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Equity Research

Financial Services | U.S. Large-Cap Banks

15 May 2014

# Wells Fargo

## Investor Day Preview: Expect Steady Strategy Despite Leadership Shuffle

**WFC will host an Investor Day in San Francisco on May 20.** This meeting comes two years after its most recent 2012 investor day and less than two months after it announced that Tim Sloan would transition to the Head of Wholesale Banking and John Shrewsberry would become CFO effective May 15. We view these moves as a way for WFC to maintain a deep bench as recent periods have evidenced solid results, including 12 consecutive quarters of record EPS. Although mortgage origination activity has slowed, WFC has more than 80 other businesses where it has continued to grow, including investment banking, credit card, and wholesale lending. With the highest dividend yield in our coverage (2.8%) and a 2015E price-to-earnings ratio of 11.3x, below peers at 11.5x despite a higher return profile, we remain attracted to WFC.

We expect this year's investor day to be similar to 2012's in structure and aim to provide investors with a greater understanding of its business model and strategic direction, in addition to generating comfort with recent leadership changes. **We expect 'cross-sell' (mentioned 74 times at 2012 investor day vs. 110x in 2010) to continue to be prevalent throughout the sessions, with an emphasis on opportunities penetrating its affluent customer base and recent efforts in credit card.**

**An update to financial targets is also likely in the cards.** Although most targets are expected to be maintained, we expect WFC to increase its total payout ratio target from its current 50-65% level (has reached required capital levels) and lower its through-the-cycle NCO ratio target of 1.00% (credit quality remains strong).

**There appear to be several specific topics on investors' minds, which we expect the company to address head-on.** Beyond cross-sell, we expect it to address expectations around mortgage activity (2Q typically seasonally stronger); net interest margin trajectory (SLR related securities builds and deposit growth); regulatory issues (OLA & Durbin); its acquisition appetite (portfolio acquisitions); and expenses (headcount).

WFC: Quarterly and Annual EPS (USD)

| | 2013 | 2014 | | | 2015 | | | Change y/y | |
|---|---|---|---|---|---|---|---|---|---|
| FY Dec | Actual | Old | New | Cons | Old | New | Cons | 2014 | 2015 |
| Q1 | 0.92A | 1.05A | 1.05A | 1.05A | N/A | N/A | 1.00E | 14% | N/A |
| Q2 | 0.98A | 1.02E | 1.02E | 1.01E | N/A | N/A | 1.08E | 4% | N/A |
| Q3 | 0.99A | 1.04E | 1.04E | 1.02E | N/A | N/A | 1.10E | 5% | N/A |
| Q4 | 1.00A | 1.05E | 1.05E | 1.04E | N/A | N/A | 1.12E | 5% | N/A |
| Year | 3.89A | 4.16E | 4.16E | 4.10E | 4.40E | 4.40E | 4.29E | 7% | 6% |
| P/E | 12.8 | | 12.0 | | | 11.3 | | | |

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

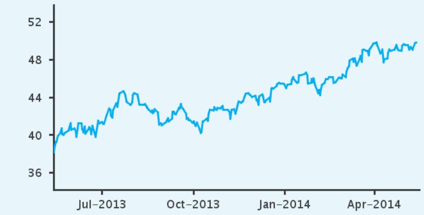
| | |
|---|---|
| Stock Rating | OVERWEIGHT |
| | Unchanged |
| Industry View | POSITIVE |
| | Unchanged |
| Price Target | USD 57.00 |
| | Unchanged |

| | |
|---|---|
| Price (13-May-2014) | USD 49.81 |
| Potential Upside/Downside | +14% |
| Tickers | WFC |

| | |
|---|---|
| Market Cap (USD mn) | 262353 |
| Shares Outstanding (mn) | 5267.07 |
| Free Float (%) | 99.91 |
| 52 Wk Avg Daily Volume (mn) | 17.9 |
| Dividend Yield (%) | 2.8 |
| Return on Equity TTM (%) | 14.09 |
| Current BVPS (USD) | 30.10 |

Source: Thomson Reuters

| | |
|---|---|
| Price Performance | Exchange-NYSE |
| 52 Week range | USD 50.49-38.21 |




*Link to Barclays Live for interactive charting*

**U.S. Large-Cap Banks**

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 17.

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

## Wells Fargo (WFC)

**Stock Rating: OVERWEIGHT**

| Income statement ($mn) | 2013A | 2014E | 2015E | 2016E | CAGR |
|---|---|---|---|---|---|
| Net interest income | 43,592.0 | 44,210.8 | 47,088.0 | 50,688.9 | 5.2% |
| Operating expenses | 48,174 | 46,531 | 47,223 | 48,547 | 0.3% |
| Pre-provision earnings | 34,955 | 35,387 | 38,126 | 41,834 | 6.2% |
| Loan loss provisions | 2,309 | 1,762 | 2,657 | 4,185 | 21.9% |
| Pre-tax income | 32,628 | 33,956 | 34,590 | 36,831 | 4.1% |
| Net income (adj) | 20,888 | 21,968 | 22,531 | 24,078 | 4.9% |

| Balance sheet ($bn) | | | | | Average |
|---|---|---|---|---|---|
| Total assets | 1,524 | 1,660 | 1,776 | 1,879 | 1,710 |
| Risk-weighted assets | 1,141 | 1,243 | 1,330 | 1,408 | 1,281 |
| Non-performing loans ($mn) | 15,668 | 14,101 | 11,986 | 10,188 | 12,986 |
| Allowance for loan losses | 15 | 13 | 12 | 12 | 13 |
| Loans | 822.3 | 861.8 | 904.8 | 950.1 | 884.7 |
| Deposits | 1,079 | 1,157 | 1,214 | 1,275 | 1,181 |
| Tier 1 capital | 133 | 140 | 147 | 158 | 144 |
| Tier 1 common capital | 124 | 131 | 138 | 149 | 135 |
| Shareholders' equity | 155 | 162 | 170 | 181 | 167 |
| Tangible common equity | 125 | 133 | 140 | 151 | 137 |
| Loan/deposit ratio (%) | 78.9 | 77.1 | 77.1 | 77.1 | 77.6 |

| Valuation and leverage metrics | | | | | Average |
|---|---|---|---|---|---|
| P/E (reported) (x) | 12.8 | 12.0 | 11.3 | 10.4 | 11.6 |
| P/BV (tangible) (x) | 2.1 | 2.0 | 1.8 | 1.6 | 1.9 |
| Dividend yield (%) | 2.3 | 2.7 | 2.7 | 3.0 | 2.7 |
| P/PPE (x) | 7.7 | 7.4 | 6.7 | 6.0 | 6.9 |
| Tier 1 (%) | 12.33 | 11.27 | 11.05 | 11.21 | 11.47 |
| Tier 1 Common (%) | 10.82 | 10.54 | 10.37 | 10.56 | 10.57 |
| Tang assets/tang equity (x) | 11.9 | 12.3 | 12.5 | 12.3 | 12.2 |

| Margin and return data | | | | | Average |
|---|---|---|---|---|---|
| Return on RWAs (%) | 1.9 | 1.9 | 1.8 | 1.8 | 1.9 |
| ROA (%) | 1.5 | 1.6 | 1.5 | 1.5 | 1.5 |
| ROE (tangible common) (%) | 17.8 | 17.7 | 17.1 | 16.8 | 17.3 |
| Fee income/revenue (%) | 47.6 | 46.0 | 44.8 | 43.9 | 45.6 |
| Net interest margin (%) | 3.4 | 3.2 | 3.2 | 3.2 | 3.2 |
| Cost/income (%) | 58.0 | 56.8 | 55.3 | 53.7 | 55.9 |

| Credit quality ratios | | | | | Average |
|---|---|---|---|---|---|
| Loan loss provs/loans (%) | 0.3 | 0.2 | 0.3 | 0.5 | 0.3 |
| NCO ratio (%) | 0.6 | 0.4 | 0.4 | 0.5 | 0.5 |
| Coverage ratio (%) | 92.6 | 94.4 | 103.7 | 117.4 | 102.0 |
| NPL ratio (%) | 1.9 | 1.6 | 1.3 | 1.1 | 1.5 |
| Reserves/loans (%) | 1.8 | 1.5 | 1.4 | 1.3 | 1.5 |

| Per share data ($) | | | | | Average |
|---|---|---|---|---|---|
| EPS (reported) | 3.89 | 4.16 | 4.40 | 4.80 | 4.31 |
| DPS | 1.15 | 1.35 | 1.36 | 1.49 | 1.34 |
| BVPS (tangible) | 23.8 | 25.4 | 28.1 | 31.0 | 27.1 |
| Payout ratio (%) | 29.6 | 32.5 | 31.0 | 31.0 | 31.0 |
| Diluted shares (mn) | 5,369.6 | 5,285.4 | 5,121.5 | 5,019.1 | 5,198.9 |

| | |
|---|---|
| Price (13-May-2014) | USD 49.81 |
| Price Target | USD 57.00 |

**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.

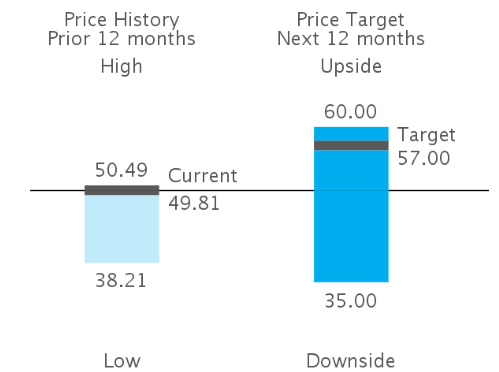
**Upside case** — **USD 60.00**

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 2015. As a result we would expect EPS to exceed $4.40 and shares to trade to 13x EPS.

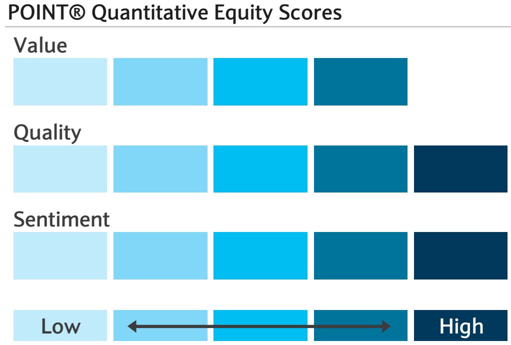
**Downside case** — **USD 35.00**

If the U.S. housing market were to soften and lower earnings reduces its expected share repurchase, we could envision a scenario in which WFC shares trade back down to $35, or 8x our 2015 EPS estimate.

**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, please go to the equity company page on Barclays Live.

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

## Overview

**WFC will host an Investor Day in San Francisco on May 20.** This meeting comes two years after its most recent 2012 investor day (please see our 2012 investor day review note from May 11, 2012 titled "*Targeting Above Peer Profitability, Yet Discounted Valuation*" for details). Prior to 2012, it hosted an investor day in 2010 after a 12 year hiatus.

Although we expect this year's presentation to follow prior years, including business segment overviews and a discussion around strategic direction, this year's investor day closely follows a change in WFC's senior leadership, which we expect to garner special attention. Specifically, on April 1, WFC announced that Tim Sloan, then CFO, would become the head of the Wholesale Banking segment, effective May 15, succeeding David Hoyt, who is retiring. Meanwhile, John Shrewsberry, then head of Wells Fargo Securities, would succeed Tim Sloan as CFO of WFC effective May 15. In our view, this is a natural evolution of WFC's management team and commitment to maintaining a deep bench of talent. We expect both Sloan and Shrewsberry to present in their new roles at this year's investor day.

We expect this year's investor day to be similar to 2012's in structure and aim to provide investors with a greater understanding of WFC's business model and strategic direction, in addition to generating comfort with recent leadership changes. Unlike its last investor day, however, where the focus was on broad-based cross sell across business categories, we expect this year's presentation to be more concise to penetrating WFC's affluent customer base and recent efforts in credit card. In addition to this, we expect detailed explanations of its main businesses (operates 90 businesses lines) and descriptions of related opportunities and challenges.

An update to financial targets is also likely in the cards. Although most targets are expected to be maintained, we expect WFC to increase its total payout ratio target from its current 50-65% level and lower its through-the-cycle NCO ratio target of 1.00%. In terms of its payout ratio, WFC's approved 2014 CCAR capital plan implies a ~65% payout ratio, which is at the high end of its current target range. Now that it has reached its 9.0% target Basel III tier 1 common ratio target level, we expect WFC to be willing to return a greater portion of earnings to shareholders. At the same time, because of the prudent underwriting that has followed the credit crisis, we expect WFC to lower its through-the-cycle NCO ratio target toward the 0.75% area from its current 1.00% level. This would be a step similar to other banks with through-the-cycle targets (USB and JPM come to mind).

In terms of specifics, we expect another eventful investor day from WFC, with time for prepared remarks from many of the same senior leaders and Q&A. Although WFC has yet to provide a more detailed agenda, we speculate that Chairman, President and CEO John Stumpf will open with a strategic overview of WFC before introducing the other members of his management team. Following his remarks, we expect a financial overview from newly appointed CFO, John Shrewsberry, highlighting past performance as well as future expectations. We expect his presentation to be followed by presentations from the heads of each business, including Wholesale Banking (Tim Sloan), Community Banking (Carrie Tolstedt), Consumer Lending (Avid Modjtabai), Home Mortgage (Michael Heid), and Wealth, Brokerage & Retirement (David Carroll). While WFC maintains a diversified business mix with more than 80 different business lines, we believe the aforementioned executives will provide investors with important color on in its ongoing growth initiatives and their potential impact on the organization's future financial performance. We present our general expectations from these presentations on the following pages.

FIGURE 1

**WFC's Segment Operating Results ($ in billions)**

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| **Revenue** | **$85** | **$81** | **$86** | **$84** |
| Community banking | $54 | $51 | $53 | $50 |
| Wholesale banking | $22 | $22 | $24 | $24 |
| Wealth, brokerage & retirement | $12 | $12 | $12 | $13 |
| Other | ($3) | ($4) | ($4) | ($4) |
| **Revenue mix (ex. Other)** | **100%** | **100%** | **100%** | **100%** |
| Community banking | 61% | 60% | 60% | 57% |
| Wholesale banking | 25% | 26% | 27% | 28% |
| Wealth, brokerage & retirement | 14% | 14% | 14% | 15% |
| **Net income** | **$12** | **$16** | **$19** | **$22** |
| Community banking | $7 | $9 | $11 | $13 |
| Wholesale banking | $6 | $7 | $8 | $8 |
| Wealth, brokerage & retirement | $1 | $1 | $1 | $2 |
| Other | ($2) | ($2) | ($1) | ($1) |
| **Net income mix** | **100%** | **100%** | **100%** | **100%** |
| Community banking | 57% | 57% | 56% | 58% |
| Wholesale banking | 48% | 44% | 41% | 37% |
| Wealth, brokerage & retirement | 8% | 8% | 7% | 8% |
| Other | -12% | -10% | -4% | -3% |
| **Average loans** | **$771** | **$757** | **$775** | **$805** |
| Community Banking | $530 | $496 | $487 | $499 |
| Wholesale Banking | $231 | $249 | $274 | $290 |
| Wealth, Brokerage, and Retirement | $43 | $43 | $43 | $46 |
| Other | ($33) | ($31) | ($28) | ($30) |
| **Average loan mix (ex. Other)** | **100%** | **100%** | **100%** | **100%** |
| Community Banking | 66% | 63% | 61% | 60% |
| Wholesale Banking | 29% | 32% | 34% | 35% |
| Wealth, Brokerage, and Retirement | 5% | 5% | 5% | 6% |
| **Average core deposits** | **$771** | **$827** | **$894** | **$942** |
| Community Banking | $536 | $556 | $591 | $620 |
| Wholesale Banking | $170 | $202 | $227 | $237 |
| Wealth, Brokerage, and Retirement | $121 | $130 | $138 | $150 |
| Other | ($56) | ($62) | ($62) | ($65) |
| **Average core deposit mix (ex. Other)** | **100%** | **100%** | **100%** | **100%** |
| Community Banking | 65% | 63% | 62% | 62% |
| Wholesale Banking | 21% | 23% | 24% | 24% |
| Wealth, Brokerage, and Retirement | 15% | 15% | 14% | 15% |
| **Average assets** | **$1,227** | **$1,270** | **$1,342** | **$1,448** |
| Community Banking | $772 | $752 | $761 | $835 |
| Wholesale Banking | $374 | $428 | $482 | $502 |
| Wealth, Brokerage, and Retirement | $139 | $155 | $165 | $181 |
| Other | -$59 | -$65 | -$66 | -$70 |
| **Average assets (ex. Other)** | **100%** | **100%** | **100%** | **100%** |
| Community Banking | 60% | 56% | 54% | 55% |
| Wholesale Banking | 29% | 32% | 34% | 33% |
| Wealth, Brokerage, and Retirement | 11% | 12% | 12% | 12% |
| **Average return assets** | **1.01%** | **1.25%** | **1.41%** | **1.51%** |
| Community Banking | 0.91% | 1.21% | 1.38% | 1.52% |
| Wholesale Banking | 1.58% | 1.63% | 1.62% | 1.61% |
| Wealth, Brokerage, and Retirement | 0.72% | 0.83% | 0.79% | 0.94% |

Source: Barclays Research and Company Documents

## Strategic Vision: John Stumpf, Chairman, President & CEO

We look for Chairman, President, and CEO John Stumpf to set the tone for the investor day by providing an overview of WFC's corporate strategy, highlighting its new opportunities across its Community Banking, Wholesale Banking, and Wealth, Brokerage, and Retirement businesses, speaking to its continued focus on cross-sell and expenses, and introducing the presenting members of his senior executive management team in their new roles. WFC has over 70mn customers and serves one in three U.S. households. It has over 9,000 locations (6,175 branches, 1,375 brokerage offices, 767 wholesale offices, 687 mortgage offices at 4Q) and over 12,000 ATMs. Almost 23mn customers actively bank with WFC online and almost 12mn use its mobile banking, its fastest-growing channel. While over 80% of its deposit customer interactions are self-service, most customers open their first account and establish their banking relationship by visiting one of its retail branches. It has a branch or ATM within 2 miles of nearly half the U.S. population and small businesses within its footprint. Still, at the time of the WB merger, a little over 5 years ago, WFC operated 116mn square feet. That figure declined to 92mn, despite revenues and employees increasing. Still, it believes it can further reduce its footprint. Like others, it is currently testing a smaller (1000 sq ft vs. 5000 currently) branch model. Its market share is also very strong across most of its major businesses as it originates more than one in every four U.S. home mortgages, is the country's largest mortgage servicer, is the nation's #1 small business and middle-market commercial lender, and is first or second in home loans, car loans, student loans, and business loans.

WFC's vision is "to satisfy all of its customers' financial needs and help them succeed financially." It believes if it continues to successfully execute against this goal, it expects revenue and profit growth to follow. It's likely to characterize its historical core competency in cross-selling as an area of strength, with a renewed focus on its affluent customers (those with $100,000 or more in deposits or investable assets), and an aspect of its business model with the potential to drive substantial long-term growth. **Indicative of the importance of cross-selling to the WFC model, we note that it used the word "cross-sell" more than 74 times at its 2012 Investor Meeting (vs. 110 times in 2010).** Its average retail bank cross-sell increased to 6.17 products per household in 1Q14, up from 6.16 products at 4Q13. Even if this metric increases to eight products per household, it still believes there is room for growth, as it estimates the average American household uses between 14 and 16 financial services products. We wonder if the company will provide a similar estimate of its incremental cross-selling revenue opportunity at this year's event, as it has not offered much in the way of an update since its 2012 investor meeting. Meanwhile, it commercial cross sell ratio was 7.2 products per relationship, up from 7.1 at 4Q13.

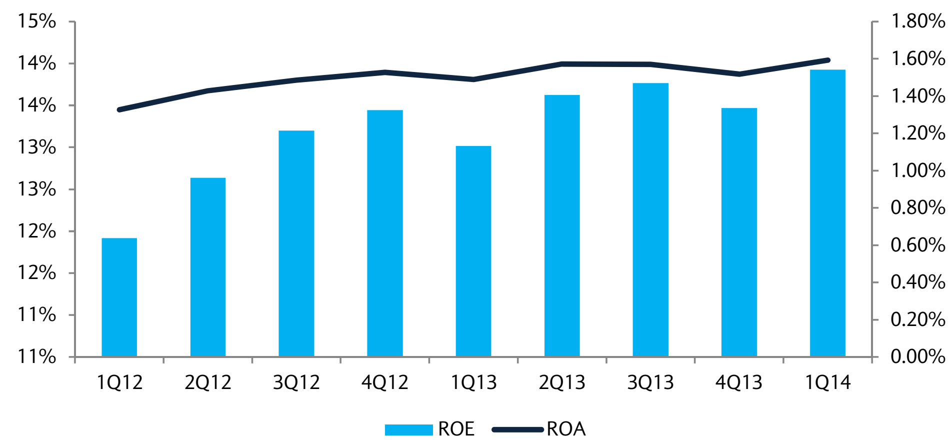
In terms of its specific retail banking cross-selling opportunities, increasing its credit card penetration rate among its retail banking customers is one of its primary goals. It appears to be making progress on this front with its credit card penetration rate rising to 38.0% of retail banking households in 1Q14, up from 37% just a quarter prior. Still, its credit card penetration continues to lag behind debit cards, which are in nearly 9 of every 10 of its retail banking customers' wallets. It recently began issuing AXP branded credit cards to better connect with its more affluent customer base, in addition to announcing a partnership with DIllards.

In addition to cross-selling banking customers on additional products and services, we look for WFC to highlight its potential to more effectively cross-sell its full range of financial services. For example, we see a large opportunity to grow its Wealth, Brokerage, and Retirement segment. As of 4Q13, its average Wealth, Brokerage & Retirement household help 10.42 products with WFC, but about 6mn of its retail bank households held significant investments or deposits at institutions other than WFC. We expect it to discuss how it is looking to better serve this customer base through its community bank and advisors network. In addition, given recent traction in investment banking, we expect WFC to discuss how it continues to grow this business in a targeted manner.

While cross-selling and revenue growth more broadly are likely to garner the largest share of its strategic focus, we expect expense control to receive continued focus at this year's event despite the fact it is likely to maintain its 59-55% efficiency ratio target range. We anticipate a brief update on the evolving regulatory environment and on some of the specific actions WFC is taking to offset some of the more onerous aspects of new regulation. Issues likely to receive attention include liquidity coverage ratio requirements and its effects on the securities portfolio, the yet-to-be finalized Orderly Liquidation Authority (OLA) and more details around Basel III advanced approaches (where is it in the parallel run process, impact of operational risk).

FIGURE 2

**WFC's ROE and ROA 1Q12-1Q14**




Source: Barclays Research and Company Documents

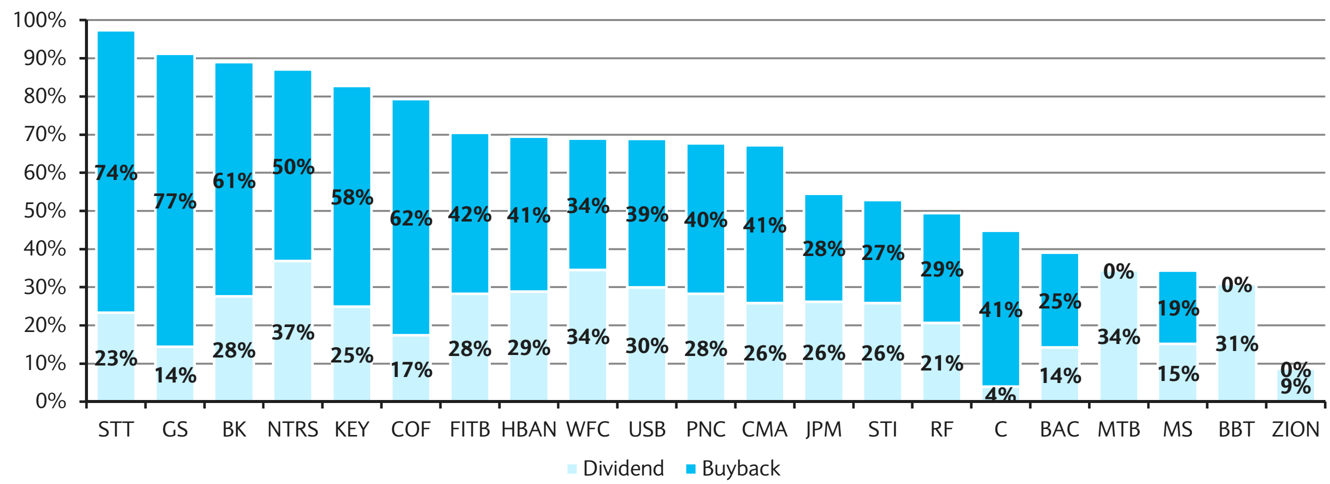
## Financial Targets: John Shrewsberry, Chief Financial Officer

We expect recently named CFO, John Shrewsberry, to update investors on WFC's financial targets. At its 2012 investor day, WFC's financial targets included a 1.30-1.60% ROA, 12-15% ROE, 55-59% efficiency ratio, a 50-65% payout ratio and a 1% through-the-cycle NCO ratio. WFC has performed well against these above peer targets despite the economic and interest rate challenges it has faced since it established them. In 4Q13, it posted an ROA of 1.47%, an ROE of 13.81%, a 58.5% efficiency ratio and a 55% payout ratio. We expect WFC operates within these bands near-term, with the opportunity to get to the upper-end or even above as the macro environment improves (better economy, higher rates, less capital redeployment restrictions, etc). Compared to 2012, we expect WFC to update its payout ratio target (increase) and through-the-cycle NCO rate target (decrease), while maintaining its other targets at this year's investor day.

As a part of CCAR 2014, WFC said it was increasing its dividend from $0.32 to $0.35 (+17%). Its plan also includes a proposed increase in share repurchase activity for 2014 compared with 2013. Its Board also approved an increase of 350mn additional shares in its authorization. The dividend increase implies a 2.9% yield, the highest in our coverage, and a 34% payout ratio on current consensus EPS expectations (more on its payout ratio below). The 350mn share authorization represents 6.5% of outstandings, or $17bn. Still, we don't expect it to repurchase this entire amount with CCAR 2014. Our forecast calls for a $7.5bn buyback, above the $6.5bn we expected with CCAR 2013. This would represents 155mn shares, 2.9% of outstanding shares, 8.2 days of volume and roughly a 35% payout ratio. While we had expected WFC to increases its dividend from $0.30 to $0.32, it hiked it to $0.35, implying a 34% payout ratio on current consensus EPS expectations. Recall, with the announcement of CCAR 2013 results, its $0.30 dividend implied a 33% payout ratio on consensus EPS over the next 12 months, which at that time were $3.66. It ultimately came in at 30% for 2Q13-1Q14. Assuming WFC continues with a 30% dividend payout ratio for CCAR 2014, it would imply EPS from 2Q14-1Q15 would need to total $4.67, a full 15% higher than current consensus expectations. Ultimately, this puts its 2Q14-1Q15 payout ratio at a minimum of 65%. As such, we expect it to boost its total payout ratio target above its current 50-65% target range now that its capital ratios exceed target levels. Still, this doesn't mean consensus EPS expectations aren't too low, in our view.

FIGURE 3

**Expected CCAR 2014 Payout Ratios**




For CCAR 2014, our share repurchase assumptions for GS and WFC are estimated while dividend increases for PNC and BBT are also estimated. We also assume MTB does not increase its dividend or initiate a share buyback. While C uses announced figures, it's unclear if this will get executed. Source: Barclays Research

**We also expect WFC to lower its through-the-cycle NCO rate to 0.75% from 1.00% at this year's investor day.** This reflects benign asset quality trends that are expected to persist due to conservative underwriting post-crisis. At 1Q14, its consolidated NCO ratio was 0.41% (-6bps from 4Q13), including a 0.01% (-5bps) commercial NCO ratio and a 0.75% (-7bps) consumer NCO ratio. We have seen several banks lower their through-the-cycle NCO ratio target previously (USB and JPM come to mind), and we expect WFC to follow that trend.

Although we expect WFC's 55-59% efficiency ratio target to remain unchanged after registering at 58.3% for 2013, we expect it to continue to discuss its commitment to efficiency. This is especially important in its mortgage business where WFC reduced headcount by another 1,100 in 1Q14. This follows a 5,300 reduction in mortgage FTEs in 3Q13 and another 1,100 FTEs in 4Q13. It has reduced its retail mortgage fulfilment FTEs by roughly 50% since its peak staffing levels in 1Q13.

After seeing net interest income decline 2% linked quarter in 1Q14 (2 fewer days compared to 4Q13), we expect it to reiterate its commitment to growing net interest income over the pull. Recall, net interest income was also down in 1Q13, but it was able to generate net interest income growth throughout the rest of the year. We expect a similar pattern in 2014. In the near-term, should long-term rates back-up, we would expect WFC to benefit from taking excess liquidity and reinvesting it in securities. In addition, although WFC doesn't manage to net interest margin, we believe it to touch on this subject as the non-finalized LCR requirements continues to impact net interest margin (weighed by 1bp in 1Q14).

In terms of fee income guidance, we expect it to target sequential growth in mortgage (1Q seasonally softer), deposit service charges, credit card (increased customer penetration), mortgage servicing (slower prepayment speeds), treasury management (expanding its team of treasury sales experts/product offering), asset management (net client inflows of late), and retail brokerage and wealth management. Trust & investment fees now account for 34% of its fee income, up from 28% in 2012, and it is its largest fee category.

Lastly, while it is not able to buy another U.S. depository institution, it does appear open to any sorts of acquisition that can broaden its customer base. Because of this, we wouldn't be surprised to hear it discuss the current M&A environment. In 3Q13, WFC returned to its practice of loan portfolio acquisitions after an elongated pause closing on $4.8bn of foreign CRE loans in the U.K., with and an additional $1.6bn of domestic CRE loans from ING. In the past, it completed acquisitions from Allied Irish Bank, the Bank of Ireland and the Irish Bank Resolution Corp. In addition, it acquired Burdale Financial holdings, BNP Paribas' North American energy lending business and West LB's subscription finance portfolio. With its two most recently announced deals total loans added through portfolio acquisitions totals over $19bn.

## Community Banking: Group Head, Carrie Tolstedt

The Community Banking business offers a complete line of diversified financial products and services for consumers and small businesses including investment, insurance and trust services in 39 states and D.C., and mortgage and home equity loans in all 50 states and D.C. through its Regional Banking and Wells Fargo Home Mortgage business units. This unit employs more than 107,000 team members serving more than 20mn retail banking households (~1 in every 5 American families) and over 2.5mn small business and business banking households. The organization provides financial services to customers through more than 6,200 retail banking stores and over 12,000 ATMs, and wellsfargo.com.

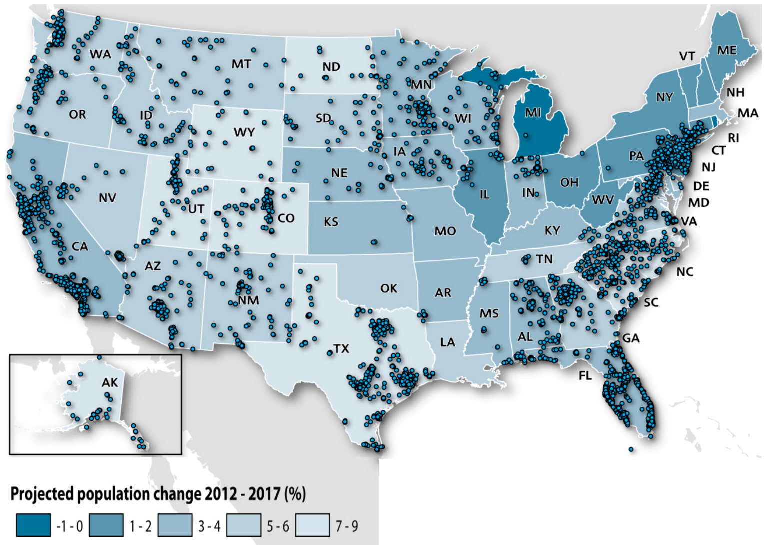
Community Banking serves mass market, upper mass affluent, small business and business banking customers. The various businesses that are housed under this segment include its Distribution Strategies and Services Group, Consumer and Business Deposits, Debit and Prepaid Products, the Internet Services Group, Business Direct, and the Business Banking Group which includes Business Payroll Services, Merchant Payment Services, and SBA Lending (#1 SBA lender). Community Banking is WFC's largest business unit with its $50.3bn in 2013 revenue representing 60% of its total revenue.

Tolstedt is likely to emphasize what WFC views as its Community Banking franchises four main competitive advantages: 1) its broad distribution and industry-leading multi-channel network which promotes customer acquisition and cross-sell success; 2) its historical core competency in driving higher profits per household through effective cross-selling; and 3) its decentralized operating model that affords high level of customer services from a large nationwide bank. With respect to its branch distribution network, we are particularly interested in hearing its thought on the value of its branch network in the current environment in which interest rates have stayed lower for longer and fee opportunities have been curtailed. Although some smaller banks in our coverage appear interested in opening more in-store branch locations as of late, this has not historically been part of WFC's strategy with only about 470 (8%) in-store branch locations out of its 6,200+ branch network accounting for less than 2% of its overall deposit base.

Average loans continue to grow in this segment, climbing 1% in 1Q14 compared to 1Q13. Average deposits also increased 1%. In 1Q14, primary checking account customers increased 5.1% y/y, while business checking also increased 5.1%.

FIGURE 4

**WFC's Branch Network and Forecasted Population Growth**




Source: SNL Financial and Barclays Research

## Consumer lending: Group Head, Avid Modjtabai

The Consumer Lending business consists of WFC's Home Mortgage, Home Equity, Dealer Services, Educational Financial Services, Personal Credit Management, Consumer Credit Card, and Rewards and Enhancements Services businesses. Avid Modjtabia was appointed Head of this group in July 2011 after previously leading the Technology and Operations Group. We look for Modjtabai's remarks to focus on its Home Equity, Dealer Services, Credit Card, and Rewards businesses, while Michael Heid, President of WFC Home Mortgage, focuses on the mortgage space.

Although WFC doesn't provide regular updates on this business, at its 2012 investor day WFC disclosed that its Mortgage business serves 8.8mn households, did $357bn in 2011 originations (#1 share), contains a $1.8trn servicing portfolio (#1 share) and $139.5bn in total loans; its Home Equity business serves 2mn households, had $6bn in 2011 originations (#1 share), $103.5bn in total loans; its Credit Card business serves 8mn households, had $35.8bn in 2011 purchases, some 534mn in 2011 transactions, and $17.5bn in total loans; its Personal Loans business serves 1.3mn households, had $5.4bn in total loans, and recorded $1.1bn in 2011 originations; its Direct Auto business servers 284k households, had $1.2bn in 2011 originations, and $2.4bn in total loans; its Dealer Services business (#1 used auto lender and #2 overall auto lender) serves 3.1mn indirect households, and 11,900 dealers, originated $20.2bn in 2011, and has $43.3bn in loans; its Commercial Auto business serves 850 dealers and has $6.0bn in loans; and its Education Financial Services business (#2 private education lender with 20% share) serves 1.8mn households, originated $1.8bn in 2011 private loans, had $10.3bn in total private loans, $14.8bn in government loans (in runoff).

While WFC is #1 in mortgage, auto and small business lending, it falls short in credit card. In fact, 16mn of the 25mn customers who call WFC their bank, don't have a WFC credit card. As such, WFC has increased its emphasis on this area. Last summer it announced a partnership that will see WFC issue new credit cards accepted on the American Express network. It will also continue with its Visa cards. Still, WFC has made progress already. In

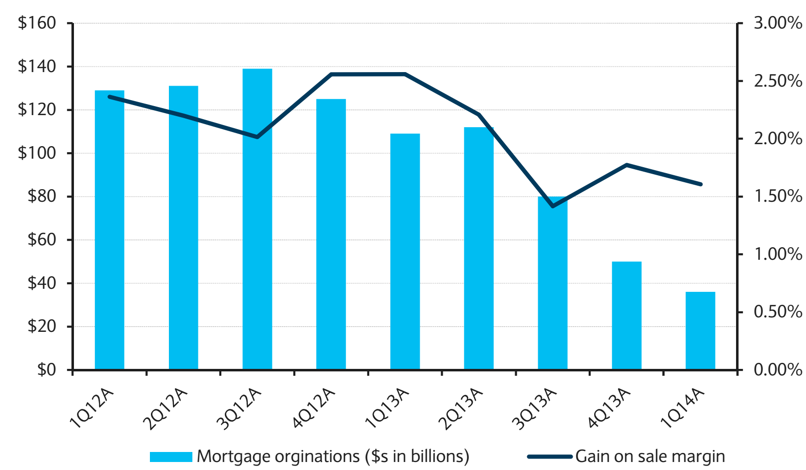
4Q13, it grew new credit card accounts by 29% y-o-y and its household penetration increased to 37%, up from 27% two years ago. Additionally, in 1Q14, credit card payment volumes increased 14% y/y.

## Michael Heid: Group Head, Home Mortgage

In mortgage, WFC believes it can grow its purchase originations in 2014 and has high expectations for the upcoming spring selling season as home affordability remains attractive (we hope for an initial read here). This should lead originations higher (-28% in 1Q14). Its unclosed pipeline rose 8% sequentially in 1Q14. Of note, WFC recently confirmed it lowered its minimum credit score for retail originated purchase loans backed by the FHA. We believe it's now playing in the 600 FICO area, down from its previous limit of 640. The goal is to increase access to credit, especially for low- and moderate- income borrowers and first-time home buyers. They are fully underwritten, fully documented loans, consistent with FHA program guidelines. We also hope it expands on additional opportunities here. Its gain on sale margin was 1.77% in 4Q13, up from 3Q13, but lower than historical elevated levels it experienced in the 2H12/1H13. It expects margins in the near term to remain in the range it saw in 2H13 (1.42-1.77%; 1.61% at 1Q14).

FIGURE 5

**Mortgage Originations ($ in billions) and Gain on Sale Margin (%)**




Source: Barclays Research and Company Documents

In late January, WFC announced an agreement with Ocwen for the sale of residential MSRs on a portfolio consisting of 184,000 loans with a total principal balance of $39bn, or 2% of WFC's total residential servicing portfolio. The loans underlying the MSRs sold are primarily owned by private investors and were not originated or owned by WFC. While WFC does not appear to have immediate capital-related MSR concerns and it is committed to continue servicing its core customers (aids refi originations, creates cross-sell opportunities), it aimed to test the market with a sale. Still, in early February, the New York Department of Financial Services halted the sale over concerns with Ocwen's ability to handle the additional servicing load. We suspect WFC is monitoring this situation and believe other bidders could emerge for this portfolio should this transaction not progress in a timely manner. We'll look for an update here.

## Wholesale Banking: Group Head, Tim Sloan

In his new role, we expect to hear Tim Sloan, Head of Wholesale Banking, provide an update on this segment. WFC's Wholesale Banking business provides financial solutions across the U.S. and globally to middle market and large corporate customers with annual revenue generally in excess of $20mn. Its products and businesses include commercial banking, investment banking and capital markets, securities investment, government and institutional banking, corporate banking, commercial real estate, treasury management, capital finance, international, insurance, real estate capital markets, commercial mortgage servicing, corporate trust, equipment finance, asset backed finance, and asset management. This business segment employs some 32,000 team members throughout 715 offices across 43 states in the U.S. and an additional 1,800 team members through 58 international offices. Wholesale Banking is WFC's second largest business unit with its $24.1bn in 2013 revenue representing 29% of its total revenue.

We expect relationships to be a focus of the Wholesale Banking presentations and WFC's ability to tie its product offerings together to meet the needs of its wholesale clients in asset management, investment banking, treasury management and corporate banking. Cross-sell in its Wholesale Bank was 7.2 products at 1Q14, up from 6.8 at 1Q13. While its previous investor day focused on how the WB acquisition helped it grow its presence in this business, we expect this year's presentation to focus on the WFC continuing to gain traction amongst its client base.

The WB merger gave WFC an opportunity to marry the investment banking expertise of WB with the relationship focus of WFC. WFC now deals with 90% of the Fortune 500 and has the largest middle-market position. As those companies grow and do more things, it expects to be able to continue to service them with investment banking products (ECM, DCM, M&A/advisory, etc). In addition, it is able to leverage its retail brokerage distribution network, the 3rd largest in the country. WFC appears committed to a continued focus on its core customer base and a steady, measured growth trajectory. In investment banking, WFC had 4.0% market share according to Dealogic in 1Q14. This is up 160bps from 4Q13 and 60bps from 1Q13. Looking at global league tables for 1Q14, it appears WFC held the 16$^{th}$ place in DCM, with a 1.7% (-0.5pts from 4Q13) market share, the 14$^{th}$ spot in ECM with 1.2% (-0.2pts) market share, and the 4$^{th}$ spot in SNC with 4.9% market share (unch'd).

In late January, WFC Insurance announced an agreement to sell 42 of its primarily smaller regional insurance brokerage and consulting locations, in an effort to increase its emphasis serving middle and upper middle market customers in its key markets. The sale is part of WFC's strategy to focus investments and resources in select markets, including Charlotte, Dallas, Minneapolis and San Francisco, where it believes its insurance business has the greatest growth potential and stronger partnerships with the bank's commercial customers. Upon close of the transaction (2Q14 expected close), WFC will operate in 55 locations. We believe WFC is committed to this remaining footprint and sees a large opportunity for it to further penetrate its commercial customer base with insurance products.

## Wealth, Brokerage & Retirement: Group Head, David Carroll

Its Wealth, Brokerage and Retirement business provides a full range of financial advisory services to clients using a planning approach to meet each client's needs. Its Wealth Management business provides affluent and high net worth clients (households with net worth of $5mn-$50mn) with a complete range of wealth management solutions, including financial planning, private banking, credit, investment management and trust. Its Family Wealth business (which is branded Abbot Downing) meets the needs of ultra high net worth (investable assets of $50mn or a net worth of $100mn or more) customers. Its Brokerage business serves customers' advisory, brokerage and financial needs as part of one of the largest full-service brokerage firms in the United States. Its Retirement business is a national leader in providing institutional retirement and trust services (including 401(k) and pension plan record keeping) for businesses, retail retirement solutions for individuals, and reinsurance services for the life insurance industry.

Wealth, Brokerage, and Retirement represents WFC's smallest business segment, with its $13.2bn in 2013 revenue representing 16% of its total revenue. At the end of 2013, this business segment had $46bn in loans, $155bn in core deposits, $1.6trn in client assets, and employed 15,146 financial advisors. Cross-sell in this segment was 10.42 products per customer at 1Q14, up 1% from 1Q13. Within retail brokerage, client assets totaled $1.4trn, up 8% from a year-ago, while managed account assets totaled $388bn, up 19% from 1Q13. Wealth Management client assets increased 6% y/y in 1Q14 to $217bn. IRA assets in its retirement business climbed 9% to $344bn, while institutional retirement plan assets increased 8% y/y to $310bn.

## New Management Positions

On April 1, WFC said Tim Sloan, age 53, will move from CFO to become head of the Wholesale Banking group (38% of EPS), effective May 15. Prior in his career, Sloan was essentially the #2 exec in the Wholesale Group, a division he worked in for 22 years. Among other roles, he was directly responsible for Commercial Banking, Commercial Real Estate and Specialized Financial Services. Sloan has been at WFC 26 years, the past 3 as CFO. Sloan succeeds David Hoyt, 58 who has decided to retire. Hoyt intends to continue in his role until May 15th and will remain with the company until June 30. Hoyt was at WFC for 32 years, the past 16 running the Wholesale Bank. John Shrewsberry, 48, current head of Wells Fargo Securities succeeds Sloan as CFO, also effective May 15. Shrewsberry will report to CEO John Stumpf, 60. Shrewsberry is currently head of Wells Fargo Securities, with responsibility for investment banking, capital markets, trading and investment research businesses, and has led related businesses since 2006. Prior to assuming this position, Shrewsberry served as head of Wells Fargo Commercial Capital, the successor to a commercial finance company he co-founded that became part of WFC in 2001 (American Commercial Capital). Earlier, he worked in the fixed-income division at GS and in principal finance and mortgage finance at CSFB. He is a member of Wells Fargo's management committee. He currently is a member of the market risk committee, the enterprise risk management committee, and the firm's management committee.

## Ten Questions to Ask at Investor Day

1) Your CCAR dividend payout ratio is once again above consensus for the four quarters ending 1Q15. This is similar to last year, with reported results exceeding consensus and your dividend payout ratio equalling 30%. Should we expect this year to be like last year?

2) Fannie and Freddie recently issued updated guidance around mortgage rep & warranty guidance. Does this have any impact on how you underwrite loans? Does this make you more comfortable than before with extending your credit box?

3) Although you can't acquire another depository institution, what is your attitude toward continued portfolio acquisitions? What is your attitude toward international growth? Would this be something you would think about acquiring?

4) You have an efficiency ratio target of 55-59%. Currently, you've been hovering near the high end. How do you get to the lower end of that range? Is it revenue related or expense related? Are there more headcount reductions to come in mortgage?

5) What is your outlook for mortgage origination activity in 2Q14 and the remainder of 2014? Has the refinance market more-or-less bottomed? What are you seeing on the purchase side? Has the fact rates have stayed low helped?

6) How has your foray into AXP credit cards gone to date? What is the response from your affluent customer base? Has card spend matched what you would expect based on card issuance levels?

7) Wealth, brokerage and retirement remains a key area for growth as you look to tap your affluent customer base. How do you get them to transition assets away from another bank? You've also been in the news signing advisor teams away from competitors. What do you offer that their former intuitions don't?

8) How would you characterize your asset sensitivity? Are you taking any steps in your securities portfolio to ensure you remain sensitive to rising interest rates?

9) How does the recent guidance around the deposit advance product impact WFC? What are you doing to come up with products that fill this need? What portion of lost revenue can you mitigate? How are you planning to transition existing customers off of such plans?

10) Credit quality has remained strong longer than many expected. Where do you ultimately see your NCO ratio bottoming? How much farther can consumer NCOs decline specifically? Are there any loan categories you are concerned about from a credit quality standpoint?

FIGURE 6

## WFC Earnings Model – Income Statement

| | Actual | Quarterly Forecast | | | | | Quarterly Forecast | | | | Annual Forecast | | | | | Annual Change | | | | | | | 1Q14A vs. | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012A | 1Q13A | 2Q13A | 3Q13A | 4Q13A | 2013A | 1Q14A | 2Q14E | 3Q14E | 4Q14E | 2014E | 2015E | 2016E | 2017E | 2018E | 11/12 | 12/13 | 13/14 | 14/15 | 15/16 | 16/17 | 17/18 | 1Q13A | 4Q13A |
| EPS - operating | $3.36 | $0.92 | $0.98 | $0.99 | $1.00 | $3.89 | $1.05 | $1.02 | $1.04 | $1.05 | $4.16 | $4.40 | $4.80 | $5.20 | $5.65 | 19% | 0.156 | 7% | 6% | 0.09 | 8% | 18% | 14% | 5% |
| **EPS - reported** | **$3.36** | **$0.92** | **$0.98** | **$0.99** | **$1.00** | **$3.89** | **$1.05** | **$1.02** | **$1.04** | **$1.05** | **$4.16** | **$4.40** | **$4.80** | **$5.20** | **$5.65** | **19%** | **16%** | **7%** | **6%** | **9%** | **8%** | **18%** | **14%** | **5%** |
| Book value | $27.64 | $28.27 | $28.26 | $28.98 | $29.48 | $29.48 | $30.48 | $30.87 | $31 | $32 | $31.94 | $34.09 | $37.05 | $40.26 | $42.92 | 13% | 7% | 8% | 7% | 9% | 9% | 16% | 8% | 3% |
| Tangible book | $21.22 | $21.78 | $21.92 | $22.72 | $23.80 | $23.80 | $24.05 | $24.54 | $25 | $25 | $25.40 | $28.14 | $30.98 | $34.06 | $36.72 | 17% | 12% | 7% | 11% | 10% | 10% | 19% | 10% | 1% |
| Dividend | $0.88 | $0.25 | $0.30 | $0.30 | $0.30 | $1.15 | $0.30 | $0.35 | $0.35 | $0.35 | $1.35 | $1.36 | $1.49 | $1.61 | $1.75 | 83% | 31% | 17% | 1% | 9% | 8% | 18% | 20% | 0 |
| Diluted average shares | 5,351 | 5,354 | 5,385 | 5,382 | 5,359 | 5,370 | 5,353 | 5,300 | 5,263 | 5,226 | 5,285 | 5,122 | 5,019 | 4,919 | 4,921 | 1% | 0% | -2% | -3% | -2% | -2% | -2% | 0% | -0.10% |
| Period-end shares | 5,266 | 5,289 | 5,302 | 5,274 | 5,257 | 5,257 | 5,266 | 5,212 | 5,175 | 5,138 | 5,138 | 4,974 | 4,872 | 4,772 | 4,774 | 0% | 0% | -2% | -3% | -2% | -2% | -2% | 0% | 0% |
| Payout ratio | 26% | 27% | 31% | 30% | 30% | 30% | 29% | 34% | 34% | 33% | 32% | 0.31 | 0.31 | 0.31 | 0.31 | | | | | | | | | |
| **Operating revenue** | **$85,431** | **$21,277** | **$21,425** | **$20,183** | **$20,244** | **$83,129** | **$19,912** | **$20,331** | **$20,722** | **$20,952** | **$81,918** | **$85,350** | **$90,382** | **$95,584** | **$99,495** | **7%** | **-3%** | **-1%** | **4%** | **6%** | **6%** | **10%** | **-6%** | **-2%** |
| Avg earning assets ($bn) | $1,169 | $1,233 | $1,264 | $1,287 | $1,344 | $1,282 | $1,364 | $1,385 | $1,406 | $1,434 | $1,397 | $1,495 | $1,582 | $1,673 | $1,772 | 6% | 10% | 9% | 0.07 | 0.058 | 0.058 | 0.059 | 11% | 2% |
| **Net interest margin** | **3.76%** | **3.48%** | **3.46%** | **3.38%** | **3.27%** | **3.40%** | **3.20%** | **3.17%** | **3.14%** | **3.13%** | **3.16%** | **3.15%** | **3.21%** | **3.25%** | **3.30%** | **-19** | **0** | **-24** | **-1** | **6** | **4** | **9** | **(28)** | **-7** |
| Net interest income | $43,932 | $10,675 | $10,946 | $10,949 | $11,022 | $43,592 | $10,832 | $10,944 | $11,124 | $11,310 | $44,211 | $47,088 | $50,689 | $54,298 | $58,388 | 1% | -1% | 1% | 7% | 8% | 7% | 15% | 1% | -2% |
| FTE adjustment | $702 | $176 | $196 | $202 | $219 | $793 | $217 | $175 | $175 | $175 | $742 | $779 | $818 | $859 | $859 | 1% | 13% | -6% | 5% | 5% | 5% | 5% | 23% | -1% |
| Average loans ($bn) | $775 | $798 | $800 | $805 | $817 | $805 | $824 | $836 | $849 | $866 | $844 | $886 | $930 | $977 | $977 | 2% | 4% | 5% | 5% | 5% | 5% | 5% | 3% | 1% |
| Loan loss provision | $7,217 | $1,219 | $652 | $75 | $363 | $2,309 | $325 | $408 | $467 | $563 | $1,762 | $2,657 | $4,185 | $5,371 | $6,348 | -9% | -68% | -24% | 51% | 58% | 28% | 52% | -73% | -10% |
| Provision/loan ratio | 0.93% | 0.61% | 0.33% | 0.04% | 0.18% | 0.29% | 0.16% | 0.20% | 0.22% | 0.26% | 0.21% | 0.30% | 0.45% | 0.55% | 0.65% | -11 | -1 | -8 | 9 | 15 | 10 | 20 | (75) | 14 |
| Net credit income | $36,013 | $9,280 | $10,098 | $10,672 | $10,440 | $40,490 | $10,290 | $10,362 | $10,482 | $10,573 | $41,707 | $43,652 | $45,686 | $48,068 | $51,181 | 3% | 12% | 3% | 5% | 5% | 5% | 12% | 11% | -1% |
| Service charges on deposit accounts | $4,683 | $1,214 | $1,248 | $1,278 | $1,283 | $5,023 | $1,215 | $1,250 | $1,276 | $1,290 | $5,031 | $5,232 | $5,442 | $5,659 | $5,659 | 9% | 7% | 0% | 4% | 4% | 4% | 4% | 0% | -5% |
| Trust and investment fees | $11,890 | $3,202 | $3,494 | $3,276 | $3,458 | $13,430 | $3,412 | $3,475 | $3,510 | $3,550 | $13,947 | $14,505 | $15,085 | $15,688 | $15,688 | 5% | 13% | 4% | 4% | 4% | 4% | 4% | 7% | -1% |
| Card fees | $2,838 | $738 | $813 | $813 | $827 | $3,191 | $784 | $815 | $815 | $830 | $3,244 | $3,406 | $3,542 | $3,684 | $3,684 | -22% | 12% | 2% | 5% | 4% | 4% | 4% | 6% | -5% |
| Other fees | $4,519 | $1,034 | $1,089 | $1,098 | $1,119 | $4,340 | $1,047 | $1,050 | $1,050 | $1,050 | $4,197 | $4,323 | $4,409 | $4,542 | $4,542 | 8% | -4% | -3% | 3% | 2% | 3% | 3% | 0.01257 | -0.0643 |
| Mortgage banking (details below) | $11,638 | $2,794 | $2,802 | $1,608 | $1,570 | $8,774 | $1,510 | $1,597 | $1,797 | $1,747 | $6,651 | $6,100 | $6,395 | $6,765 | $6,587 | 49% | -25% | -24% | 2% | 3% | 3% | 3% | -46% | -4% |
| Insurance | $1,850 | $463 | $485 | $413 | $453 | $1,814 | $432 | $450 | $400 | $425 | $1,707 | $1,707 | $1,741 | $1,776 | $1,776 | -6% | -2% | -6% | 0% | 2% | 2% | 2% | -7% | -5% |
| Net gains from trading activities | $1,707 | $570 | $331 | $397 | $325 | $1,623 | $432 | $350 | $350 | $350 | $1,482 | $1,512 | $1,557 | $1,619 | $1,619 | 68% | -5% | -9% | 2% | 3% | 4% | 4% | -24% | 33% |
| Operating leases | $567 | $130 | $225 | $160 | $148 | $663 | $133 | $150 | $150 | $150 | $583 | $595 | $612 | $625 | $625 | 8% | 17% | -12% | 2% | 3% | 2% | 2% | 2% | -10% |
| Other | $1,807 | $457 | ($8) | $191 | $39 | $679 | $115 | $250 | $250 | $250 | $865 | $882 | $909 | $927 | $927 | 4% | -62% | 27% | 2% | 3% | 2% | 2% | -75% | 195% |
| Fee income | $41,499 | $10,602 | $10,479 | $9,234 | $9,222 | $39,537 | $9,080 | $9,387 | $9,598 | $9,642 | $37,707 | $38,262 | $39,693 | $41,286 | $41,107 | 14% | -5% | -5% | 1% | 4% | 4% | 4% | -14% | -2% |
| Salaries | $14,689 | $3,663 | $3,768 | $3,847 | $3,811 | $15,089 | $3,728 | $3,800 | $3,850 | $3,900 | $15,278 | $15,584 | $16,207 | $16,855 | $16,855 | 2% | 3% | 1% | 2% | 4% | 4% | 4% | 2% | -2% |
| Commissions and incentive compensation | $9,504 | $2,577 | $2,626 | $2,401 | $2,347 | $9,951 | $2,416 | $2,400 | $2,325 | $2,400 | $9,541 | $9,732 | $10,024 | $10,425 | $10,324 | 7% | 5% | -4% | 2% | 3% | 4% | 3% | -6% | 3% |
| Employee benefits | $4,611 | $1,583 | $1,118 | $1,172 | $1,160 | $5,033 | $1,372 | $1,000 | $1,200 | $1,200 | $4,772 | $4,772 | $4,915 | $5,112 | $5,063 | 6% | 9% | -5% | 0% | 3% | 4% | 3% | -13% | 18% |
| Equipment | $2,068 | $528 | $418 | $471 | $567 | $1,984 | $490 | $500 | $500 | $500 | $1,990 | $2,030 | $2,091 | $2,174 | $2,153 | -9% | -4% | 0% | 2% | 3% | 4% | 3% | -7% | -14% |
| Net occupancy | $2,857 | $719 | $716 | $728 | $732 | $2,895 | $742 | $740 | $745 | $745 | $2,972 | $3,031 | $3,092 | $3,216 | $3,185 | -5% | 1% | 3% | 2% | 2% | 4% | 3% | 3% | 1% |
| Core deposit and other intangibles | $1,674 | $377 | $377 | $375 | $375 | $1,504 | $341 | $350 | $350 | $350 | $1,391 | $1,391 | $1,419 | $1,476 | $1,461 | -11% | -10% | -8% | 0% | 2% | 4% | 3% | -10% | -9% |
| FDIC and other deposit assessments | $1,356 | $292 | $259 | $214 | $196 | $961 | $243 | $220 | $220 | $220 | $903 | $903 | $921 | $949 | $939 | 7% | -29% | -6% | 0% | 2% | 3% | 2% | -17% | 24% |
| Other | $11,466 | $2,466 | $2,827 | $2,670 | $2,794 | $10,757 | $2,484 | $2,400 | $2,400 | $2,400 | $9,684 | $9,781 | $9,879 | $10,076 | $10,076 | 12% | -6% | -10% | 1% | 1% | 2% | 2% | 1% | -11% |
| Expenses | $48,225 | $12,205 | $12,109 | $11,878 | $11,982 | $48,174 | $11,816 | $11,410 | $11,590 | $11,715 | $46,531 | $47,223 | $48,547 | $50,282 | $50,058 | 4% | 0% | -3% | 1% | 3% | 4% | 3% | -3% | -1% |
| **Preprovision net revenue** | **$37,206** | **$9,072** | **$9,316** | **$8,305** | **$8,262** | **$34,955** | **$8,096** | **$8,921** | **$9,132** | **$9,237** | **$35,387** | **$38,126** | **$41,834** | **$45,301** | **$49,437** | **11%** | **-6%** | **1%** | **8%** | **10%** | **8%** | **18%** | **-11%** | **-2%** |
| OREO expense | $1,061 | $195 | $146 | $161 | $103 | $605 | $132 | $125 | $125 | $125 | $507 | $200 | $100 | $200 | $100 | | | | | | | | -32% | 28% |
| Securities gains | ($128) | $45 | ($54) | ($6) | ($14) | ($29) | $83 | $0 | $0 | $0 | $83 | $0 | $0 | $0 | $0 | | | | | | | | 84% | 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 | $1,485 | $113 | $203 | $502 | $654 | $1,472 | $847 | $250 | $200 | $200 | $1,497 | $100 | $100 | $100 | $100 | | | | | | | | 650% | 30% |
| Nonrecurring gains | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | | | | | | | | NA | NA |
| Nonrecurring losses | $1,112 | $0 | $0 | $63 | $0 | $63 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | | | | | | | | NA | NA |
| Pretax income | $28,471 | $7,640 | $8,471 | $8,300 | $8,217 | $32,628 | $8,352 | $8,464 | $8,565 | $8,575 | $33,956 | $34,590 | $36,831 | $38,971 | $42,231 | 20% | 15% | 4% | 2% | 6% | 6% | 15% | 9% | 2% |
| Taxes | $9,103 | $2,420 | $2,863 | $2,618 | $2,504 | $10,405 | $2,277 | $2,708 | $2,741 | $2,744 | $10,470 | $10,723 | $11,418 | $12,081 | $13,092 | 22% | 14% | 1% | 2% | 6% | 6% | 15% | -6% | -9% |
| Tax rate - stated | 32.0% | 31.7% | 33.8% | 31.54% | 30.47% | 31.9% | 27.3% | 0.32 | 0.32 | 0.32 | 30.8% | 31.0% | 31.0% | 31.0% | 31.0% | | | | | | | | (441) | -321 |
| Net income | $19,368 | $5,220 | $5,608 | $5,682 | $5,713 | $22,223 | $6,075 | $5,755 | $5,824 | $5,831 | $23,486 | $23,867 | $25,414 | $26,890 | $29,139 | 19% | 15% | 6% | 2% | 6% | 6% | 15% | 16% | 6% |
| Change in acctg. principle/ minority interest | $471 | $49 | $89 | $105 | $103 | $346 | $182 | $100 | $100 | $100 | $482 | $300 | $300 | $300 | $300 | 38% | -27% | 39% | -38% | 0% | 0% | 0% | 271% | 77% |
| Preferred dividends | $898 | $240 | $247 | $261 | $241 | $989 | $286 | $250 | $250 | $250 | $1,036 | $1,036 | $1,036 | $1,036 | $1,036 | 6% | 10% | 5% | 0% | 0% | 0% | 0% | 19% | 19% |
| **Net income to common** | **$17,999** | **$4,931** | **$5,272** | **$5,316** | **$5,369** | **$20,888** | **$5,607** | **$5,405** | **$5,474** | **$5,481** | **$21,968** | **$22,531** | **$24,078** | **$25,554** | **$27,803** | **20%** | **16%** | **5%** | **3%** | **7%** | **6%** | **15%** | **14%** | **4%** |

Source: Barclays Research and Company Documents

FIGURE 7

## WFC Earnings Model – Balance Sheet and Performance Metrics

| | Actual | Quarterly Forecast | | | | | Quarterly Forecast | | | | Annual Forecast | | | | | Annual Change | | | | | | | 1Q14A vs. | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012A | 1Q13A | 2Q13A | 3Q13A | 4Q13A | 2013A | 1Q14A | 2Q14E | 3Q14E | 4Q14E | 2014E | 2015E | 2016E | 2017E | 2018E | 11/12 | 12/13 | 13/14 | 14/15 | 15/16 | 16/17 | 17/18 | 1Q13A | 4Q13A |
| **Average Balance Sheet ($ in billions)** | | | | | | | | | | | | | | | | | | | | | | | | |
| Assets | $1,341 | $1,404 | $1,429 | $1,450 | $1,509 | $1,448 | $1,526 | $1,429 | $1,450 | $1,479 | $1,471 | $1,574 | $1,665 | $1,762 | $1,866 | 6% | 8% | 2% | 7% | 6% | 6% | 12% | 9% | 1% |
| Earning assets | $1,169 | $1,233 | $1,264 | $1,287 | $1,344 | $1,282 | $1,364 | $1,385 | $1,406 | $1,434 | $1,397 | $1,495 | $1,582 | $1,673 | $1,772 | 6% | 10% | 9% | 7% | 6% | 6% | 12% | 11% | 2% |
| Securities | $214 | $226 | $235 | $246 | $251 | $239 | $244 | $245 | $246 | $248 | $246 | $258 | $271 | $285 | $285 | 23% | 12% | 3% | 5% | 5% | 5% | 5% | 8% | -3% |
| Loans held for sale | $50 | $43 | $44 | $33 | $22 | $35 | $17 | $17 | $17 | $17 | $17 | $17 | $17 | $17 | $17 | 29% | -29% | -53% | 0% | 0% | 0% | 0% | -62% | -22% |
| Loans | $775 | $798 | $800 | $805 | $817 | $805 | $824 | $836 | $849 | $866 | $844 | $886 | $930 | $977 | $977 | 2% | 4% | 5% | 5% | 5% | 5% | 5% | 3% | 1% |
| Deposits | $940 | $986 | $1,010 | $1,026 | $1,060 | $1,020 | $1,077 | $1,088 | $1,099 | $1,110 | $1,094 | $1,148 | $1,206 | $1,266 | $1,266 | 8% | 9% | 7% | 5% | 5% | 5% | 5% | 9% | 2% |
| Borrowed funds | $179 | $183 | $183 | $187 | $206 | $190 | $208 | $210 | $212 | $215 | $211 | $222 | $233 | $245 | $245 | -7% | 6% | 12% | 5% | 5% | 5% | 5% | 14% | 1% |
| Equity | $151 | $160 | $165 | $165 | $170 | $165 | $175 | $176 | $178 | $180 | $177 | $184 | $194 | $205 | $217 | 10% | 9% | 7% | 4% | 6% | 6% | 12% | 9% | 3% |
| **Period-end Balance Sheet ($ in billions)** | | | | | | | | | | | | | | | | | | | | | | | | |
| Assets | $1,423 | $1,437 | $1,441 | $1,488 | $1,524 | $1,524 | $1,547 | $1,570 | $1,593 | $1,625 | $1,660 | $1,776 | $1,879 | $1,988 | $2,106 | 8% | 7% | 9% | 7% | 6% | 6% | 12% | 8% | 2% |
| Risk-weighted assets | $1,078 | $1,094 | $1,097 | $1,131 | $1,141 | $1,141 | $1,168 | $1,186 | $1,204 | $1,228 | $1,243 | $1,330 | $1,408 | $1,489 | $1,577 | 7% | 6% | 9% | 7% | 6% | 6% | 12% | 7% | 2% |
| Securities | $235 | $248 | $249 | $259 | $264 | $264 | $270 | $272 | $273 | $274 | $271 | $285 | $299 | $314 | $314 | 6% | 12% | 3% | 5% | 5% | 5% | 5% | 9% | 2% |
| Loans held for sale | $47 | $47 | $39 | $26 | $17 | $17 | $16 | $16 | $16 | $16 | $8 | $8 | $8 | $8 | $8 | -5% | -64% | -53% | 0% | 0% | 0% | 0% | -65% | -3% |
| Loans | $800 | $798 | $800 | $809 | $822 | $822 | $826 | $839 | $851 | $868 | $862 | $905 | $950 | $998 | $998 | 4% | 3% | 5% | 5% | 5% | 5% | 5% | 4% | 1% |
| Loan loss reserve | $17.1 | $17 | $16 | $15 | $14.5 | $15 | $14 | $13 | $13 | $13 | $13 | $12 | $12 | $13 | $16 | -12% | -15% | -8% | -7% | -4% | 12% | 33% | -18% | -6% |
| Deposits | $1,003 | $1,011 | $1,022 | $1,042 | $1,079 | $1,079 | $1,095 | $1,106 | $1,117 | $1,128 | $1,157 | $1,214 | $1,275 | $1,339 | $1,339 | 9% | 8% | 7% | 5% | 5% | 5% | 5% | 8% | 1% |
| Tangible common equity | $112 | $115 | $116 | $120 | $125 | $125 | $127 | $128 | $129 | $130 | $133 | $140 | $151 | $163 | $175 | 18% | 12% | 6% | 5% | 8% | 8% | 16% | 10% | 1% |
| Common equity | $145 | $148 | $148 | $152 | $155 | $155 | $159 | $161 | $162 | $164 | $162 | $170 | $181 | $192 | $205 | 12% | 7% | 5% | 4% | 6% | 6% | 14% | 8% | 3% |
| Goodwill & other intangibles | $33 | $33 | $32 | $32 | $30 | $30 | $26 | $26 | $26 | $26 | $30 | $30 | $30 | $30 | $30 | -3% | -10% | 0% | 0% | 0% | 0% | 0% | -21% | -14% |
| **Performance Ratios** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Return on equity** | **12.82%** | **13.02%** | **13.62%** | **13.77%** | **13.47%** | 13.47% | **13.93%** | **13.06%** | **13.09%** | **12.97%** | 13.26% | **13.00%** | **13.11%** | **13.14%** | **13.45%** | **101** | **65** | **-21** | **-26** | **11** | **3** | **34** | 91 | 45 |
| Return on tang com equity | 17.33% | 18.13% | 19.30% | 18.97% | 18.26% | 17.76% | 19.19% | 18.00% | 18.03% | 17.87% | 17.67% | 17.05% | 16.84% | 16.55% | 16.62% | 23 | 43 | -8 | -62 | -21 | -29 | -22 | 106 | 92 |
| **Return on assets** | **1.44%** | **1.49%** | **1.57%** | **1.57%** | **1.51%** | 1.53% | **1.59%** | **1.61%** | **1.61%** | **1.58%** | 1.60% | **1.52%** | **1.53%** | **1.53%** | **1.56%** | **17** | **9** | **6** | **-8** | **1** | **0** | **4** | 11 | 8 |
| Return on tangible assets | 1.48% | 1.52% | 1.61% | 1.60% | 1.54% | 1.57% | 1.62% | 1.64% | 1.64% | 1.61% | 1.63% | 1.55% | 1.55% | 1.55% | 1.59% | 17 | 9 | 6 | -8 | 1 | 0 | 3 | 10 | 8 |
| Return on RWA | 1.80% | 1.91% | 2.04% | 2.01% | 2.00% | 1.95% | 2.08% | 1.94% | 1.94% | 1.90% | 1.89% | 1.79% | 1.81% | 1.81% | 1.85% | 18 | 15 | -6 | -9 | 1 | 0 | 4 | 17 | 8 |
| Efficiency ratio | 56.4% | 57.4% | 56.5% | 58.9% | 59.2% | 58.0% | 59.3% | 56.1% | 55.9% | 55.9% | 56.8% | 55.3% | 53.7% | 52.6% | 50.3% | -154 | 150 | -115 | -147 | -162 | -111 | -340 | 198 | 15 |
| Net profit margin | 22.7% | 24.5% | 26.2% | 28.2% | 28.2% | 26.7% | 30.5% | 28.3% | 28.1% | 27.8% | 28.7% | 28.0% | 28.1% | 28.1% | 29.3% | 240 | 406 | 194 | -71 | 15 | 1 | 117 | 598 | 229 |
| Fee income/revenue | 48.6% | 49.8% | 48.9% | 45.8% | 45.6% | 47.6% | 45.6% | 46.2% | 46.3% | 46.0% | 46.0% | 44.8% | 43.9% | 43.2% | 41.3% | 293 | -102 | -153 | -120 | -91 | -72 | -260 | (423) | 5 |
| Loans/AEA | 64.9% | 64.7% | 63.3% | 62.6% | 60.8% | 60.8% | 60.4% | 60.4% | 60.4% | 60.4% | 60.4% | 59.3% | 58.8% | 58.4% | 55.1% | -279 | -413 | -38 | -113 | -45 | -44 | -370 | (432) | -38 |
| Equity/loans | 20.0% | 20.1% | 20.6% | 20.5% | 20.8% | 20.8% | 21.2% | 21.1% | 21.0% | 20.8% | 21.0% | 20.7% | 20.8% | 21.0% | 22.2% | 170 | 75 | 23 | -27 | 11 | 12 | 134 | 108 | 42 |
| Loans/deposits | 82% | 81% | 79% | 78% | 77% | 78.9% | 76% | 77% | 77% | 78% | 77.1% | 77% | 77% | 77% | 77% | -442 | -355 | -174 | 0 | 0 | 0 | 0 | (447) | -55 |
| **Asset Quality ($ in millions)** | | | | | | | | | | | | | | | | | | | | | | | | |
| Nonperforming loans | $20,486 | $19,526 | $17,915 | $16,893 | $15,668 | $15,668 | $14,650 | $14,200 | $13,900 | 13500 | $14,101 | $11,986 | 10188.117 | $8,660 | $8,660 | -4% | -10% | -10% | -15% | -15% | -15% | -15% | -25% | -6% |
| OREO | $4,023 | $3,350 | $3,140 | $3,802 | $3,937 | $3,937 | $4,115 | $4,050 | $3,900 | 3850 | $3,740 | $3,366 | $3,131 | $2,911 | $2,911 | -14% | -2% | -5% | -10% | -7% | -10% | -7% | 23% | 5% |
| **Nonperforming assets** | **$24,509** | **$22,876** | **$21,055** | **$20,695** | **$19,605** | **$19,605** | **$18,765** | **$18,250** | **$17,800** | 17350 | **$17,841** | **$15,352** | **$13,319** | **$11,571** | **$11,571** | **-6%** | **-20%** | **-9%** | **-14%** | **-13%** | **-13%** | **-13%** | **-18%** | **-4%** |
| Accruing TDRs | $16,765 | $17,375 | $18,500 | $18,400 | $13,500 | $13,500 | $13,000 | $12,500 | $12,000 | 11500 | $12,150 | $10,935 | $9,295 | $7,901 | $7,901 | 6% | -10% | -10% | -10% | -15% | -10% | -15% | -25% | -4% |
| NPL ratio | 2.56% | 2.45% | 2.24% | 2.09% | 1.91% | 1.91% | 1.77% | 1.69% | 1.63% | 0.015545 | 1.64% | 1.32% | 1.07% | 0.87% | 0.87% | -21 | -66 | -27 | -31 | -25 | -20 | -20 | (67) | -13 |
| **NPA ratio** | **3.05%** | **2.85%** | **2.62%** | **2.55%** | **2.37%** | **2.37%** | **2.26%** | **2.17%** | **2.08%** | 0.01989 | **2.06%** | **1.69%** | **1.40%** | **1.16%** | **1.16%** | **-30** | **-68** | **-31** | **-37** | **-29** | **-24** | **-24** | (59) | -11 |
| NPA ratio (including accruing TDRs) | 5.14% | 5.02% | 4.93% | 4.81% | 4.01% | 4.01% | 3.82% | 3.65% | 3.48% | 0.033073 | 3.47% | 2.89% | 2.37% | 1.95% | 1.95% | -26 | -113 | -54 | -57 | -52 | -43 | -43 | (120) | -18 |
| NCOs ($) | $9,034 | $1,419 | $1,152 | $975 | $963 | $4,509 | $825 | $836 | $849 | 865.6733 | $2,953 | $3,543 | $4,650 | $3,906 | $3,906 | -20% | -50% | -35% | 20% | 31% | -16% | -16% | -42% | -14% |
| **NCO ratio** | **1.17%** | **0.71%** | **0.58%** | **0.48%** | **0.47%** | **0.56%** | **0.40%** | **0.40%** | **0.40%** | 0.004 | **0.35%** | 0.004 | 0.005 | 0.004 | 0.004 | **-33** | **-61** | **-21** | **5** | **10** | **-10** | **-10** | (31) | -7 |
| Provision/loans | 0.93% | 0.61% | 0.33% | 0.04% | 0.18% | 0.29% | 0.16% | 0.20% | 0.22% | 0.0026 | 0.21% | 0.30% | 0.45% | 0.55% | 0.65% | -11 | -64 | -8 | 9 | 15 | 10 | 20 | (45) | -2 |
| Reserve/NPLs | 83.3% | 85.6% | 90.1% | 89.7% | 92.6% | 92.6% | 93.5% | 93.4% | 92.7% | 0.931968 | 94.4% | 103.7% | 117.4% | 155.0% | 183.2% | -765 | 928 | 184 | 927 | 1373 | 3763 | 6582 | 790 | 92 |
| **Reserve/loans** | **2.13%** | **2.09%** | **2.02%** | **1.87%** | **1.76%** | **1.76%** | **1.66%** | **1.58%** | **1.51%** | 0.014487 | **1.54%** | **1.37%** | **1.26%** | **1.35%** | **1.59%** | **-38** | **-37** | **-22** | **-17** | **-11** | **9** | **33** | (44) | -11 |
| 90 days past due | $1,435 | $1,360 | $1,154 | $1,050 | $1,045 | $1,045 | $950 | | | | | | | | | | | | | | | | (0) | 0 |
| **Capital ($ in billions)** | | | | | | | | | | | | | | | | | | | | | | | | |
| Equity/assets | 11.26% | 11.42% | 11.53% | 11.39% | 11.24% | 11.39% | 11.44% | 12.33% | 12.28% | 0.121594 | 12.04% | 11.67% | 0.116405 | 11.62% | 11.61% | 46 | 13 | 65 | -38 | -3 | -2 | -3 | 1 | 20 |
| TCE ratio | 8.04% | 8.20% | 8.25% | 8.23% | 8.38% | 8.38% | 8.33% | 8.29% | 8.24% | 0.081616 | 8.15% | 8.01% | 8.16% | 8.30% | 8.44% | 63 | 34 | -23 | -14 | 14 | 14 | 29 | 12 | -5 |
| Tier 1 common | $109.1 | $113.6 | $117.6 | $120.3 | $123.5 | $123.5 | $125.9 | $127.1 | $129.0 | 131.0417 | $131.0 | $137.9 | $148.7 | $160.0 | $172.5 | 15% | 13% | 6% | 5% | 8% | 8% | 16% | 11% | 2% |
| **Tier 1 common ratio** | **10.12%** | **10.38%** | **10.72%** | **10.64%** | **10.82%** | **10.82%** | **10.78%** | **10.72%** | **10.72%** | 0.10673 | **10.54%** | **10.37%** | **10.56%** | **10.75%** | **10.94%** | **66** | **70** | **-28** | **-17** | **19** | **18** | **38** | 40 | -4 |
| Tier I capital | $123.2 | $126.1 | $128.7 | $130.2 | $132.6 | 132.64015 | $135.1 | $136.2 | $138.2 | 140.1819 | 140.1785 | $147.1 | $157.8 | $169.2 | $181.7 | 8% | 8% | 6% | 5% | 7% | 7% | 15% | 7% | 2% |
| Tier I capital ratio | 11.75% | 11.80% | 12.14% | 12.11% | 12.33% | 12.33% | 11.56% | 11.49% | 11.48% | 0.114174 | 11.27% | 11.05% | 11.21% | 11.36% | 11.52% | 42 | 58 | -106 | -22 | 16 | 15 | 31 | (24) | -77 |
| Leverage ratio | 9.47% | 9.53% | 9.63% | 9.76% | 9.60% | 9.60% | 8.88% | 8.82% | 8.82% | 0.087671 | 8.60% | 8.42% | 8.53% | 8.64% | 8.75% | 44 | 13 | -100 | -18 | 11 | 11 | 22 | (65) | -72 |
| Tang assets/tang equity | 12.4x | 12.2x | 12.1x | 12.2x | 11.9x | 11.9x | 12.0x | 12.1x | 12.1x | 12.25257 | 12.3x | 12.5x | 12.3x | 12.1x | 11.8x | | | | | | | | | |

Source: Barclays Research and Company Documents

## 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.

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

**Wells Fargo** (WFC, 13-May-2014, USD 49.81), Overweight/Positive, A/C/D/J/K/L/M/N/O

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## IMPORTANT DISCLOSURES CONTINUED

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**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) | Goldman Sachs Group Inc. (GS) |
| JPMorgan Chase & Co. (JPM) | KeyCorp (KEY) | Morgan Stanley (MS) |
| 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:**

Barclays Equity Research has 2630 companies under coverage.

45% 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.

38% 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.

15% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 44% 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.

**Guide to the POINT® Quantitative Equity Scores:**

The POINT Quantitative Equity Scores (POINT Scores) are based on consensus historical data and are independent of the Barclays fundamental analysts' views. Each score is composed of a number of standard industry metrics.

A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, *click here*.

For a more detailed description of the underlying methodology for each score, please *click here*.

## IMPORTANT DISCLOSURES CONTINUED

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Barclays Capital Inc. (BCI, New York)

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Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

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Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Bank Limited (Absa, Johannesburg)

Mexico City

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

Taiwan

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Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

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Singapore

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

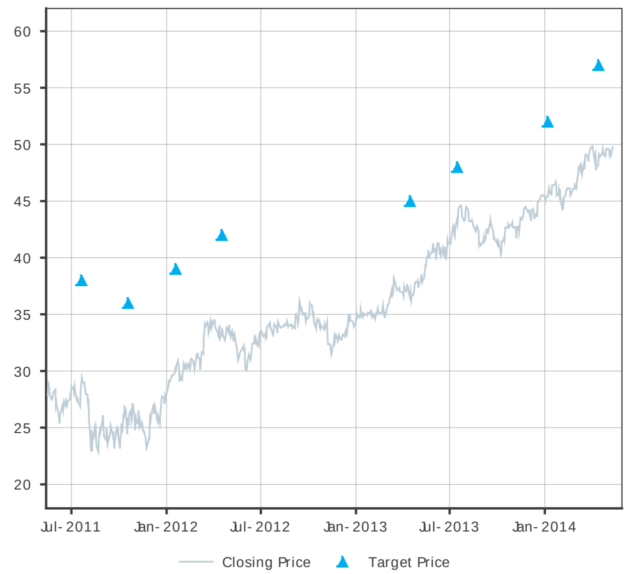
## IMPORTANT DISCLOSURES CONTINUED

## Wells Fargo (WFC)

**USD 49.81 (13-May-2014)**

Stock Rating **OVERWEIGHT** | Industry View **POSITIVE**

**Rating and Price Target Chart - USD (as of 13-May-2014)**




Source: IDC, Barclays Research

*Link to Barclays Live for interactive charting*

**Currency=USD**

| Date | Closing Price | Rating * | Adjusted Price Target |
|---|---|---|---|
| 14-Apr-2014 | 48.11 | | 57.00 |
| 06-Jan-2014 | 45.42 | | 52.00 |
| 15-Jul-2013 | 43.35 | | 48.00 |
| 15-Apr-2013 | 36.57 | | 45.00 |
| 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 |

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

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

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**Valuation Methodology:** Our price target of $57 is based on 13x multiple on our 2015 EPS estimate of $4.40.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** If GDP growth were to come in below expectations, weighing on already tepid loan demand, WFC could run into problems offsetting the expected decline in mortgage origination revenue. Additionally, although it maintains strong capital levels, shifting regulatory rules could pose unseen risks.

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

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