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Equity Research

Financial Services | U.S. Large-Cap Banks

15 April 2013

Wells Fargo

1Q13 EPS Review: Another Record

Bottom line: In keeping with recent tradition, Wells Fargo reported its 8th consecutive quarter of record earnings per share, as loan growth and a lower loan loss provision overcame seasonally elevated expenses and margin pressure. Its ROTCE exceed 18%. Looking ahead, although gain on sale margins are expected to decline from still elevated levels, net interest income is expected to expand, mortgage purchase activity has been increasing, and expenses should decline on seasonal factors, as well as the elimination of IFR related costs ($50mn in 1Q13). With its 3% dividend yield and current valuation (9.5x 2014 EPS), shares of WFC continue to screen attractively.

Results: WFC reported 1Q13 EPS of $0.92 (a record), ahead of consensus of $0.89, marking its 13th straight quarter of increased EPS (and 8th consecutive record quarter). Relative to expectations, a lower-than-forecasted loan loss provision and higher-than-anticipated average loan balances were able to more than compensate for modestly lower-than-anticipated net interest margin.

Drivers: Relative to 4Q12, results evidenced an expanded balance sheet (loans ex. retained mortgages and liquidating up 1.5%), continued net interest margin pressure (-8bps), stable fee income (lower mortgage offset by other line items), elevated core expenses (seasonally higher benefit costs), a lower loan loss provision, another reserve release (declining in magnitude), lower NPAs and NCOs, a higher tax rate (+500bps) and a higher average share count (+0.3%) despite repurchasing 17mn shares (0.3% of outstanding).

Estimates: To reflect this quarter's beat, better-than-anticipated earning asset growth, continued loan loss reserve release and expectations for controlled expenses, we are raising our 2013 EPS estimate $0.15 to $3.75. We expect WFC's recent streak of record results to continue. Our 2014 EPS estimate is also $0.15 higher to $3.90. Our price target is $45 (+$3) and represents 11.5x our 2014 EPS estimate (was 11.2x our prior 2014 EPS estimate of $3.75).

WFC: Quarterly and Annual EPS (USD)

	2012	2013			2014			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2013	2014
Q1	0.75A	0.88E	0.92A	0.88E	N/A	N/A	0.88E	23%	N/A
Q2	0.82A	0.90E	0.93E	0.91E	N/A	N/A	0.95E	13%	N/A
Q3	0.88A	0.91E	0.94E	0.93E	N/A	N/A	1.00E	7%	N/A
Q4	0.91A	0.91E	0.96E	0.93E	N/A	N/A	1.03E	5%	N/A
Year	3.36A	3.60E	3.75E	3.64E	3.75E	3.90E	3.87E	12%	4%
P/E	11.1		9.9			9.5			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Stock Rating	OVERWEIGHT
	Unchanged
Industry View	POSITIVE
	Unchanged
Price Target	USD 45.00
	raised 7% from USD 42.00

Price (12-Apr-2013)	USD 37.21
Potential Upside/Downside	+21%
Tickers	WFC

Market Cap (USD mn)	197903
Shares Outstanding (mn)	5273.86
Free Float (%)	99.87
52 Wk Avg Daily Volume (mn)	23.7
Dividend Yield (%)	2.4
Return on Equity TTM (%)	12.69
Current BVPS (USD)	27.47

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 38.20-29.80

Link to Barclays Live for interactive charting

U.S. Large-Cap Banks

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U.S. Large-Cap Banks — **Industry View: POSITIVE**

Wells Fargo (WFC)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2012A	2013E	2014E	2015E	CAGR
Net interest income	43,932.0	43,433.8	45,619.8	48,234.8	3.2%
Operating expenses	48,225	47,728	48,683	50,339	1.4%
Pre-provision earnings	37,206	37,518	39,771	42,027	4.1%
Loan loss provisions	7,217	5,426	6,760	7,458	1.1%
Pre-tax income	28,471	31,276	32,071	33,693	5.8%
Net income (adj)	17,999	19,900	20,332	21,424	6.0%
Balance sheet ($bn)					**Average**
Total assets	1,423	1,507	1,602	1,669	1,550
Risk-weighted assets	1,078	1,148	1,221	1,272	1,180
Non-performing loans ($mn)	20,486	18,000	16,200	13,770	17,114
Allowance for loan losses	17	17	17	17	17
Loans	799.6	834.0	875.7	919.5	857.2
Deposits	1,003	1,026	1,077	1,131	1,059
Tier 1 capital	123	133	142	152	137
Tier 1 common capital	109	120	129	139	124
Shareholders' equity	145	154	164	174	159
Tangible common equity	112	122	131	141	126
Loan/deposit ratio (%)	82.4	82.0	82.0	82.0	82.1
Valuation and leverage metrics					**Average**
P/E (reported) (x)	11.1	9.9	9.5	8.9	9.8
P/BV (tangible) (x)	1.8	1.6	1.4	1.3	1.5
Dividend yield (%)	2.4	3.1	3.1	3.4	3.0
P/PPE (x)	5.4	5.3	4.9	4.5	5.0
Tier 1 (%)	11.75	11.56	11.63	11.93	11.72
Tier 1 Common (%)	10.12	10.47	10.60	10.94	10.53
Tang assets/tang equity (x)	12.4	12.1	12.0	11.6	12.0
Margin and return data					**Average**
Return on RWAs (%)	1.8	1.8	1.8	1.8	1.8
ROA (%)	1.4	1.5	1.4	1.4	1.4
ROE (tangible common) (%)	17.3	17.3	16.5	16.1	16.8
Fee income/revenue (%)	48.6	49.0	48.4	47.8	48.5
Net interest margin (%)	3.8	3.4	3.4	3.4	3.5
Cost/income (%)	56.4	56.0	55.0	54.5	55.5
Credit quality ratios					**Average**
Loan loss provs/loans (%)	0.9	0.7	0.8	0.8	0.8
NCO ratio (%)	1.2	0.6	0.8	0.8	0.9
Coverage ratio (%)	83.3	95.1	102.5	122.6	100.9
NPL ratio (%)	2.6	2.2	1.8	1.5	2.0
Reserves/loans (%)	2.1	2.1	1.9	1.8	2.0
Per share data ($)					**Average**
EPS (reported)	3.36	3.75	3.90	4.20	3.80
DPS	0.88	1.15	1.17	1.26	1.12
BVPS (tangible)	21.2	23.4	25.7	28.2	24.6
Payout ratio (%)	26.2	30.7	30.0	30.0	29.2
Diluted shares (mn)	5,350.5	5,313.5	5,207.2	5,103.1	5,243.6

Price (12-Apr-2013)	USD 37.21
Price Target	USD 45.00

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.

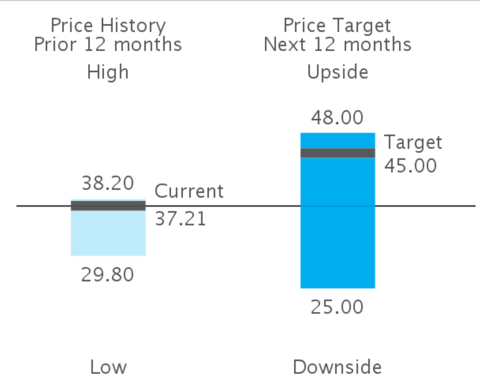
Upside case — USD 48.00

If mortgage banking activity comes in better than the MBA's current forecast and loan growth accelerates from our 4% expectations , it could reach the high-end of its 1.3-1.6% ROA target in 2014. As a result we would expect EPS to exceed $4.00 and shares to trade to 12x EPS.

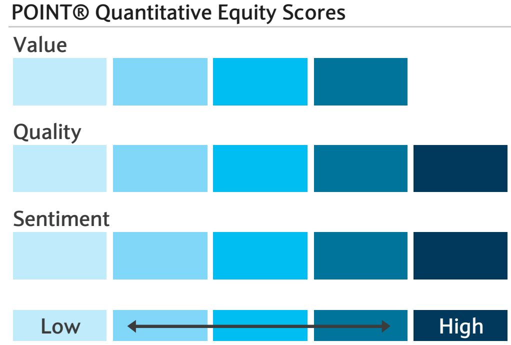
Downside case — USD 25.00

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



POINT® Quantitative Equity Scores



Source: POINT. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, click here.

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

Executive Summary

Bottom line/rating

In keeping with recent tradition, Wells Fargo reported its 8th consecutive quarter of record earnings per share, as loan growth and a lower loan loss provision overcame seasonally elevated expenses and margin pressure. Its ROTCE exceed 18%. Looking ahead, although gain on sale margins are expected to decline from still elevated levels, net interest income is expected to expand, mortgage purchase activity has been increasing, and expenses should decline on seasonal factors, as well as the elimination of IFR related costs ($50mn in 1Q13). With its 3% dividend yield and current valuation (9.5x 2014 EPS), shares of WFC continue to screen attractively. We rate WFC Overweight (Industry View: Positive).

Estimates

To reflect this quarter's beat, better-than-anticipated earning asset growth, continued loan loss reserve release and expectations for controlled expenses, we are raising our 2013 EPS estimate $0.15 to $3.75. We expect WFC's recent streak of record results to continue. Our 2014 EPS estimate is also $0.15 higher to $3.90. Our price target is $45 (+$3) and represents 11.5x our 2014 EPS estimate (was 11.2x our prior 2014 EPS estimate of $3.75).

Results Overview

- WFC reported 1Q13 EPS of $0.92 (a record), ahead of consensus of $0.89, marking its 13th straight quarter of increased EPS (and 8th consecutive record quarter). Relative to expectations, a lower-than-forecasted loan loss provision and higher-than-anticipated average loan balances were able to more than compensate for modestly lower-than-anticipated net interest margin.

- Relative to 4Q12, results evidenced an expanded balance sheet (loans ex. retained mortgages and liquidating up 1.5%), continued net interest margin pressure (-8bps), stable fee income (lower mortgage offset by other line items), elevated core expenses (seasonally higher benefit costs), a lower loan loss provision, another reserve release (declining in magnitude), lower NPAs and NCOs, a higher tax rate (+500bps) and a higher average share count (+0.3%) despite repurchasing 17mn shares (0.3% of outstanding).

- Operating revenues declined 1% on both a y-o-y and linked quarter basis. It posted an ROA of 1.49% and an ROE of 13.59%. Its Basel I tier 1 common ratio was 10.38% (+26bps despite -25bps from Basel 2.5), while it was 8.39% under Basel III (+21bps). It had net unrealized securities gains of $11.2bn at 1Q13, down $0.7bn. Period-end AFS securities balances increased $13.0bn. It repurchased 17mn shares in 1Q13 (0.3% outstanding).

- Its retail household cross-sell metric stood at 6.10, up from 6.05 at 4Q12. Meanwhile, its commercial cross-sell metric was 6.8 as of 4Q12. Credit card penetration in its retail households rose to 34.1% from 33.1% at 4Q12.

- Its 1Q13 revenue mix (ex. other) was 58% (60%) community banking, 27% (26%) wholesale banking, and 14% (14%) wealth, brokerage & retirement.

Quality of Earnings

- Equity gains totaled $113mn ($0.01), down from an elevated $715mn ($0.09) in 4Q12, of which $393mn ($0.05) was considered above average.

- Securities gains came in at $45mn ($0.01), above the $63mn (-$0.01) loss reported in 4Q12.
- Net MSR gains totaled $129mn ($0.02), down from $220mn ($0.03) in 4Q12.
- Its mortgage repurchase provision came in at $309mn ($0.03), down from $379mn ($0.05) in 4Q12.
- Its loan loss reserve release totaled $200mn ($0.02), down from $250mn ($0.03) in 4Q12. It expects continued reserve release barring significant deterioration in the economy.
- Discount accretion into interest income was $447mn ($0.05) in 1Q13, down from $513mn ($0.06) in 4Q12. Additionally, 1Q13 included $151mn ($0.02) of accretion into noninterest income due to sales.

Forward-Looking Statements

- **Net interest income/net interest margin:** Even if the current environment persists and rates remain subdued, WFC believes it can grow net interest income on a y-o-y basis (-3% y-o-y in 1Q13) as its balance sheet expands. Still, it would expect further pressure on its net interest margin (-8bps in 1Q13) as assets reprice lower.
- **Mortgage:** It retained $3.4bn of conforming mortgages in 1Q13, but it does not intend to continue this practice going forward (retained $9.7bn in 4Q12). Applications declined 8% from 4Q12 to $140bn, and its unclosed pipeline declined 9% to $74bn. Gain on sale margins remained stable linked quarter at 2.56%, although WFC expects this to decline in coming quarters. Over the last four years, the highest GOS average was 2.33% (2012) and the lowest was 1.61% (2011). It also anticipates continued strength in originations (originations -13% in 1Q13), although potentially below recent levels, as purchase activity has strengthened (+31% y-o-y) and it should benefit from the spring buying season. Refis declined as a share of originations to 65% (72% at 4Q12). In addition, HARP accounted for 10% of originations, down from the mid-teens in 2012. It increased its headcount in mortgage during 4Q12 to provide better customer service. As a result, the amount of time from application to closing has declined from 90 days to 60 days.
- **Housing outlook:** WFC shared its outlook for the housing market. It includes expectations for increased sales activity, building activity and price appreciation. It believes affordability remains excellent, the overhang from unsold properties is gone and demographics are favorable.
- **Expenses:** Total noninterest expenses are expected to decline in 2Q13 from the $12.4bn reported in 1Q13. Included in this quarter's results was $50mn of expenses related to the Independent Foreclosure Review, $460mn of seasonally higher personnel expenses, and $103mn of higher deferred compensation, which was offset in trading revenue. Employee related expenses are expected to decline in 2Q13, while IFR related expenses should be eliminated. It believes it will remain within its targeted 55-59% efficiency ratio (58.3% in 1Q13).
- **Credit quality:** After releasing $200mn of reserves in 1Q13, WFC stated it anticipates further reserve releases barring significant deterioration in the U.S. economy. In addition, it pointed to continued improvement in NCOs, as consumer NCOs are expected to improve and commercial are expected to remain near absolute lows, although show some volatility.

- **Taxes:** Its effective income tax rate was 31.9% in 1Q13 and included the benefit associated with the realization for tax purposes of a previously written-down investment. Absent additional discrete benefits in 2013, it expects the effective income tax rate for the full year to be higher than the effective income tax rate for 1Q13.

- **Capital:** WFC reiterated that returning more capital to shareholders remains a priority, while reaffirming its targeted total payout ratio of 50-65% (40% in 1Q13). Specifically, as a part of its 2013 CCAR plan, WFC received approval to repurchase more common stock than it did in 2012 ($4bn in 2012) and to raise its dividend $0.05 to $0.30 beginning in 2Q13 (subject to board approval). Its Basel III Tier 1 common ratio now stands at 8.39% (+21bps).

- **Liquidity management:** During the quarter, WFC was able to deploy some of its excess liquidity, purchasing $17.8bn of MBS as rates backed-up. It remains conservative around managing its existing liquidity, and it plans to opportunistically deploy remaining excess. It is not looking to extend duration of its securities book.

Net Interest Income

- Net interest income declined 3% from 1Q12 and decreased 2% sequentially. The majority of the linked quarter decline is attributable to two fewer days in the quarter. Average earning assets rose 2% linked quarter, including a 1% increase in average loans and a 5% increase in average securities (agency +5%), partially offset by a 9% decline in loans held for sale. Recall, net interest income was stable sequentially in 4Q12.

- Period-end loans (Figure 1) were stable linked quarter at $800bn. However, this included $3.4bn of retained conforming mortgages (retained $9.7bn in 4Q12) offset by a $3.7bn decline in liquidating loans. Excluding retained mortgages and liquidating loans, period-end balances rose 1.5% to $706bn. By category, period-end balances declined linked quarter in H/E (-4%), R/E construction (-2%), card (-2%) and C&I (-1%). Increases were seen in mortgage (+1%), foreign (+8%; trade finance) and other revolving (+1%). Its liquidating portfolio declined by $3.7bn to $90.9bn. It now composes 11.4% of loans (11.8% at 4Q12). During the quarter it purchased higher yielding securities when rates ticked higher, leading to a 6% increase in period-end securities balances.

- Its net interest margin declined 8bps to 3.48%, below the 10bp decline reported in 4Q12. Relative to 4Q12, elevated deposits weighed by 3bps but were neutral to net interest income, while lower income from variable sources, particularly PCI loan resolutions and periodic dividends, cost its NIM 3bps. Net growth of loans and AFS securities and ongoing repricing of the balance sheet reduced the NIM by 2bps.

FIGURE 1

Period-end Loan Growth ($ in millions)

	1Q13	4Q12	% change	$ change
Commercial loans excluding liquidating loans	$358.9	$358.0	0.3%	$0.9
Consumer loans excluding liquidating loans	$350.1	$347.0	0.9%	$3.1
Retained mortgages	$3.4	$9.7	-64.9%	-$6.3
Consumer loans excluding liquidating loans/retained mortgages	$346.7	$337.3	2.8%	$9.4
Total core loans excluding liquidating loans/retained mortgages	$705.7	$695.3	1.5%	$10.4
Liquidating loans	$90.9	$94.6	-3.9%	-$3.7
Reported loans	$800.0	$799.6	0.0%	$0.4
Liquidating loans as a % of total loans	11.4%	11.8%		

Source: Barclays Research and Company Documents

- Its yield on average earning assets declined 10bps from 4Q12 to 3.86%, including a 9bp decline in average loans (to 4.49%) and a 17bp decline in securities AFS (to 3.70%). Its cost of interest-bearing liabilities declined 4bps to 0.51%, while its cost of total liabilities decreased 2bps to 0.38%. Its cost of deposits declined 1bp to 15bps. Average interest-bearing deposits rose 3%, while noninterest-bearing deposit balances declined 4%, resulting in a net 1% increase in total deposits.

- Of its $800bn of loans at 1Q13, PCI loans totaled $36.4bn ($32.0bn consumer, $4.4bn commercial), or 4.6% of total loans. This is $2.0bn below the $38.4bn of PCI loans reported in 4Q12. Nonaccretable difference stood at $6.5bn, down from $7.0bn at 4Q12. The decline in nonaccreatble difference was driven by a $31mn reclassification into accretable yield, $412mn in losses from loan resolutions and write-downs, and $30mn of loans settled with borrowers. Its remaining nonaccretable difference equates to 22.9% of UPB. Pick-a-pay PCI loans had an UPB at 1Q13 of $32.0bn ($26.3bn carry value), with a nonaccretable difference equal to 24.2% of UPB.

Fee income & Expenses

- Fee income was relatively stable with 4Q12. Gains in trading (+$295mn), other (+$90mn), and insurance (+$68mn; crop insurance seasonality) were offset by declines in mortgage (-$274mn, lower originations), other fees (-$159mn; lower CRE brokerage commissions), operating lease (-$40mn) and service charges (-$36mn; seasonality). Trust & investment fees (retail brokerage and asset-based fees up, investment banking down) and card fees were relatively stable. Results also included $45mn in securities gains and $113mn in equity investment gains.

- Mortgage banking noninterest income was $2.8bn, down $274mn from 4Q12. During 1Q13, it retained on balance sheet 1-4 family conforming first mortgage loans of $3.4bn, forgoing $112mn of revenue (gave-up $340mn in 4Q). It provided $309mn for mortgage loan repurchase losses, down $70mn from 4Q12. Its mortgage repurchase reserve increased $111mn to $2.3bn. Net MSR results were $129mn, down from $220mn in 4Q12, due primarily to MSR valuation adjustments made in 1Q13 for the impact of improving housing prices on estimated prepayment speeds. Mortgage originations declined 13% sequentially to $109bn. Applications declined 8% to $140mn, while its pipeline decreased 9% to $74mn. Its gain on sale margin was relatively stable at 2.56% (though is expected to decline).

- It posted an MSR gain of $129mn, down from $220mn in 4Q12. The decline primarily reflects valuation adjustments made for the impact of improving housing prices on estimated prepayment speeds. Its MSR ratio was 0.70%, up slightly from 0.67% at 4Q12. The average rate on its servicing portfolio was 4.69%, down 8bps from 4Q12 (vs. FRE at 3.43%). Its servicing portfolio stood at $1.9trn, up slightly from $1.8trn in 4Q12.

- Its provision for mortgage repurchase losses declined $70mn to $309mn. Realized losses declined $8mn to $198mn. Its liability for mortgage repurchases increased $0.1bn to $2.3bn. Total outstanding demands declined from 8,680 at 4Q12 to 7,840 at 1Q13. This equates to a $150mn decline to $1.7bn in original balances. Of the 7,840 in repurchase demands, 5,910 are GSE, 1,278 are private and 652 are mortgage insurers.

- Expenses declined 2% y-o-y, and gained 4% from 4Q12 due to higher benefit costs. Results included $460mn of seasonally higher personnel expenses and $103mn of higher deferred compensation, which was offset in trading revenue. By category, expenses rose in employee benefits (+$692mn) and commissions and incentive compensation (+$212mn), and declined in other (-$329mn), salaries (-$72mn), core deposit and other intangibles (-$41mn), FDIC and other deposit assessments (-$15mn), equipment (-$14mn) and occupancy (-$9mn).

- Its efficiency ratio was 58.3%, down from 58.8% in 4Q12 (55-59% target). WFC said it expects expenses to decline from 1Q13 to 2Q13, though its tax rate is expected to rise. OREO came in $26mn below 4Q12 at $195mn.

Asset Quality

- After releasing $200mn of reserves in 1Q13, WFC anticipates further reserve releases in 2013 so long as economic conditions don't deteriorate. In addition, it expects continued NCO improvement, driven by consumer segments, as commercial NCOs are expected to remain near absolute low levels.

- Its NPA ratio declined 20bps to 2.85%, continuing 4Q12's 16bp decline. Every major category was stable to lower. On a dollar basis, NPAs declined $1.6bn to $22.9bn (-7%), greater than 4Q12's $744mn decline. Specifically, NPLs declined 5% to $19.5bn and OREO declined 17% to $3.4bn. Loans 90-plus days past due and still accruing (ex. government insured/guaranteed) declined $75mn to $1.4bn.

- Its NCO ratio improved 33bps to 0.72% (lowest since 2Q06). Recall, 4Q12 included 16bps resulting from adjustments associated with the OCC guidance on loans discharged in bankruptcy. Commercial NCOs were 0.10%, down 19bps, while consumer losses were 1.23%, down 45bps, reflecting both lower severities and frequency.

- Its loan loss provision was $1.2bn, down $612mn from 4Q12. Results included a $200mn loan loss reserve release ($250mn release in 4Q). Its reserve/loan ratio declined 4bps to 2.15%.

Figure 2: WFC Earnings Model- Income Statement ($ in millions)

		Quarterly Forecast					Quarterly Forecast					Annual Forecast				Annual Change							1Q13A vs.	
	2011A	1Q12A	2Q12A	3Q12A	4Q12A	2012A	1Q13A	2Q13E	3Q13E	4Q13E	2013E	2014E	2015E	2016E	2017E	10/11	11/12	12/13	13/14	14/15	15/16	16/17	1Q12A	4Q12A
EPS - operating	$2.82	$0.75	$0.82	$0.88	$0.91	$3.36	$0.92	$0.93	$0.94	$0.96	$3.75	$3.90	$4.20	$4.49	$4.98	13%	19%	0.113	4%	8%	0.069	11%	22%	**1%**
EPS - reported	**$2.82**	**$0.75**	**$0.82**	**$0.88**	**$0.91**	**$3.36**	**$0.92**	**$0.93**	**$0.94**	**$0.96**	**$3.75**	**$3.90**	**$4.20**	**$4.49**	**$4.98**	**28%**	**19%**	**11%**	**4%**	**8%**	**7%**	**11%**	**22%**	**1%**
Book value	$24.48	$25.45	$26.06	$27.10	$27.64	$27.64	$28.27	$28.48	$29.04	$29.63	$29.63	$32.08	$34.73	$37.57	$40.70	9%	13%	7%	8%	8%	8%	8%	11%	2%
Tangible book	$18.19	$19.13	$19.50	$20.61	$21.22	$21.22	$21.78	$22.30	$22.84	$23.39	$23.39	$25.71	$28.22	$30.93	$33.92	15%	17%	10%	10%	10%	10%	10%	14%	3%
Dividend	$0.48	$0.22	$0.22	$0.22	$0.22	$0.88	$0.25	$0.30	$0.30	$0.30	$1.15	$1.17	$1.26	$1.35	$1.49	140%	83%	31%	2%	8%	7%	11%	14%	14%
Diluted average shares	5,323	5,338	5,370	5,356	5,339	5,351	5,354	5,327	5,300	5,274	5,313	5,207	5,103	5,001	4,901	1%	1%	-1%	-2%	-2%	-2%	-2%	0%	0.28%
Period-end shares	5,263	5,302	5,276	5,290	5,266	5,266	5,289	5,262	5,235	5,209	5,209	5,103	4,998	4,896	4,796	0%	0%	-1%	-2%	-2%	-2%	-2%	0%	0%
Payout ratio	17%	29%	27%	25%	24%	26%	27%	32%	32%	31%	31%	30%	30%	30%	30%									
Operating revenue	**$79,956**	**$21,449**	**$21,284**	**######**	**$21,494**	**$85,431**	**$21,277**	**$21,249**	**$21,312**	**$21,408**	**$85,246**	**$88,454**	**$92,366**	**$96,438**	**#######**	**-6%**	**7%**	**0%**	**4%**	**4%**	**4%**	**6%**	**-1%**	**-1%**
Avg earning assets ($bn)	$1,102	$1,135	$1,151	$1,178	$1,213	$1,169	$1,235	$1,253	$1,266	$1,295	$1,262	$1,342	$1,398	$1,453	$1,508	3%	6%	8%	0.063	0.042	0.039	0.038	9%	2%
Net interest margin	**3.95%**	**3.91%**	**3.91%**	**3.66%**	**3.56%**	**3.76%**	**3.48%**	**3.44%**	**3.42%**	**3.40%**	**3.44%**	**3.40%**	**3.45%**	**3.50%**	**3.60%**	**-28**	**-19**	**0**	**-3**	**5**	**5**	**10**	**(43)**	-8
Net interest income	$43,460	$11,058	$11,213	$10,820	$10,841	$43,932	$10,675	$10,749	$10,912	$11,098	$43,434	$45,620	$48,235	$50,842	$54,282	-4%	1%	-1%	5%	6%	5%	7%	-3%	-2%
FTE adjustment	$697	$170	$176	$158	$198	$702	$176	$176	$176	$176	$704	$739	$776	$815	$856	11%	1%	0%	5%	5%	5%	5%	4%	-11%
Average loans ($bn)	$757	$769	$768	$777	$787	$775	$798	$810	$820	$832	$815	$856	$899	$943	$991	-2%	2%	5%	5%	5%	5%	5%	4%	1%
Loan loss provision	$7,899	$1,995	$1,800	$1,591	$1,831	$7,217	$1,219	$1,316	$1,435	$1,456	$5,426	$6,760	$7,458	$8,397	$9,312	-50%	-9%	-25%	25%	10%	13%	11%	-39%	-33%
Provision/loan ratio	1.04%	1.04%	0.94%	0.82%	0.93%	0.93%	0.61%	0.65%	0.70%	0.70%	0.67%	0.79%	0.83%	0.89%	0.94%	-100	-11	0	12	4	6	5	(43)	-31.94
Net credit income	$34,864	$8,893	$9,237	$9,071	$8,812	$36,013	$9,280	$9,257	$9,301	$9,466	$37,304	$38,120	$40,001	$41,631	$44,115	20%	3%	4%	2%	5%	4%	6%	4%	5%
Service charges on deposit accounts	$4,280	$1,084	$1,139	$1,210	$1,250	$4,683	$1,214	$1,250	$1,275	$1,300	$5,039	$5,291	$5,555	$5,833	$6,125	-13%	9%	8%	0.05	5%	5%	5%	12%	-3%
Trust and investment fees	$11,304	$2,839	$2,898	$2,954	$3,199	$11,890	$3,202	$3,250	$3,250	$3,300	$13,002	$13,652	$14,335	$15,051	$15,804	3%	5%	9%	0.05	0.05	0.05	0.05	13%	0%
Card fees	$3,653	$654	$704	$744	$736	$2,838	$738	$740	$740	$750	$2,968	$3,116	$3,272	$3,436	$3,608	0%	-22%	5%	0.05	5%	5%	5%	13%	0%
Other fees	$4,193	$1,095	$1,134	$1,097	$1,193	$4,519	$1,034	$1,050	$1,100	$1,100	$4,284	$4,370	$4,544	$4,772	$5,010	5%	8%	-5%	0.02	0.04	5%	5%	-6%	-13%
Mortgage banking (details below)	$7,832	$2,870	$2,893	$2,807	$3,068	$11,638	$2,794	$2,600	$2,450	$2,300	$10,144	$9,800	$9,510	$9,265	$9,450	-20%	49%	-13%	-0.034	-0.03	-0.026	0.02	-3%	-9%
Insurance	$1,960	$519	$522	$414	$395	$1,850	$463	$450	$425	$400	$1,738	$1,755	$1,843	$1,935	$2,032	-8%	-6%	-6%	0.01	5%	5%	5%	-11%	17%
Net gains from trading activities	$1,014	$640	$263	$529	$275	$1,707	$570	$500	$500	$500	$2,070	$2,174	$2,282	$2,396	$2,516	-38%	68%	21%	0.05	5%	5%	5%	-11%	107%
Operating leases	$524	$59	$120	$218	$170	$567	$130	$160	$160	$160	$610	$641	$673	$706	$741	-36%	8%	8%	0.05	5%	5%	5%	120%	-24%
Other	$1,736	$631	$398	$411	$367	$1,807	$457	$500	$500	$500	$1,957	$2,035	$2,117	$2,201	$2,289	-20%	4%	8%	0.04	4%	4%	4%	-28%	25%
Fee income	$36,496	$10,391	$10,071	$10,384	$10,653	$41,499	$10,602	$10,500	$10,400	$10,310	$41,812	$42,834	$44,131	$45,596	$47,576	-9%	14%	1%	2%	3%	3%	4%	2%	0%
Salaries	$14,462	$3,601	$3,705	$3,648	$3,735	$14,689	$3,663	$3,750	$3,645	$3,700	$14,758	$15,053	$15,505	$15,970	$16,449	4%	2%	0%	0.02	3%	3%	3%	2%	-2%
Commissions and incentive compensation	$8,857	$2,417	$2,354	$2,368	$2,365	$9,504	$2,577	$2,400	$2,400	$2,450	$9,827	$10,024	$10,424	$10,841	$11,167	2%	7%	3%	0.02	4%	4%	3%	7%	9%
Employee benefits	$4,348	$1,608	$1,049	$1,063	$891	$4,611	$1,583	$1,150	$1,150	$1,000	$4,883	$4,981	$5,130	$5,284	$5,443	-7%	6%	6%	0.02	3%	3%	3%	-2%	78%
Equipment	$2,283	$557	$459	$510	$542	$2,068	$528	$460	$510	$550	$2,048	$2,089	$2,173	$2,259	$2,327	-13%	-9%	-1%	0.02	4%	4%	3%	-5%	-3%
Net occupancy	$3,011	$704	$698	$727	$728	$2,857	$719	$698	$730	$730	$2,877	$2,935	$3,081	$3,205	$3,301	-1%	-5%	1%	0.02	5%	4%	3%	2%	-1%
Core deposit and other intangibles	$1,880	$419	$418	$419	$418	$1,674	$377	$400	$400	$400	$1,577	$1,609	$1,673	$1,740	$1,792	-15%	-11%	-6%	0.02	4%	4%	3%	-10%	-10%
FDIC and other deposit assessments	$1,266	$357	$333	$359	$307	$1,356	$292	$300	$300	$300	$1,192	$1,216	$1,252	$1,277	$1,316	6%	7%	-12%	0.02	3%	2%	3%	-18%	-5%
Other	$10,258	$2,808	$3,092	$2,771	$2,795	$11,466	$2,466	$2,700	$2,700	$2,700	$10,566	$10,777	$11,101	$11,434	$11,777	-1%	12%	-8%	0.02	3%	3%	3%	-12%	-12%
Expenses	$46,365	$12,471	$12,108	$11,865	$11,781	$48,225	$12,205	$11,858	$11,835	$11,830	$47,728	$48,683	$50,339	$52,010	$53,570	-1%	4%	-1%	2%	3%	3%	3%	-2%	4%
Preprovision net revenue	**$33,591**	**$8,978**	**$9,176**	**$9,339**	**$9,713**	**$37,206**	**$9,072**	**$9,391**	**$9,477**	**$9,578**	**$37,518**	**$39,771**	**$42,027**	**$44,428**	**$48,287**	**-13%**	**11%**	**1%**	**6%**	**6%**	**6%**	**9%**	**1%**	**-7%**
OREO expense	$1,354	$304	$289	$247	$221	$1,061	$195	$180	$150	$120	$645	$300	$200	$100	$100								-36%	-12%
Securities gains	$54	($7)	($61)	$3	($63)	($128)	$45	$0	$0	$0	$45	$0	$0	$0	$0								NA	NA
OTTI	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0								NA	NA
Net gains (losses) from equity investments	$1,482	$364	$242	$164	$715	$1,485	$113	$125	$125	$125	$488	$100	$100	$100	$100								-69%	-84%
Nonrecurring gains	$153	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0								NA	NA
Nonrecurring losses	$1,674	$218	$0	$0	$894	$1,112	$0	$0	$0	$0	$0	$0	$0	$0	$0								NA	NA
Pretax income	$23,656	$6,648	$7,092	$7,510	$7,221	$28,471	$7,640	$7,844	$7,841	$7,951	$31,276	$32,071	$33,693	$35,216	$38,120	24%	20%	10%	3%	5%	5%	8%	15%	6%
Taxes	$7,445	$2,328	$2,371	$2,480	$1,924	$9,103	$2,420	$2,588	$2,588	$2,624	$10,220	$10,480	$11,010	$11,507	$12,456	17%	22%	12%	3%	5%	5%	8%	4%	26%
Tax rate - stated	31.5%	35.0%	33.4%	33.0%	26.6%	32.0%	31.7%	33.0%	33.0%	33.0%	32.7%	32.7%	32.7%	32.7%	32.7%								(334)	503
Net income	$16,211	$4,320	$4,721	$5,030	$5,297	$19,368	$5,220	$5,255	$5,254	$5,327	$21,056	$21,592	$22,684	$23,709	$25,664	28%	19%	9%	3%	5%	5%	8%	21%	-1%
Change in acctg. principle/ minority interest	$342	$72	$99	$93	$207	$471	$49	$49	$49	$49	$196	$300	$300	$300	$300	14%	38%	-58%	53%	0%	0%	0%	-32%	-76%
Preferred dividends	$844	$226	$219	$220	$233	$898	$240	$240	$240	$240	$960	$960	$960	$960	$960	16%	6%	7%	0%	0%	0%	0%	6%	3%
Net income to common	**$15,025**	**$4,022**	**$4,403**	**$4,717**	**$4,857**	**$17,999**	**$4,931**	**$4,966**	**$4,965**	**$5,038**	**$19,900**	**$20,332**	**$21,424**	**$22,449**	**$24,404**	**29%**	**20%**	**11%**	**2%**	**5%**	**5%**	**9%**	**23%**	**2%**

Source: Barclays Research, Company Reports

Figure 3: WFC Earnings Model- Balance Sheet and Performance Metrics

		Quarterly Forecast					Quarterly Forecast									Annual Change							1Q13A vs.	
	2011A	1Q12A	2Q12A	3Q12A	4Q12A	2012A	1Q13A	2Q13E	3Q13E	4Q13E	2013E	2014E	2015E	2016E	2017E	10/11	11/12	12/13	13/14	14/15	15/16	16/17	1Q12A	4Q12A
Average Balance Sheet ($ in billions)																								
Assets	$1,270	$1,303	$1,322	$1,354	$1,387	$1,341	$1,404	$1,425	$1,440	$1,473	$1,436	$1,526	$1,590	$1,652	$1,715	4%	6%	7%	6%	4%	4%	4%	8%	1%
Earning assets	$1,102	$1,135	$1,151	$1,178	$1,213	$1,169	$1,235	$1,253	$1,266	$1,295	$1,262	$1,342	$1,398	$1,453	$1,508	3%	6%	8%	6%	4%	4%	4%	9%	2%
Securities	$175	$215	$214	$212	$215	$214	$226	$227	$228	$235	$229	$240	$253	$265	$278	8%	23%	5%	5%	5%	5%	5%	5%	5%
Loans held for sale	$38	$48	$50	$53	$47	$50	$43	$43	$43	$43	$43	$43	$43	$43	$43	-5%	29%	0%	0%	0%	0%	0%	-9%	-9%
Loans	$757	$769	$768	$777	$787	$775	$798	$810	$820	$832	$815	$856	$899	$943	$991	-2%	2%	5%	5%	5%	5%	5%	4%	1%
Deposits	$872	$915	$924	$947	$976	$940	$986	$991	$996	$1,001	$994	$1,043	$1,095	$1,150	$1,208	7%	8%	5%	5%	5%	5%	5%	8%	1%
Borrowed funds	$193	$176	$179	$179	$180	$179	$183	$183	$183	$183	$183	$192	$201	$211	$222	-19%	-7%	5%	5%	5%	5%	5%	4%	1%
Equity	$137	$145	$149	$152	$158	$151	$160	$163	$165	$167	$164	$173	$182	$192	$203	12%	10%	8%	5%	5%	5%	6%	11%	2%
Period-end Balance Sheet ($ in billions)																								
Assets	$1,314	$1,334	$1,336	$1,375	$1,423	$1,423	$1,437	$1,458	$1,473	$1,507	$1,507	$1,602	$1,669	$1,734	$1,800	4%	8%	6%	6%	4%	4%	4%	8%	1%
Risk-weighted assets	$1,006	$1,000	$1,009	$1,052	$1,078	$1,078	$1,095	$1,112	$1,123	$1,148	$1,148	$1,221	$1,272	$1,322	$1,372	3%	7%	7%	6%	4%	4%	4%	9%	2%
Securities	$223	$230	$227	$229	$235	$235	$248	$249	$251	$258	$258	$271	$285	$299	$314	29%	6%	10%	5%	5%	5%	5%	8%	6%
Loans held for sale	$50	$44	$51	$51	$47	$47	$46	$46	$46	$46	$46	$46	$46	$46	$46	-6%	-5%	-2%	0%	0%	0%	0%	4%	-2%
Loans	$770	$767	$775	$783	$800	$800	$800	$812	$822	$834	$834	$876	$920	$965	$1,014	2%	4%	4%	5%	5%	5%	5%	4%	0%
Loan loss reserve	$19.4	$19	$18	$18	$17	$17.1	$17	$17	$17	$17	$17.1	$17	$17	$18	$19	-16%	-12%	0%	-3%	2%	5%	8%	-11%	-2%
Deposits	$920	$930	$929	$952	$1,003	$1,003	$1,011	$1,016	$1,021	$1,026	$1,026	$1,077	$1,131	$1,188	$1,247	9%	9%	2%	5%	5%	5%	5%	9%	1%
Tangible common equity	$95	$100	$103	$109	$112	$112	$115	$117	$120	$122	$122	$131	$141	$151	$163	14%	18%	9%	8%	8%	7%	7%	16%	3%
Common equity	$129	$133	$136	$142	$145	$145	$148	$150	$152	$154	$154	$164	$174	$184	$195	9%	12%	7%	6%	6%	6%	6%	11%	2%
Goodwill & other intangibles	$34	$34	$34	$33	$33	$33	$33	$33	$33	$33	$33	$33	$33	$33	$33	-4%	-3%	-1%	0%	0%	0%	0%	-4%	-1%
Performance Ratios																								
Return on equity	**11.81%**	**11.92%**	**12.64%**	**13.20%**	**13.44%**	**12.82%**	**13.02%**	**12.93%**	**12.76%**	**12.77%**	**12.87%**	**12.51%**	**12.46%**	**12.35%**	**12.66%**	**145**	**101**	**5**	**-36**	**-5**	**-11**	**31**	**110**	**-43**
Return on tang com equity	17.10%	17.33%	18.36%	18.46%	18.96%	17.33%	18.13%	17.91%	17.58%	17.49%	17.28%	16.46%	16.08%	15.66%	15.77%	184	23	-4	-83	-38	-42	12	80	-83
Return on assets	**1.28%**	**1.33%**	**1.43%**	**1.49%**	**1.53%**	**1.44%**	**1.49%**	**1.47%**	**1.46%**	**1.45%**	**1.47%**	**1.41%**	**1.43%**	**1.44%**	**1.50%**	**24**	**17**	**2**	**-5**	**1**	**1**	**6**	**16**	**-4**
Return on tangible assets	1.31%	1.36%	1.47%	1.52%	1.56%	1.48%	1.52%	1.51%	1.49%	1.48%	1.50%	1.45%	1.46%	1.46%	1.53%	25	17	2	-6	1	1	6	16	-4
Return on RWA	1.61%	1.73%	1.87%	1.91%	1.97%	1.80%	1.91%	1.89%	1.87%	1.86%	1.83%	1.77%	1.78%	1.79%	1.87%	32	18	4	-6	1	1	8	18	-6
Efficiency ratio	58.0%	58.1%	56.9%	56.0%	54.8%	56.4%	57.4%	55.8%	55.5%	55.3%	56.0%	55.0%	54.5%	53.9%	52.6%	337	-154	-46	-95	-54	-57	-134	-78	255
Net profit margin	20.3%	20.1%	22.2%	23.7%	24.6%	22.7%	24.5%	24.7%	24.7%	24.9%	24.7%	24.4%	24.6%	24.6%	25.2%	544	240	203	-29	15	3	61	439	-11
Fee income/revenue	45.6%	48.4%	47.3%	49.0%	49.6%	48.6%	49.8%	49.4%	48.8%	48.2%	49.0%	48.4%	47.8%	47.3%	46.7%	-120	293	47	-62	-65	-50	-57	138	27
Loans/AEA	67.7%	67.7%	66.7%	66.0%	64.9%	64.9%	64.6%	64.6%	64.8%	64.3%	64.3%	63.8%	64.3%	64.9%	65.7%	-193	-279	-63	-48	49	68	75	-307	-26
Equity/loans	18.3%	18.9%	19.4%	19.6%	20.0%	20.0%	20.1%	20.1%	20.1%	20.1%	20.1%	20.2%	20.3%	20.3%	20.5%	155	170	3	11	9	8	12	123	8
Loans/deposits	87%	84%	83%	82%	81%	82%	81%	82%	82%	83%	82%	82%	82%	82%	82%	-308	-442	-40	0	0	0	0	-307	29
Asset Quality ($ in millions)																								
Nonperforming loans	$21,304	$22,026	$20,578	$21,044	$20,486	$20,486	$19,526	$19,500	$19,000	$18,000	$18,000	$16,200	$13,770	11704.5	$11,705	-19%	-4%	-10%	-10%	-15%	-0.15	-15%	-11%	-5%
OREO	$4,661	$4,617	$4,307	$4,209	$4,023	$4,023	$3,350	$3,200	$3,100	$3,000	$3,000	$2,850	$2,565	$2,385	$2,385	-22%	-14%	-2%	-5%	-10%	-7%	-7%	-27%	-17%
Nonperforming assets	**$25,965**	**$26,643**	**$24,885**	**$25,253**	**$24,509**	**$24,509**	**$22,876**	**$22,700**	**$22,100**	**$21,000**	**$21,000**	**$19,050**	**$16,335**	**$14,090**	**$14,090**	**-19%**	**-6%**	**-14%**	**-9%**	**-14%**	**-14%**	**0%**	**-14%**	**-7%**
Accruing TDRs	$15,846	$15,859	$16,000	$15,800	$15,400	$15,400	$15,000	$14,500	$14,000	$13,500	$13,500	$12,150	$10,935	$9,295	$9,295	50%	-3%	-10%	-10%	-10%	-15%	-15%	-5%	-3%
NPL ratio	2.77%	2.87%	2.65%	2.69%	2.56%	2.56%	2.44%	2.40%	2.31%	2.16%	2.16%	1.85%	1.50%	1.21%	1.15%	-70	-21	-40	-31	-35	-29	-6	-43	-12
NPA ratio	**3.35%**	**3.46%**	**3.19%**	**3.21%**	**3.05%**	**3.05%**	**2.85%**	**2.78%**	**2.68%**	**2.51%**	**2.51%**	**2.17%**	**1.77%**	**1.46%**	**1.39%**	**-87**	**-30**	**-54**	**-34**	**-40**	**-32**	**-7**	**-61**	**-20**
NPA ratio (including accruing TDRs)	5.40%	5.51%	5.24%	5.22%	4.97%	4.97%	4.71%	4.56%	4.38%	4.12%	4.12%	3.55%	2.96%	2.42%	2.30%	-21	-43	-84	-57	-59	-54	-11	-80	-25
NCOs ($)	$11,299	$2,395	$2,200	$2,358	$2,081	$9,034	$1,419	$1,316	$1,230	$1,248	$5,213	$7,274	$7,188	$7,548	$7,925	-36%	-20%	-42%	40%	-1%	5%	5%	-41%	-32%
NCO ratio	**1.49%**	**1.25%**	**1.15%**	**1.21%**	**1.06%**	**1.17%**	**0.71%**	**0.65%**	**0.60%**	**0.60%**	**0.64%**	**0.85%**	**0.80%**	**0.80%**	**0.80%**	**-81**	**-33**	**-53**	**21**	**-5**	**0**	**0**	**-54**	**-35**
Provision/loans	1.04%	1.04%	0.94%	0.82%	0.93%	0.93%	0.61%	0.65%	0.70%	0.70%	0.67%	0.79%	0.83%	0.89%	0.94%	-100	-11	-27	12	4	6	5	-43	-32
Reserve/NPLs	90.9%	85.6%	89.0%	84.8%	83.3%	83.3%	85.6%	85.7%	89.0%	95.1%	95.1%	102.5%	122.6%	151.5%	163.3%	320	-765	1186	740	2005	2889	1185	-1	231
Reserve/loans	**2.52%**	**2.46%**	**2.36%**	**2.28%**	**2.13%**	**2.13%**	**2.09%**	**2.06%**	**2.06%**	**2.05%**	**2.05%**	**1.90%**	**1.84%**	**1.84%**	**1.89%**	**-52**	**-38**	**-8**	**-16**	**-6**	**0**	**5**	**-37**	**-4**
90 days past due	$2,048	$1,636	$1,360	$1,492	$1,435	$1,435	$1,360																	
Capital ($ in billions)																								
Equity/assets	10.80%	11.13%	11.30%	11.25%	11.36%	11.26%	11.42%	11.40%	11.44%	11.33%	11.40%	11.31%	11.45%	0.116164	11.82%	84	46	13	-9	14	17	20	29	6
TCE ratio	7.41%	7.67%	7.90%	8.13%	8.04%	8.04%	8.20%	8.23%	8.30%	8.26%	8.26%	8.36%	8.62%	8.90%	9.21%	62	63	22	10	26	28	31	53	16
Tier 1 common	$95.1	$99.5	$101.7	$105.8	$109.1	$109.1	$113.6	$115.8	$117.9	$120.2	$120.2	$129.4	$139.2	$149.4	$160.5	17%	15%	10%	8%	8%	7%	7%	14%	4%
Tier 1 common ratio	**9.46%**	**9.95%**	**10.08%**	**10.05%**	**10.12%**	**10.12%**	**10.37%**	**10.42%**	**10.51%**	**10.47%**	**10.47%**	**10.60%**	**10.94%**	**11.30%**	**11.70%**	**116**	**66**	**34**	**14**	**34**	**36**	**40**	42.4477	**25**
Tier I capital	$113.9	$117.4	$117.9	$120.9	$123.2	$123.2	$126.1	$128.3	$130.5	$132.7	$132.7	$142.0	$151.7	$161.9	$173.0	4%	8%	8%	7%	7%	7%	7%	7%	2%
Tier I capital ratio	11.33%	11.74%	11.69%	11.66%	11.75%	11.75%	11.79%	11.54%	11.62%	11.56%	11.56%	11.63%	11.93%	12.25%	12.61%	17	42	-19	7	30	33	36	5	4
Leverage ratio	9.03%	9.35%	9.25%	9.45%	9.47%	9.47%	9.53%	9.00%	9.06%	9.00%	9.00%	9.05%	9.27%	9.52%	9.79%	-16	44	-47	5	22	25	27	18	6
Tang assets/tang equity	13.5x	13.0x	12.7x	12.3x	12.4x	12.4x	12.2x	12.1x	12.0x	12.1x	12.1x	12.0x	11.6x	11.2x	10.9x									

Source: Barclays Capital, Company Reports

ANALYST(S) CERTIFICATION(S)

Wells Fargo (WFC) — Stock Rating: **OVERWEIGHT** — Industry View: **POSITIVE**

USD 37.21 (12-Apr-2013)

Rating and Price Target Chart - USD (as of 12-Apr-2013) — **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

*The rating for this security remained Overweight during the relevant period.

Link to Barclays Live for interactive charting

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Valuation Methodology: Our price target of $44 is based on our DCF and ROIC models and implies an 11x multiple on our 2014 EPS estimate of $3.90.

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Primary Stocks (Ticker, Date, Price)

Wells Fargo (WFC, 12-Apr-2013, USD 37.21), Overweight/Positive, A/C/D/J/K/L/M/O

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