WELLS FARGO

3Q12 10-Q Review: Assessing the Impact of Sandy

New/forward-looking disclosures from WFC's 3Q12 10-Q include:

EPS: It expects NIM pressure (3.66% at 3Q) as a result of the current rate environment. Its efficiency ratio is expected to remain within its 55-59% target (57.1% at 3Q) in 4Q12 though it may not achieve a specific expense target. Mortgage apps (-$20bn) and pipeline (-$5bn) both decreased in 3Q, but remain elevated.

Sandy/reserve: It is actively reviewing its exposure but is currently unable to reasonably estimate the extent of losses it may incur. The impact is expected to primarily relate to the consumer and commercial real estate loan portfolios. It expects further loan loss reserve releases ($110mn in 3Q), absent significant deterioration in the economy or significant impact of Hurricane Sandy.

Capital: Based on its current interpretation of the Fed's NPR, WFC estimates its Tier 1 common ratio at 8.02% (7.78% at 2Q). It repurchased 16.5mn shares in 3Q, leaving 40mn remaining on its buyback at 3Q. It added 200mn shares to this authorization in October (5% of oustaidngs in all). In September, it entered into a $300mn forward repurchase agreement that settled in October. It share count declined 0.5% in October.

Legal: At 3Q, the high end of possible losses above its mortgage repurchase reserve was $2.5bn (-$0.1bn, -4%), on top of its $2.0bn (+$0.2bn) reserve. The high end of possible losses above its legal reserve was $1.2bn (flat).

Rates: Its EPS at risk was less than 1% (same as 2Q) due to change in rates. Unrealized AFS debt gains were $11.9bn (+$2.4bn), while equity gains were $425mn (+$56mn).

WFC: Quarterly and Annual EPS (USD)

	2011	2012			2013			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2012	2013
Q1	0.67A	0.75A	0.75A	0.75A	N/A	N/A	0.86E	12%	N/A
Q2	0.70A	0.82A	0.82A	0.82A	N/A	N/A	0.90E	17%	N/A
Q3	0.72A	0.88A	0.88A	0.88A	N/A	N/A	0.92E	22%	N/A
Q4	0.73A	0.90E	0.90E	0.89E	N/A	N/A	0.94E	23%	N/A
Year	2.82A	3.35E	3.35E	3.34E	3.55E	3.55E	3.62E	19%	6%
P/E	12.1		10.2			9.6			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Stock Rating	OVERWEIGHT
	Unchanged
Industry View	POSITIVE
	Unchanged
Price Target	USD 42.00
	Unchanged

Price (05-Nov-2012)	USD 34.02
Potential Upside/Downside	+23%
Tickers	WFC

Market Cap (USD mn)	180026
Shares Outstanding (mn)	5289.61
Free Float (%)	99.88
52 Wk Avg Daily Volume (mn)	27.0
Dividend Yield (%)	2.3
Return on Equity TTM (%)	11.97
Current BVPS (USD)	25.85

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 36.60-23.19

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

James McGlinch
1.212.526.0971
james.mcglinch@barclays.com
BCI, New York

Brian Morton, CFA
1.212.526.2163
brian.morton@barclays.com
BCI, New York

Inna Blyakher
1.212.526.3904
inna.blyakher@barclays.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	43,829.9	43,907.7	45,822.2	1.8%
Operating expenses	46,365	48,259	46,911	48,093	1.2%
Pre-provision earnings	33,591	36,877	36,959	38,613	4.8%
Loan loss provisions	7,899	6,947	6,092	6,396	-6.8%
Pre-tax income	23,656	28,800	29,593	31,209	9.7%
Net income (adj)	15,025	17,905	18,499	19,574	9.2%

Balance sheet ($bn)					Average
Total assets	1,314	1,382	1,469	1,557	1,430
Risk-weighted assets	1,006	1,058	1,124	1,192	1,095
Non-performing loans ($mn)	21,304	19,500	17,550	15,795	18,537
Allowance for loan losses	19	17	15	14	17
Loans	769.6	786.5	825.9	867.2	812.3
Deposits	920	971	1,020	1,071	996
Tier 1 capital	114	123	131	140	127
Tier 1 common capital	95	108	116	125	111
Shareholders' equity	129	144	153	162	147
Tangible common equity	95	111	119	128	113
Loan/deposit ratio (%)	86.8	82.5	82.5	82.5	83.6

Valuation and leverage metrics					Average
P/E (reported) (x)	12.1	10.2	9.6	8.9	10.2
P/BV (tangible) (x)	1.9	1.6	1.5	1.3	1.6
Dividend yield (%)	1.4	2.6	3.1	3.4	2.6
P/PPE (x)	5.4	4.9	4.8	4.5	4.9
Tier 1 (%)	11.33	11.60	11.66	11.75	11.58
Tier 1 Common (%)	9.46	10.19	10.33	10.50	10.12
Tang assets/tang equity (x)	13.5	12.1	12.0	11.9	12.4

Margin and return data					Average
Return on RWAs (%)	1.6	1.8	1.8	1.7	1.7
ROA (%)	1.3	1.4	1.4	1.4	1.4
ROE (tangible common) (%)	17.1	17.2	16.5	16.2	16.7
Fee income/revenue (%)	45.6	48.5	47.6	47.2	47.2
Net interest margin (%)	3.9	3.8	3.6	3.5	3.7
Cost/income (%)	58.0	56.7	55.9	55.5	56.5

Credit quality ratios					Average
Loan loss provs/loans (%)	1.0	0.9	0.7	0.7	0.9
NCO ratio (%)	1.5	1.2	1.0	0.8	1.1
Coverage ratio (%)	90.9	88.7	86.9	91.2	89.4
NPL ratio (%)	2.8	2.5	2.1	1.8	2.3
Reserves/loans (%)	2.5	2.2	1.8	1.7	2.1

Per share data ($)					Average
EPS (reported)	2.82	3.35	3.55	3.83	3.39
DPS	0.48	0.88	1.06	1.15	0.89
BVPS (tangible)	18.2	21.1	23.2	25.5	22.0
Payout ratio (%)	17.0	26.3	30.0	30.0	25.8
Diluted shares (mn)	5,323.4	5,345.4	5,211.2	5,107.0	5,246.7

Stock Rating	OVERWEIGHT
Industry View	POSITIVE
Price (05-Nov-2012)	USD 34.02
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.

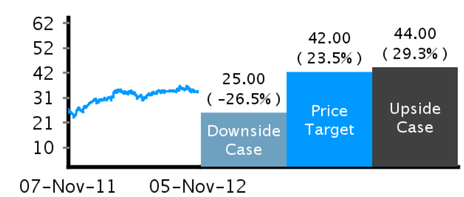
Upside case — USD 44.00

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 $3.35 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



Source: Barclays Research

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

Forward Looking Statements

- **Expense initiative:** Expense management is important to WFC; however, it will not **forgo attractive revenue opportunities in order to meet specific noninterest expense targets.** 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. Accordingly, it believes the efficiency ratio, which measures noninterest expense as a percentage of total revenue, is an appropriate measure of its expense management efforts. The efficiency ratio of 57.1% in 3Q12 improved by 240bps from a year ago as a result of higher mortgage banking noninterest income and continued focus on expenses. WFC has targeted an efficiency ratio of 55 to 59%, and the efficiency ratio of 57.1% in 3Q12 was within this target range and was at its lowest level in 10 quarters. **It expects to remain in the targeted range in 4Q12.**

- **Sandy:** During the last week of October 2012, Hurricane Sandy and related storms caused destruction along the East Coast, including in CT, NJ, NY, PA, DE, MD, VA and DC, and resulted in property damage for customers and the closing of many businesses and financial markets. It is currently assessing the impact to customers and business as a result of Hurricane Sandy. The financial impact is expected to primarily relate to the consumer and commercial real estate loan portfolios. It is actively reviewing its exposure but is currently unable to reasonably estimate the extent of losses it may incur as a result of these storms.

- **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 8.02% at 3Q12.**

- **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. The $175mn was paid during 3Q12. **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 (6% of volume).

- **Refinance program:** WFC expects to refinance 33,000 to 36,000 borrowers with an unpaid principal balance of $6.7bn to $7.4bn under the Refinance Program. Based on the mix of loans, it estimates the weighted average note rate will be reduced by 270bps and that the weighted average estimated remaining life will be 10 years. Based on expectations that it will fulfill the credit needs for the Refinance Program within the first 12 months, it expects the future reduction in interest income to be $1.8bn to $2.0bn or $181mn to $201mn annually. No loss was recognized in the financial statements for this estimated forgone interest income as the impact will be recognized over a period of years in the form of lower interest income.

- **Shares outstanding:** At October 31, 2012, WFC had 5,264,273,367 shares outstanding which compares to the 5,288,100,000 shares it had outstanding at 3Q12 (-0.5%). During 3Q12, WFC repurchased 16.5mn shares at an average price of $32.97. At 3Q12, 40mn shares (0.8% of outstanding) remained under its board authorized repurchase program. **Then, in late October, WFC said it increased its share repurchase authorization by 200mn shares.**

- **Forward repurchase contract agreements:** In June 2012, WFC entered into a private forward repurchase contract with an unrelated third party. This contract settled in 3Q12 for 11mn shares of common stock. **Then in September 2012, it entered into a similar private forward repurchase contract and paid $300mn to an unrelated third party. This contract settled in October 2012 for 9mn shares of common stock.** 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 18bps y-o-y, it fell 25bps linked quarter basis to 3.66% due to the continued runoff of higher yielding assets. **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 ($1.2bn at 2Q12) at 3Q12.**

- **Mortgage repurchase reserve:** Its liability for mortgage repurchases, included in "Accrued expenses and other liabilities" in its consolidated balance sheet, was $2.0bn at

3Q12, and $1.8bn at 2Q12. **The high end of this range of reasonably possible losses in excess of its recorded mortgage repurchase liability was $2.5bn ($2.6bn at 2Q12) at 3Q12.**

- **Credit quality:** Absent significant deterioration in the economy or significant impact of Hurricane Sandy on its loan portfolios, WFC expects continued future allowance releases ($110mn in 3Q12).

- **Eurozone exposure:** At 3Q12, foreign loans represented 5% (5% at 2Q12) 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 $14.5bn, or 1% of its total assets, and included $2.1bn 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 3Q12, its Eurozone exposure, including cross-border claims on an ultimate risk basis, and foreign exchange and derivative products, aggregated to $10.9bn, including $214mn of sovereign claims, compared with $10.9bn at 2Q12, which included $352mn 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 since the beginning of 2011 and in August of 2012, its cross-sell was 6.04 products per household, up from 6.00 in May 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 $478mn in 3Q12 and it estimates it at $482mn for the remainder of 2012, $1.74bn for 2013, $1.56bn for 2014, $1.42bn for 2015, $1.27bn for 2016, and $1.14bn for 2017.

Interest Rates & Balance Sheet

- **At 3Q12, its most recent simulation indicated estimated earnings at risk of less than 1.0% (1.0% at 2Q12) of its most likely earnings plan over the next 12 months** using a scenario in which the federal funds rate remains unchanged (same as 2Q12) and the 10-year Constant Maturity Treasury bond yield averages below 1.20% (1.20%) and a scenario in which the federal funds rate rises to 3.75% (same as 2Q) and the 10-year Constant Maturity Treasury bond yield increases to 5.10% (same as 2Q).

- **At 2Q12, WFC held $226.6bn ($224.0bn at 2Q12) of debt securities in AFS, with net unrealized gains of $11.9bn vs. $9.5bn at 2Q12.** It also held $2.8bn ($2.8bn at 2Q12) of marketable equity securities AFS at 3Q12, with net unrealized gains of $425mn ($369mn at 2Q12). **The weighted-average expected remaining maturity of the debt securities within its AFS portfolio was 5.0 years (5.2 years at 2Q12) at 3Q12.** Because 61% (61% at 2Q12) 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 3Q12 was -$8.5bn (-$3.1bn at 2Q12) for an increase in rates and +$2.3bn (+$9.9bn) for a decrease in rates.

- **At 3Q12, its debt securities available for sale included $37.9bn ($37.3bn at 2Q12) of municipal bonds, of which 81% (80%) 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 $14.5bn ($18.1bn at 2Q12) of securities with losses of $1.3bn ($1.8bn) at 3Q12 that have been in an unrealized loss position for greater than 12 months,** with CMBS ($3.9bn fair value, $390mn of unrealized losses), CDOs ($1.4bn, $134mn unrealized losses) and municipal bonds ($5.1bn, $453mn of unrealized losses) accounting for the majority of these losses.
- **Nonmarketable investments of $17.5bn ($17.0bn at 2Q12) included private equity investments of $3.7bn ($3.7bn at 2Q12) accounted for under the cost method and $5.0bn ($4.8bn) of private equity accounted for under the equity method.**
- **At 3Q12, its level 3 assets totaled $49.8bn (4% of assets; $55.6bn at 2Q12),** of which $24.2bn ($29.6bn) related to AFS securities and $11.0bn was MSR ($12.1bn).

Asset Quality

- **Total loans stood at $782.6bn ($766.5bn at 2Q12) at 3Q12.** Its loan mix at 3Q12 was 55% (55% at 2Q12) consumer and 45% (45%) commercial/CRE. Its commercial/CRE categorical mix was commercial 23% of total loans (23% at 2Q12), commercial mortgage 13% (14%), real estate construction 2% (2%), lease financing 2% (2%), and foreign 5% (5%). Its consumer book included residential mortgage 31% (30%), home equity 10% (10%), card 3% (3%) and other 11% (11%). **The carrying value of its net loans of $746.9bn was lower than the fair value of $755.2bn by $8.3bn (1.1%).**
- Nonperforming assets increased by $368mn to $25.3bn at 3Q12, from $24.9bn at 2Q12 including the **$1.4bn increase resulting from implementation of the OCC guidance**. YTD nonperforming assets have declined $712mn, 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 3Q12 was due in part to the continued decline in balances in its non-strategic/liquidating loan portfolios, which decreased $4.5bn linked quarter, and $92.1bn in total since the beginning of 2009, to $98.7bn at 3Q12.** These portfolios consist primarily of its Pick-a-Pay mortgage portfolio ($60.1bn) acquired from WB as well as some portfolios from legacy WFC Home Equity ($5.0bn) and WFC Financial ($15.0bn). Effective in 1Q11, it added its education finance government guaranteed loan portfolio ($13.0bn) 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)		Sept. 30, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
						Outstanding balance
Commercial:						
Legacy Wachovia commercial and industrial, CRE and foreign PCI loans	$	3,836	5,695	7,935	12,988	18,704
Total commercial		3,836	5,695	7,935	12,988	18,704
Consumer:						
Pick-a-Pay mortgage		60,080	65,652	74,815	85,238	95,315
Liquidating home equity		4,951	5,710	6,904	8,429	10,309
Legacy Wells Fargo Financial indirect auto		1,104	2,455	6,002	11,253	18,221
Legacy Wells Fargo Financial debt consolidation		15,002	16,542	19,020	22,364	25,299
Education Finance - government guaranteed		12,951	15,376	17,510	21,150	20,465
Legacy Wachovia other PCI loans		732	896	1,118	1,688	2,478
Total consumer		94,820	106,631	125,369	150,122	172,087
Total non-strategic and liquidating loan portfolios	$	6	112,326	133,304	163,110	190,791

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 3Q12, 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 3Q12 on the non-PCI mortgage portfolio. Loans 30 days or more delinquent at 3Q12, totaled $15.9bn, or 5%, of total non-PCI mortgages, compared with $16.1bn, or 6%, at 2Q12. Loans with FICO scores lower than 640 totaled $38.7bn at 3Q12, or 13% of all non-PCI mortgages, compared with $40.5bn, or 14%, at 2Q12. Mortgages with a LTV/CLTV greater than 100% totaled $63.2bn at 3Q12, or 22% of total non-PCI mortgages, compared with $66.9bn, or 24%, at 2Q12.

- 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 $66.1bn ($68.8bn at 2Q12) and a carrying value of $60.1bn ($62.0bn) at 3Q12.** 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 $3.0bn 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 12.7 years at 3Q12. The accretable yield percentage at 2Q12 was 4.21%, down from 4.32% at 2Q12.

- In 3Q12, it completed more than 3,100 proprietary and HAMP Pick-a-Pay loan modifications and has completed more than 109,000 modifications since the WB acquisition, resulting in $4.6bn of principal forgiveness to its Pick-a-Pay customers as well as an additional $401mn of conditional forgiveness that can be earned by borrowers through performance over the next three years.

- Its home equity liquidating portfolio was $5.0bn at 3Q12, compared with $5.2bn at 2Q12. The loans in this liquidating portfolio represent less than 1% of its total loans outstanding at 3Q12, and contain some of the highest risk in its $97.9bn Home Equity portfolio, with a loss rate of 11.60% compared with 3.93% 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 $93.0bn ($95.8bn at 2Q12) at 3Q12. 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 3Q12, 35% (36% at 2Q12) 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 $122.3bn, or 16%, of total loans at 3Q12. CRE construction loans totaled $17.7bn at 3Q12, and CRE mortgage loans totaled $104.6bn. 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 26% 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 3Q12, it had $18.3bn of criticized non-PCI CRE mortgage loans, a decrease of 18% from 4Q11, and $4.5bn of criticized non-PCI CRE construction loans, a decrease of 34% from 4Q11.

- **Its total troubled debt restructurings (TDRs) at 3Q12 were $27.4bn ($5.4bn commercial and $22.0bn consumer), up from $22.9bn at 2Q12. Of this amount, $17.4bn ($16.0bn at 2Q12) was on accrual status, while $10.0bn ($6.9bn) was on nonaccrual.**

Off-Balance Sheet Arrangements

- At 2Q12, WFC had unconsolidated VIEs worth $43.8bn ($46.9bn at 2Q12), with total assets of $1.6 trillion ($1.6trn). Its maximum loss exposure related to these entities was $56.0bn ($59.0bn at 2Q12) at 3Q12.

- Through the issuance of trust preferred securities it had junior subordinated debt financing with a carrying value of $5.0bn at 3Q12, $5.0bn at 2Q12, $7.5bn at 1Q12, and $2.5bn of preferred stock at 3Q12, 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 $1.6bn ($1.8bn at 2Q12) and $63.2bn ($59.9bn) of maximum loss exposure (including $40.8bn of standby letters of credit, and $11.9bn of written put options).

- WFC had net derivative assets of $30.1bn ($29.3bn at 2Q12) at 3Q12 and net derivative liabilities of $17.4bn ($16.7bn).

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 $28mn released from the nonaccretable difference related to commercial PCI loans due to payoffs and other resolutions. It also transferred $681mn from the nonaccretable difference to the accretable yield for PCI loans with improving credit-related cash flows and absorbed $900mn of losses in the nonaccretable difference from loan resolutions and write-downs.

- Since the WB acquisition, it has released $7.0bn ($6.3bn at 2Q12) in nonaccretable difference for certain PCI loans and pools of PCI loans, including $5.2bn ($4.5bn) 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 $5.2bn ($4.5bn at 2Q12) reduction from 4Q08 through 3Q12, in its initial expected losses on all PCI loans.

- **PCI loans had an unpaid principal balance of $47.8bn ($50.2bn at 2Q12) at 3Q12, and a carrying value, before the deduction of the allowance for loan losses, of $32.5bn ($35.8bn at 2Q12).**

- **PCI-related accretion in 2Q12 totaled $495mn ($630mn at 2Q12) and had a +17bp (+22bp) impact on its net interest margin.**

- Net gains on debt and equity securities totaled $167mn for 3Q12 and $181mn for 2Q12, after other-than-temporary impairment (OTTI) write-downs of $72mn for 3Q12 and $120mn for 2Q12.

Mortgage Banking

- Mortgage banking noninterest income, consisting of net servicing income and net gains on loan origination/sales activities, totaled $2.8bn in 3Q12, compared with $2.9bn in 2Q12 and $1.8bn in 3Q11. 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 3Q12 included a $142mn net MSR valuation gain ($1.43bn decrease in the fair value of the MSRs offset by a $1.57bn hedge gain). For the nine months ending 3Q12, net servicing income included $461mn net MSR valuation gain, down from $1.36bn in the same period for 2011. The $465mn decline compared to 3Q11 was primarily the result of a reduction in the fair value of residential

MSRs to reflect servicing and foreclosure cost updates. The valuation of its MSRs at both 3Q12 and 3Q11 reflected its assessment of expected future amounts of servicing and foreclosure costs.

- Its portfolio of loans serviced for others was $1.91trn at 3Q12 and $1.91trn at 2Q12. The total carrying value of its residential and commercial MSRs was $12.1bn at 3Q12, and $13.2bn at 2Q12. The weighted-average note rate on its portfolio of loans serviced for others was 4.87% at 3Q12, and 4.97% at 2Q12. **Its total MSRs represented 0.63% of mortgage loans serviced for others at 3Q12, compared with 0.69% at 2Q12.**
- Income from mortgage loan origination/sale activities was $2.6bn in 3Q12 compared with $2.2bn in 2Q12 and $803mn in 3Q11. The y-o-y increase was driven by higher loan origination volume and margins. **Residential real estate originations were $139bn ($131bn in 2Q12) in 3Q12, compared with $89bn a year ago.**
- **Mortgage applications were $188bn in 3Q12, compared with $208bn in 2Q12 and $169bn in 3Q11. Its 1-4 family first mortgage unclosed pipeline was $97bn ($102bn at 2Q12) at 3Q12, and $84bn at 3Q11.**

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 3Q12 totaled $462mn (compared with $669mn for 2Q12),** of which $387mn ($597mn for 2Q12) 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 3Q12, 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 $474mn in 3Q12, compared with $847mn in 2Q12.** It incurred net losses on repurchased loans and investor reimbursements totaling $193mn in 3Q12 compared with $349mn in 2Q12.
- The overall level of unresolved repurchase demands and mortgage insurance rescissions outstanding at 3Q12, was flat 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 3Q12, 25% (20% at 2Q12) 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 2Q12) 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)

	Government sponsored entities		Private		Mortgage insurance rescissions with no demand		Total	
($ in millions)	Number of loans	Original loan balance	Number of loans	Original loan balance	Number of loans	Original loan balance	Number of loans	Original loan balance
2012								
September 30,	6,525	$ 1,	1,513	$ 33	817	$ 18	8,855	$ 2,0
June 30,	5,687	1,265	913	213	840	188	7,440	1,666
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 $2.0bn at 3Q12, and $1.8bn at 2Q12.** In 3Q12, it recorded an additional $462mn to the liability, which reduced net gains on mortgage loan origination/sales activities, compared with an additional liability of $669mn in 2Q12. **Its provision for 3Q12 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 58% of the 3Q12 provision), an increase in probable loss estimates for mortgage insurance rescissions (26%) and new loan sales (16%).** The increase in projected future GSE repurchase demands in 3Q12 was predominately a result of an increase in the expected demand rate on audited loans based on our most recent experience with the GSEs.

- **The high end of this range of reasonably possible losses in excess of its recorded mortgage repurchase liability was $2.5bn ($2.6bn at 2Q12) at 3Q12**, 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 ($1.9trn at 2Q12) residential mortgage loan servicing portfolio at 3Q12, 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 7.32% (7.14% at 2Q12) at 3Q12. In this portfolio 4% (5% at 2Q12) 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 2Q12) are loans from 2005 vintages or earlier (weighted average age of 75 months); 78% (79%) were prime at origination and 64% (65%) are jumbo loans. The weighted-average LTV at 3Q12, for this private securitization segment was 74% (76% at 2Q12). 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 4% private securitization portion of the residential mortgage servicing portfolio. It had only $26mn ($58mn in 2Q12) of repurchased loans related to private securitizations in 3Q12. 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 2Q12) 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 11.50% (11.69% at 2Q12) at 3Q12, its total capital ratio was 14.51% (14.85%), and its leverage ratio stood at 9.40% (9.25%). Its Tier 1 common ratio DEcreased to 9.92% (10.08%). **Under its interpretation of current Basel III capital proposals, it estimated its Tier 1 common equity ratio at 8.02% (7.78% at 2Q12) at 3Q12.** At 3Q12, 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 June 2012, WFC entered into a private forward repurchase contract with an unrelated third party. This contract settled in 3Q12 for 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 September 2012, it entered into a similar private forward repurchase contract and paid $300mn to an unrelated third party. This contract settled in October 2012 for 9mn shares of common stock. The amount it paid to the counterparty meets accounting requirements to be treated as a permanent equity reduction.**

- **Deposits:** About 94% 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 2Q12) at 3Q12. Brokerage client assets totaled $1.2trn ($1.2trn at 2Q12) at 3Q12, up 7% from 3Q11. 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 increased to $1.1bn in 3Q12 from $1.0bn in 2Q12. 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 3Q12 compared to $1.9bn in 2Q12. 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 $529mn in 3Q12 compared with $263mn in 2Q12 and $442mn in 3Q11.** The y-o-y increase was driven by gains on customer accommodation trading activities and economic hedging gains, which included higher gains on deferred compensation plan investments. 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. **Proprietary trading had $2mn of net gains in 3Q12 compared with net losses of $1mn in 2Q12,.** Proprietary trading activities are not significant to its client-focused business model.

- **Earnings mix:** In 3Q12, its earnings mix was 54% (53% in 3Q12) community banking, 39% (40%) wholesale banking and 7% (7%) wealth, brokerage & retirement.

- **Value-at-risk (VaR):** Its average one-day VaR throughout 3Q12 was $19mn ($31mn at 1Q12), with a lower bound of $12mn ($22mn) and an upper bound of $32mn ($50mn).

Legal

- **FHA insurance litigation:** On October 9, 2012, the United States filed a complaint, captioned United States of America v. Wells Fargo Bank, N.A., in the U.S. District Court for the Southern District of New York. The complaint makes claims with respect to its FHA lending program for the period 2001 to 2010. The complaint alleges, among other allegations, that WFC improperly certified certain FHA mortgage loans for FHA insurance that did not qualify for the program, and therefore it should not have received insurance proceeds from FHA when some of the loans later defaulted. The complaint further alleges WFC knew some of the mortgages did not qualify for insurance, and did not disclose the deficiencies to FHA before making insurance claims.

- **Mortgage foreclosure document litigation:** As previously disclosed, eight purported class actions and several individual borrower actions related to foreclosure document practices were filed in late 2010 and in early 2011 against WFC in its status as mortgage servicer or corporate trustee of mortgage trusts. Five of those cases had been previously dismissed or otherwise resolved. **Two of the three remaining purported class actions were dismissed or otherwise resolved on October 3 and October 25, 2012**. As a result, seven of the eight purported class actions have now been dismissed or otherwise resolved.

- **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 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. On September 20, 2012, the Court entered a Memorandum Opinion and Order approving and entering the Consent Order.

- **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 I*n 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. All four of these individual shareholder actions have now been finally dismissed.**

- **Order of posting litigation:** A series of putative class actions have been filed against Wachovia Bank, N.A. and Wells Fargo Bank, N.A., challenging the high to low order in which the Banks posted debit card transactions to consumer deposit accounts. There remain several such cases pending against Wells Fargo Bank (including the WB cases to which WFC succeeded), most of which have been consolidated in multi-district litigation proceedings in the U.S. District Court for the Southern District of Florida. The bank defendants moved to compel these cases to arbitration under recent Supreme Court authority. On November 22, 2011, the Judge denied the motion. On October 26, 2012, the U.S. Court of Appeals for the Eleventh Circuit affirmed the District Court's denial of the motion to compel arbitration.

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Primary Stocks (Ticker, Date, Price)

Wells Fargo (WFC, 05-Nov-2012, USD 34.02), Overweight/Positive

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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)

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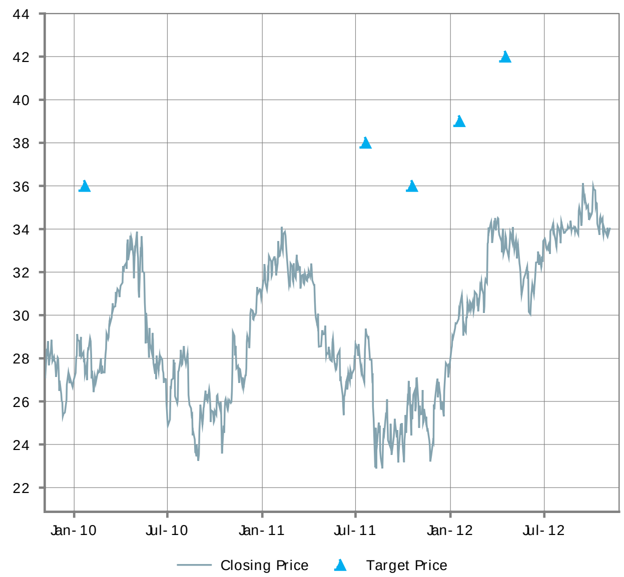
IMPORTANT DISCLOSURES CONTINUED

Wells Fargo (WFC)	Stock Rating	Industry View
USD 34.02 (05-Nov-2012)	**OVERWEIGHT**	**POSITIVE**

Rating and Price Target Chart - USD (as of 05-Nov-2012)



Link to Barclays Live for interactive charting

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

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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 $3.55.

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