust, employee benefit trust and agency assets. These assets totaled \$2.2trn (\$2.2trn at 1Q12) at both 2Q12. Brokerage client assets totaled \$1.2trn (\$1.2trn at 1Q12) at 2Q12, up 1% from 2Q11. Its trust, investment and IRA fees are largely based on a tiered scale relative to the market value of the assets under management or administration. These fees totaled \$1.0bn in 2Q12, which is flat from 1Q12. It also receives commissions and other fees for providing services to full-service and discount brokerage customers as well as from investment banking activities including equity and bond underwriting. These fees were \$1.9bn in 1Q12 compared to \$1.8bn in 1Q12. Its commission and other fees include transactional commissions, which are based on the number of transactions executed at the customer's direction, and asset-based fees, which are based on the market value of the customer's assets.
- **Trading activities: Net gains from trading activities, which reflect unrealized changes in fair value of its trading positions and realized gains and losses, were \$263mn in 2Q12 compared with \$640mn in 1Q12 and \$903mn in 2Q11.** The y-o-y decrease was driven by lower gains on deferred compensation plan investments (offset entirely in employee benefits expense) and economic hedging losses. Net gains from trading activities do not include interest income and other fees earned from related activities. Those amounts are reported within interest income from trading assets and other noninterest income, respectively, in the income statement. Net gains from trading activities are primarily from trading conducted on behalf of or driven by the needs of its customers (customer accommodation trading) and also include the results of certain economic hedging and proprietary trading activity. **Net losses from proprietary trading totaled \$1mn in 2Q12, down from a \$15mn gain in 1Q12.** Proprietary trading activities are not significant to its client-focused business model.
- **Earnings mix:** In 2Q12, its earnings mix was 53% (51% in 1Q12) community banking, 40% (42%) wholesale banking and 6% (7%) wealth, brokerage & retirement.
- **Value-at-risk (VaR):** Its average one-day VaR throughout 1Q12 was \$31mn (\$32mn at 1Q12), with a lower bound of \$22mn (\$26mn) and an upper bound of \$50mn (\$42mn).

## Legal

- **Mortgage related regulatory investigations:** Government agencies continue investigations or examinations of other mortgage related practices of WFC. The investigations relate to two main topics: (1) whether it may have violated fair lending or other laws and regulations relating to mortgage origination practices; and (2) whether it properly disclosed in offering documents for its RMBS the facts and risks associated with those securities. **On July 12, 2012, the DOJ filed a complaint captioned United States of America v. Wells Fargo Bank, N.A. in the U.S. District Court for the District of Columbia. The complaint alleged violations of the Fair Housing Act and the Equal Credit Opportunity Act (ECOA) with respect to WFC's residential mortgage lending operations during the period 2004–2008. Simultaneously with the filing of the complaint, a Consent Decree executed between the DOJ and WFC was filed providing for a consensual resolution of the complaint.** In the Consent Decree, WFC denied that it had violated the Fair Housing Act or ECOA, but agreed to resolve the matter by paying \$125mn in connection with pricing and product placement allegations primarily relating to mortgages priced and sold to consumers by third party brokers through the Wholesale Division of WFC Home Mortgage. In addition, WFC agreed to pay \$50mn to fund a community support program in approximately eight cities or metropolitan statistical areas, with details yet to be agreed upon between the DOJ and WFC. It also agreed to undertake an internal lending compliance review of a small percentage of subprime mortgages delivered through its Retail channel during the period 2004–2008 and will rebate to borrowers as appropriate. Of the \$125mn, \$8mn and \$2mn are specifically allocated to Illinois and Pennsylvania, respectively, to resolve matters in those states.
- **Securities lending litigation:** WFC is involved in ten separate pending actions brought by securities lending customers of WFC and Wachovia Bank in various courts. In general, each of the cases alleges that WFC violated fiduciary and contractual duties by investing collateral for loaned securities in investments that suffered losses. One case, brought by the City of St. Petersburg in the U.S. District Court for the Middle District of Florida, resulted in an April 2012 verdict against WFC in the amount of \$10mn plus interest. WFC has filed post trial motions to set aside the verdict. In addition, on March 27, 2012, a class of WFC securities lending customers was certified in a case captioned City of Farmington Hills Employees Retirement System v. Wells Fargo Bank, N.A., which is pending in the U.S. District Court for the District of Minnesota. WFC sought interlocutory review of the class certification in the U.S. Court of Appeals for the Eighth Circuit. The Eighth Circuit declined such review on May 7, 2012.
- **WB equity securities and bonds/notes litigation:** A securities class action, now captioned *In re Wachovia Equity Securities Litigation*, has been pending under various names since July 7, 2008, in the U.S. District Court for the Southern District of New York alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Among other allegations, plaintiffs allege WB's common stock price was artificially inflated as a result of allegedly misleading disclosures relating to the Golden West Financial Corp. mortgage portfolio, WB's exposure to other mortgage related products such as CDOs, control issues and auction rate securities. On March 31, 2011, the U.S. District Court for the Southern District of New York entered a Decision and Order granting WB's motions to dismiss the *In re Wachovia Equity Securities Litigation* and the *Stichting Pensioenfonds ABP, FC Holdings AB, Deka Investment GmbH and Forsta AP-Fonden* cases. Plaintiffs and WFC have agreed to settle the Equity Securities Litigation for \$75mn and on January 27, 2012, the Court entered an order preliminarily approving

the settlement. **On June 12, 2012, an Order finally approving the class action settlement was entered. There were four similar actions filed in state courts in North Carolina and South Carolina by individual shareholders. Three of these individual shareholder actions have been finally dismissed and the dismissal of the fourth is on appeal.**

- **Interchange litigation:** Wells Fargo Bank, N.A., Wells Fargo & Company, Wachovia Bank, N.A. and Wachovia Corporation are named as defendants, separately or in combination, in putative class actions filed on behalf of a plaintiff class of merchants and in individual actions brought by individual merchants with regard to the interchange fees associated with Visa and MasterCard payment card transactions. These actions have been consolidated in the United States District Court for the Eastern District of New York. Visa, MasterCard and several banks and bank holding companies are named as defendants in various of these actions. The amended and consolidated complaint asserts claims against defendants based on alleged violations of federal and state antitrust laws and seeks damages, as well as injunctive relief. Plaintiff merchants allege that Visa, MasterCard and payment card issuing banks unlawfully colluded to set interchange rates. Plaintiffs also allege that enforcement of certain Visa and MasterCard rules and alleged tying and bundling of services offered to merchants are anticompetitive. WFC and WB, along with other defendants and entities, are parties to Loss and Judgment Sharing Agreements, which provide that they, along with other entities, will share, based on a formula, in any losses from the interchange litigation. **On July 13, 2012, Visa, MasterCard and the financial institution defendants, including WFC, signed a memorandum of understanding with plaintiff merchants to resolve the consolidated class actions and reached a separate settlement in principle of the consolidated individual actions.** The proposed settlement payments for the consolidated class and individual actions are approximately \$6.6bn. The class settlement also provides for the distribution to class merchants of 10bps of default interchange across all credit rate categories for a period of eight consecutive months. The settlements are subject to further approval.
- **Medical Capital Corporation litigation:** WFC served as indenture trustee for debt issued by affiliates of Medical Capital Corporation, which was placed in receivership at the request of the Securities and Exchange Commission (SEC) in August 2009. Since September 2009, WFC has been named as a defendant in various class and mass actions brought by holders of Medical Capital Corporation's debt, alleging that WFC breached contractual and other legal obligations owed to them and seeking unspecified damages. The actions have been consolidated in the United States District Court for the Central District of California. **WFC has reached a conditional settlement in principle with the receiver for Medical Capital Corporation and its affiliates.**

## ANALYST(S) CERTIFICATION(S)

I, Jason M. Goldberg, CFA, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 17th Floor, New York, NY 10019 or refer to <http://publicresearch.barcap.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Wells Fargo (WFC, 06-Aug-2012, USD 34.00), Overweight/Positive

### Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

#### U.S. Large-Cap Banks

Bank of America (BAC)	BB&T Corp. (BBT)	Capital One Financial (COF)
Citigroup Inc. (C)	Fifth Third Bancorp (FITB)	JPMorgan Chase & Co. (JPM)
KeyCorp (KEY)	Northern Trust (NTRS)	PNC Financial Services Gp (PNC)
Regions Financial (RF)	State Street (STT)	SunTrust Banks (STI)
The Bank of New York Mellon Corp. (BK)	U.S. Bancorp (USB)	Wells Fargo (WFC)

### Distribution of Ratings:

## IMPORTANT DISCLOSURES CONTINUED

Barclays Equity Research has 2385 companies under coverage.

42% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 55% of companies with this rating are investment banking clients of the Firm.

42% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 48% of companies with this rating are investment banking clients of the Firm.

13% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 43% of companies with this rating are investment banking clients of the Firm.

### Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

### Barclays offices involved in the production of equity research:

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

IMPORTANT DISCLOSURES CONTINUED

**Wells Fargo (WFC)**  
**USD 34.00 (06-Aug-2012)**

Stock Rating

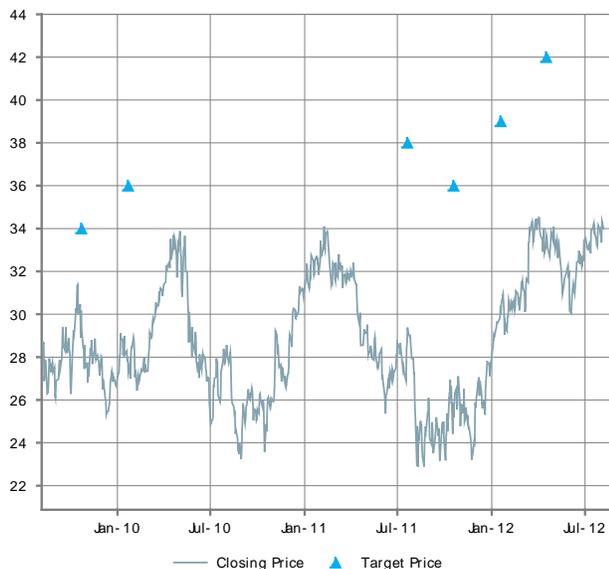
Industry View

**OVERWEIGHT**

**POSITIVE**

Rating and Price Target Chart - USD (as of 06-Aug-2012)

Currency=USD



Date	Closing Price	Rating	Price Target
16-Apr-2012	33.15		42.00
18-Jan-2012	30.24		39.00
18-Oct-2011	25.86		36.00
20-Jul-2011	28.70		38.00
21-Jan-2010	28.00		36.00
22-Oct-2009	30.17		34.00

[Link to Barclays Live for interactive charting](#)

**A:** Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of Wells Fargo in the previous 12 months.

**C:** Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by Wells Fargo or one of its affiliates.

**D:** Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Wells Fargo in the past 12 months.

**J:** Barclays Bank PLC and/or an affiliate trades regularly in the securities of Wells Fargo.

**K:** Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from Wells Fargo within the past 12 months.

**L:** Wells Fargo is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

**M:** Wells Fargo is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

**O:** Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in Wells Fargo stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

**Valuation Methodology:** Our price target of \$42 is based on our DCF and ROIC models and implies an 11x multiple on our 2013 EPS estimate of \$3.70.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Deterioration in the California economy; negative legislative decision(s); an increase in the cost of doing business in California; Increased political scrutiny/risk; ineffective mortgage banking hedges.

## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This communication is being made available in the UK and Europe primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion Order) 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised and regulated by the Financial Services Authority ("FSA") and a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, Absa Capital, the Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No: 1986/004794/06. Registered Credit Provider Reg No NCRC7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Capital in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Capital is an affiliate of Barclays.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokucho (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

This material is issued in Taiwan by Barclays Capital Securities Taiwan Limited. This material on securities not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE), Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi

(Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2012). All rights reserved. No part of this publication may be reproduced in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.

U.S. Large-Cap Banks (Cont'd)

---

Inna Blyakher

1.212.526.3904

inna.blyakher@barcap.com

BCI, New York