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Financial Services | U.S. Large-Cap Banks

14 July 2014

Wells Fargo

2Q14 EPS Review: 13th Straight Quarter Proves Unlucky

Bottom line: Although WFC could not extend its consecutive quarter streak of record earnings to 13 (or its streak of EPS growth to 18 quarters), earnings did improve relative to 1Q14 when adjusting for non-quality items (See "Quality of Earnings" section). In addition, results evidenced solid loan growth (commercial loans +2.7%), higher investment banking fees, and continued credit quality improvement. However, the spring selling season in mortgage was softer than originally anticipated, and its average share count was relatively stable despite repurchasing 0.7% of outstanding. Looking out, reserve releases are expected to continue, albeit at a decelerating pace; it remains focused on growing net interest income; and it is committed to returning capital to shareholders (executed a $1bn forward repurchase contract expected to settle in 3Q for 19.4mn shares). With shares trading at 11.7x 2015 EPS (super regional peers at 12.0x), we remain constructive on WFC given its above-peer profitability metrics.

Results: WFC reported 2Q14 EPS of $1.01, in line with consensus. Relative to our forecast, a higher-than-expected tax rate (pre-tax income +4%), as well as non-interest expenses (in part due to legal costs), were offset by a lower loan loss provision ($0.5bn reserve release) and better than anticipated fee income (brokerage, mortgage).

Drivers: Relative to 1Q14, results evidenced a larger balance sheet (avg. loans +1%, avg. securities +2%), continued net interest margin contraction (-5bps), higher fee income (mortgage, other), higher expenses (salaries and litigation), a lower loan loss provision, improved credit quality (NPAs and NCOs lower), a higher tax rate (+589bps), and a relatively stable average share count (though period-end lower).

Estimates: Despite 2Q14 results that came in just below our estimate, we are maintaining our full-year 2014 EPS estimate at $4.16. Although its net interest margin has been softer than originally anticipated, its loan loss provision remains below expectations. Our 2015 EPS estimate remains $4.40.

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	1.01E	1.01E	N/A	N/A	1.07E	3%	N/A
Q3	0.99A	1.04E	1.04E	1.02E	N/A	N/A	1.09E	5%	N/A
Q4	1.00A	1.05E	1.06E	1.04E	N/A	N/A	1.12E	6%	N/A
Year	3.89A	4.16E	4.16E	4.12E	4.40E	4.40E	4.29E	7%	6%
P/E	13.3		12.5			11.8			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

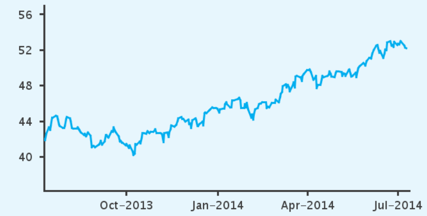
Stock Rating	OVERWEIGHT
	Unchanged
Industry View	POSITIVE
	Unchanged
Price Target	USD 57.00
	Unchanged

Price (10-Jul-2014)	USD 51.81
Potential Upside/Downside	+10%
Tickers	WFC

Market Cap (USD mn)	272887
Shares Outstanding (mn)	5267.07
Free Float (%)	99.91
52 Wk Avg Daily Volume (mn)	16.7
Dividend Yield (%)	2.7
Return on Equity TTM (%)	14.09
Current BVPS (USD)	30.10

Source: Thomson Reuters

Price Performance	Exchange-NYSE
52 Week range	USD 53.08-40.07



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)	2013A	2014E	2015E	2016E	CAGR
Net interest income	43,592.0	44,390.0	46,791.7	50,304.1	4.9%
Operating expenses	48,174	47,060	47,603	48,925	0.5%
Pre-provision earnings	34,955	35,405	38,050	41,721	6.1%
Loan loss provisions	2,309	1,288	2,204	3,703	17.0%
Pre-tax income	32,628	34,663	34,914	37,145	4.4%
Net income (adj)	20,888	22,134	22,703	24,242	5.1%

Balance sheet ($bn)					Average
Total assets	1,524	1,676	1,794	1,898	1,723
Risk-weighted assets	1,141	1,255	1,343	1,421	1,290
Non-performing loans ($mn)	15,668	14,101	11,986	10,188	12,986
Allowance for loan losses	15	13	12	11	12
Loans	822.3	857.7	900.6	945.7	881.6
Deposits	1,079	1,167	1,226	1,287	1,190
Tier 1 capital	133	141	148	158	145
Tier 1 common capital	124	132	139	149	136
Shareholders' equity	155	163	170	181	167
Tangible common equity	125	133	141	152	138
Loan/deposit ratio (%)	78.9	76.1	76.1	76.1	76.8

Valuation and leverage metrics					Average
P/E (reported) (x)	13.3	12.5	11.8	10.8	12.1
P/BV (tangible) (x)	2.2	2.0	1.8	1.7	1.9
Dividend yield (%)	2.2	2.6	2.6	2.9	2.6
P/PPE (x)	8.0	7.8	7.0	6.3	7.3
Tier 1 (%)	12.33	11.21	10.99	11.15	11.42
Tier 1 Common (%)	10.82	10.48	10.31	10.50	10.53
Tang assets/tang equity (x)	11.9	12.3	12.6	12.3	12.3

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	16.9	17.4
Fee income/revenue (%)	47.6	46.2	45.4	44.5	45.9
Net interest margin (%)	3.4	3.1	3.1	3.2	3.2
Cost/income (%)	58.0	57.1	55.6	54.0	56.1

Credit quality ratios					Average
Loan loss provs/loans (%)	0.3	0.2	0.3	0.4	0.3
NCO ratio (%)	0.6	0.4	0.4	0.5	0.5
Coverage ratio (%)	92.6	91.1	96.2	104.1	96.0
NPL ratio (%)	1.9	1.6	1.3	1.1	1.5
Reserves/loans (%)	1.8	1.5	1.3	1.1	1.4

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	26.1	28.1	30.9	27.2
Payout ratio (%)	29.6	32.5	31.0	31.0	31.0
Diluted shares (mn)	5,369.6	5,323.4	5,158.4	5,055.2	5,226.6

Price (10-Jul-2014)	**USD 51.81**
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.

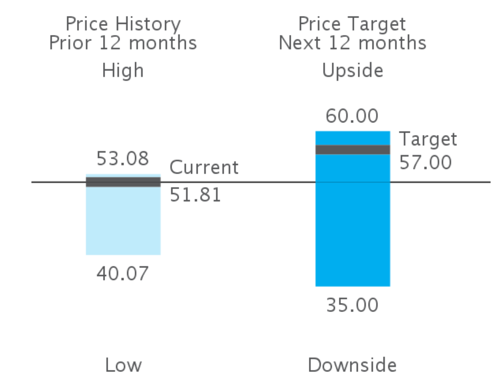
Upside case — **USD 60.00**

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.

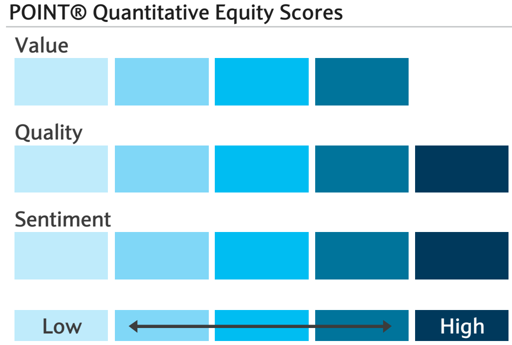
Downside case — **USD 35.00**

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

Executive Summary

Bottom line/rating

Although WFC's run of record quarterly EPS (12) and consecutive quarters of EPS growth (17) came to an end, earnings did improve relative to 1Q14 when adjusting for non-quality items (See "Quality of Earnings" section). In addition, results evidenced solid loan growth (commercial loans +2.7%), higher investment banking fees, and continued credit quality improvement. However, the spring selling season in mortgage was softer than originally anticipated, and its average share count was relatively stable despite repurchasing 0.7% of outstanding. Looking out, reserve releases are expected to continue, albeit at a decelerating pace, it remains focused on growing net interest income, and its committed to returning capital to shareholders (executed a $1bn forward repurchase contract expected to settle in 3Q for 19.4mn shares). With shares trading at 11.7x 2015 EPS (super regional peers at 12x), we remain constructive on WFC given its above-peer profitability metrics. We rate WFC Overweight.

Estimates/target

Despite 2Q14 results that came in just below our estimate, we are maintaining our full year 2014 EPS estimate at $4.16. Although net interest margin pressure has been more than originally anticipated, its loan loss provision remains below expectations. Our 2015 EPS estimate remains $4.40.

Results Overview

- WFC reported 2Q14 EPS of $1.01. While this was in-line with consensus it ended WFC's streak of 17 straight quarters of increased EPS and 12 straight quarters of record EPS. Still, WFC's quality of earnings improved. Net MSR results were $475mn, up from $407mn in 1Q14. Results included a $26mn mortgage repurchase reverse release ($6mn build in 1Q), placing its mortgage repurchase liability at $766mn. Loan loss reserve releases totaled $500mn, matching 1Q14. Equity gains were $449mn, down from $847mn, while securities gains were $71mn, down from $83mn. It also had a $100mn or so gain on the sale of insurance offices in 2Q14. Also, 1Q14 contained an $0.08 tax benefit. These items added $0.20 to EPS in 2Q14, down from $0.30 in 1Q14, while 2Q14 also had $0.02 of higher legal expense.

- Reported revenues totaled $21.1bn, modestly above consensus of $20.8bn. Operating revenues slipped 3% y-o-y but increased 4% from 1Q14 as both net interest income (+2%) and core fee income (+7%) advanced. It posted an ROA of 1.47% and an ROE of 13.40%. It repurchased 39.4mn shares during 2Q14. It entered into a forward share repurchase transaction for 19.4mn shares (~$1bn) that is expected to settle in 3Q14. Period-end shares declined 15.8mn.

- Its Common Equity Tier 1 ratio under Basel III was 11.31% (General Approach; -5bps) and 10.09% (Advanced Approach, fully phased-in). Net unrealized AFS securities gains were $8.2bn (+$1.9bn), primarily driven by a decline in interest rates.

- Relative to 1Q14, results evidenced a larger balance sheet (avg. loans +1%, avg. securities +2%), continued net interest margin contraction (-5bps), higher fee income (mortgage and other), higher expenses (salaries and litigation), a lower loan loss provision, improved credit quality (NPAs and NCOs lower), a higher tax rate (+589bps), and a relatively stable average share count (repurchased 0.7% of outstanding).

- Its retail bank cross-sell metric of 6.17 products per household, while its commercial cross-sell ratio was 7.2 products per relationship, both in-line with 1Q14. Its credit card penetration rate was 39.0% at 2Q14, up from 38.0% at 1Q14.

Quality of Earnings

- Net MSR results were $475mn ($0.06), up from $407mn in 1Q14.
- Results included a $26mn ($0.00) mortgage repurchase reverse release ($6mn build in 1Q), placing its mortgage repurchase liability at $766mn.
- Released $500mn ($0.06) of loan loss reserves (in-line 1Q release).
- Equity gains were $449mn ($0.05), down from $847mn.
- Securities gains were $71mn ($0.01).
- It also had a $100mn ($0.01) gain on the sale of insurance offices in 2Q14.
- Legal expense increased relative to 1Q14, incrementally reducing EPS by $0.02.
- Results in 1Q14 included an $0.08 gain tied to discrete tax benefits that didn't repeat in 2Q14. Its effective income tax rate was 33.4%, up from 27.9% in 1Q14.

Forward-Looking Statements

- **Net interest margin/income:** Growing net interest income remains its focus, and it believes it should be able to grow net interest income over the remainder of the year. Its net interest margin is subject to deposit growth, which makes it harder to forecast, and could yield incremental pressure.
- **Mortgage:** The spring selling season, as stated previously, was softer than originally anticipated. Still, its pipeline is good heading into 3Q14 and margins appear to be holding in. It believes gain on sale margin will continue to be relatively stable.
- **Utilization rates:** Capital finance has been seeing higher utilization rates, while wholesale utilization rates remained relatively flat.
- **Expenses:** It expects to maintain its efficiency ratio to remain in its 55-59% target range in future quarters (57.9% in 2Q14).
- **Reserve releases:** Post a $500mn release in 2Q14, it anticipates future releases barring an economic downturn, although at a slower pace as credit improvement slows and loans continue to grow.
- **Shares:** Its average share count declined modestly in 2Q, reflecting the repurchase of 39.4mn common shares; and it executed a $1bn (0.3% of outstanding) forward repurchase contract that is expected to settle in 3Q14 for approximately 19.4mn shares. We expect its share count to continue to decline throughout 2014 as a result of further net share repurchases.
- **LCR:** It believes it is where it needs to be from a liquidity standpoint.
- **Accretable yield:** The $1.9bn of nonaccretable difference reclassified to accretable yield this quarter will result in approximately $65mn of incremental income per quarter.
- **Servicing fees:** The improvement in servicing fees has been driven by lower related expenses, particularly foreclosure and default expenses.

- **OLA:** It has heard the range will probably going to be in the high-teens to low-20% range in terms of loss absorption cushion. It believes it is at or near the low end of this range.
- **Tax rate:** It expects an effective tax rate close to 2Q14's 33% rate going forward.
- **Leveraged lending:** It expects more regulatory clarity on leveraged lending later this year or early 2015. It does not expect for this guidance to materially impact WFC.
- **Portfolio acquisitions:** It is looking on the commercial and consumer sides, although it has not seen many new opportunities. It does, however, see more opportunities to do card portfolio acquisitions like the Dillard's program it recently completed.
- **Competition:** WFC stated that competition remains elevated. It noted that it has been seeing an increase in term on auto loans.
- **Small business efforts:** During 2Q14, it launched Wells Fargo Works for Small Business, an initiative that provides guidance and services to small business owners. This new initiative has resulted in strong engagement with small businesses across the country.

Net Interest Income

- Net interest income rose 2% from 1Q14. Approximately one-third of the increase was tied to an additional day. Interest income from variable sources (PCI loan resolutions and periodic dividends) also improved slightly.
- Average earning assets rose 3% with loans up 1% and securities up 2%. The $40bn increase was driven by increases in short-term investments (+$17bn), trading assets (+$6bn), loans (+$7bn), mortgage HFS (+$2bn) and securities (+$6bn).
- Period-end loans increased a slight 0.3% from 1Q14. Commercial rose 2.7%, while consumer declined 1.7%. Results included the transfer to loans HFS at the end of the quarter of $9.7bn of government guaranteed student loans, which were previously included in its non-strategic/liquidating loan portfolio. Excluding this transfer, loans increased 1.4%. Excluding its $65bn liquidating portfolio, core loans rose 2.0% with commercial up 2.7% and consumer gaining 1.3%. Its liquidating portfolio dropped $12.7bn (incl. $9.7bn transfer), or 16%, to $65.3bn (8% of total loans).
- Period-end securities increased 3% as $17bn of purchases were partially offset by run-off. HTM securities were up $12.4bn (increase in U.S. Treasury & federal agency debt), while AFS declined $3.7bn (declines in MBS and other debt securities).
- Its net interest margin contracted 5bps to 3.15% as deposit growth contributed to higher cash and short-term assets. This deposit growth was essentially neutral to net interest income, but hit the NIM 5bps. LCR compliance cost it 1bp, while higher interest income from variable sources added 1bp. Average deposits rose 2%, while its cost of deposits decreased 1bp to 0.10%.
- Its yield on average earning assets declined 6bps to 3.43% linked quarter in 2Q14. This included a 1bp decline in total loan yields to 4.28% (core -2bps) and an 8bp decline in total securities yield to 3.51%. Its cost of interest-bearing liabilities declined 1bp to 0.39%, including a 6bp decline on its cost of L/T debt. Its cost of interest-bearing deposits was stable at 0.14%.
- Of its $829bn in loans, PCI loans totaled $30.7bn (-$1bn from 1Q14). This included $2.4bn of commercial loans, $27.6bn pick-a-pay and $0.7bn other consumer. Its nonaccretable difference totaled $3.1bn, down $2.0bn from 1Q14. The pick-a-pay

portfolio has a $27.6bn UPB (12.1yr weighted average life), while its commercial portfolio was at $2.4bn (2.1yrs). Meanwhile, $18.4bn remains on its accretable yield balance.

Fee income & Expenses

- Core fee income rose 7% in 2Q14 relative to 1Q14. Mortgage (+$213mn), trust & investment fees (+$197mn; IB & and retail brokerage), other (+$126mn; gain on sale of 40 insurance offices), card (+$63mn), other fees (+$41mn) and insurance (+$21mn) all increased, while trading (-$50mn; lower customer accommodations) and operating leases
  (-$4mn) declined. Separately, equity gains were $449mn, down from $847mn, while securities gains were $71mn, down from $83mn.

- Mortgage originations increased 31% from 1Q14 to $47bn. Purchase jumped 46%, while refi was relatively unchanged. Still, its gain on sale margin declined 20bps to 1.41%. Applications increased 20% to $72bn, while its pipeline rose $3bn to $30bn.

- It released $26mn from its mortgage repurchase reserve. Its repurchase reserve now stands at $766mn, down from $799mn at 1Q14. Of its 1,345 unresolved repurchase demands (-4% from 1Q14), the majority are with the GSEs (678), with private (362) and mortgage insurers (305) rounding out the difference.

- Expenses rose 2% linked quarter as a decline in seasonally-elevated comp & benefits costs was offset by higher revenue-based incentive comp, increased salary expense due to annual merit increases and the impact of one additional day. Results also included a $205mn increase in operating losses largely due to litigation accruals, as well as higher outside professional services and advertising expenses. Its efficiency ratio was 57.9%, in-line with 1Q14. WFC expects to operate within its targeted efficiency ratio range of 55-59% in 3Q14.

- While pre-tax income increased 4% sequentially, net income declined 5%, as its effective tax rate was lower in 1Q14 due to a $423mn ($0.08) discrete tax benefit in the quarter. Its effective income tax rate was 33.4%, up from 27.9% in 1Q14.

Asset Quality

- Its NPA ratio improved 9bps to 2.26% linked quarter. NPAs declined $686mn, or 4%. Loans 90 days or more past due and still accruing (ex. government insured/guaranteed) declined 6%.

- Its NCO ratio improved 6bps to 0.35%. Commercial NCOs were 0.03% (+2bps), while consumer was 0.62% (-13bps). Its loan loss provision was $217mn (0.10% of loans), down from $325mn.

- It released $500mn of loan loss reserves (in-line 1Q release). Its reserve/loan ratio declined 7bps to 1.67%. WFC said it continues to expect future reserve releases, but at a lower level as the rate of credit improvement slows and the loan portfolio continues to grow.

FIGURE 1

WFC Earnings Model- Income Statement ($ in millions)

	Actual	Quarterly Forecast					Quarterly Forecast				Annual Forecast					Annual Change							2Q14A vs.	
	2012A	1Q13A	2Q13A	3Q13A	4Q13A	2013A	1Q14A	2Q14A	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	11/12	12/13	13/14	14/15	15/16	16/17	17/18	2Q13A	1Q13A
EPS - operating	$3.36	$0.92	$0.98	$0.99	$1.00	$3.89	$1.05	$1.01	$1.04	$1.06	$4.16	$4.40	$4.80	$5.26	$5.72	19%	0.156	7%	6%	0.09	10%	19%	4%	-3%
EPS - reported	**$3.36**	**$0.92**	**$0.98**	**$0.99**	**$1.00**	**$3.89**	**$1.05**	**$1.01**	**$1.04**	**$1.06**	**$4.16**	**$4.40**	**$4.80**	**$5.26**	**$5.72**	**19%**	**16%**	**7%**	**6%**	**9%**	**10%**	**19%**	**4%**	**-3%**
Book value	$27.64	$28.27	$28.26	$28.98	$29.48	$29.48	$30.48	$31.18	$31.41	$31.95	$31.95	$33.96	$36.92	$40.16	$42.85	13%	7%	8%	6%	9%	9%	16%	10%	2%
Tangible book	$21.22	$21.78	$21.92	$22.72	$23.80	$23.80	$24.05	$25.26	$25.70	$26.14	$26.14	$28.05	$30.89	$34.00	$36.69	17%	12%	10%	7%	10%	10%	19%	15%	5%
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	$1.63	$1.77	83%	31%	17%	1%	9%	10%	19%	17%	17%
Diluted average shares	5,351	5,354	5,385	5,382	5,359	5,370	5,353	5,351	5,313	5,276	5,323	5,158	5,055	4,954	4,956	1%	0%	-1%	-3%	-2%	-2%	-2%	-1%	-0.05%
Period-end shares	5,266	5,289	5,302	5,274	5,257	5,257	5,266	5,250	5,212	5,175	5,175	5,010	4,907	4,806	4,808	0%	0%	-2%	-3%	-2%	-2%	-2%	-1%	0%
Payout ratio	26%	27%	31%	30%	30%	30%	29%	35%	34%	33%	32%	31%	31%	31%	31%									
Operating revenue	**$85,431**	**$21,277**	**$21,425**	**$20,183**	**$20,244**	**$83,129**	**$19,912**	**$20,771**	**$20,794**	**$20,988**	**$82,465**	**$85,653**	**$90,646**	**$96,816**	**$100,736**	**7%**	**-3%**	**-1%**	**4%**	**6%**	**7%**	**11%**	**-3%**	**4%**
Avg earning assets ($bn)	$1,169	$1,233	$1,264	$1,287	$1,344	$1,282	$1,364	$1,403	$1,424	$1,452	$1,411	$1,509	$1,597	$1,690	$1,789	6%	10%	10%	0.07	0.058	0.058	0.059	11%	3%
Net interest margin	**3.76%**	**3.48%**	**3.46%**	**3.38%**	**3.27%**	**3.40%**	**3.20%**	**3.15%**	**3.12%**	**3.10%**	**3.14%**	**3.10%**	**3.15%**	**3.25%**	**3.30%**	**-19**	**0**	**-26**	**-4**	**5**	**9**	**15**	**(31)**	**-5**
Net interest income	$43,932	$10,675	$10,946	$10,949	$11,022	$43,592	$10,832	$11,016	$11,196	$11,346	$44,390	$46,792	$50,304	$54,827	$58,956	1%	-1%	2%	5%	8%	9%	17%	1%	2%
FTE adjustment	$702	$176	$196	$202	$219	$793	$217	$225	$175	$175	$792	$832	$873	$917	$917	1%	13%	0%	5%	5%	5%	5%	15%	4%
Average loans ($bn)	$775	$798	$800	$805	$817	$805	$824	$831	$843	$860	$840	$882	$926	$972	$972	2%	4%	4%	5%	5%	5%	5%	4%	1%
Loan loss provision	$7,217	$1,219	$652	$75	$363	$2,309	$325	$217	$316	$430	$1,288	$2,204	$3,703	$5,346	$6,318	-9%	-68%	-44%	71%	68%	44%	71%	-67%	-33%
Provision/loan ratio	0.93%	0.61%	0.33%	0.04%	0.18%	0.29%	0.16%	0.10%	0.15%	0.20%	0.15%	0.25%	0.40%	0.55%	0.65%	-11	-1	-13	10	15	15	25	(22)	-5
Net credit income	$36,013	$9,280	$10,098	$10,672	$10,440	$40,490	$10,290	$10,574	$10,704	$10,741	$42,310	$43,756	$45,728	$48,564	$51,721	3%	12%	4%	3%	5%	6%	13%	5%	3%
Service charges on deposit accounts	$4,683	$1,214	$1,248	$1,278	$1,283	$5,023	$1,215	$1,283	$1,276	$1,290	$5,064	$5,267	$5,477	$5,696	$5,696	9%	7%	1%	4%	4%	4%	4%	3%	6%
Trust and investment fees	$11,890	$3,202	$3,494	$3,276	$3,458	$13,430	$3,412	$3,609	$3,510	$3,550	$14,081	$14,785	$15,376	$15,992	$15,992	5%	13%	5%	5%	4%	4%	4%	3%	6%
Card fees	$2,838	$738	$813	$813	$827	$3,191	$784	$847	$815	$830	$3,276	$3,440	$3,577	$3,720	$3,720	-22%	12%	3%	5%	4%	4%	4%	4%	8%
Other fees	$4,519	$1,034	$1,089	$1,098	$1,119	$4,340	$1,047	$1,088	$1,050	$1,050	$4,235	$4,362	$4,449	$4,583	$4,583	8%	-4%	-2%	3%	2%	3%	3%	0%	4%
Mortgage banking (details below)	$11,638	$2,794	$2,802	$1,608	$1,570	$8,774	$1,510	$1,723	$1,797	$1,747	$6,777	$6,244	$6,572	$6,979	$6,769	49%	-25%	-23%	2%	3%	3%	3%	-39%	14%
Insurance	$1,850	$463	$485	$413	$453	$1,814	$432	$453	$400	$425	$1,710	$1,744	$1,779	$1,815	$1,815	-6%	-2%	-6%	2%	2%	2%	2%	-7%	5%
Net gains from trading activities	$1,707	$570	$331	$397	$325	$1,623	$432	$382	$350	$350	$1,514	$1,559	$1,606	$1,670	$1,670	68%	-5%	-7%	3%	3%	4%	4%	15%	-12%
Operating leases	$567	$130	$225	$160	$148	$663	$133	$129	$150	$150	$562	$579	$596	$608	$608	8%	17%	-15%	3%	3%	2%	2%	-43%	-3%
Other	$1,807	$457	($8)	$191	$39	$679	$115	$241	$250	$250	$856	$882	$908	$926	$926	4%	-62%	26%	3%	3%	2%	2%	NA	110%
Fee income	$41,499	$10,602	$10,479	$9,234	$9,222	$39,537	$9,080	$9,755	$9,598	$9,642	$38,075	$38,861	$40,342	$41,990	$41,779	14%	-5%	-4%	2%	4%	4%	4%	-7%	7%
Salaries	$14,689	$3,663	$3,768	$3,847	$3,811	$15,089	$3,728	$3,795	$3,800	$3,800	$15,123	$15,274	$15,885	$16,521	$16,521	2%	3%	0%	1%	4%	4%	4%	1%	2%
Commissions and incentive compensation	$9,504	$2,577	$2,626	$2,401	$2,347	$9,951	$2,416	$2,445	$2,400	$2,350	$9,611	$9,803	$10,097	$10,501	$10,400	7%	5%	-3%	2%	3%	4%	3%	-7%	1%
Employee benefits	$4,611	$1,583	$1,118	$1,172	$1,160	$5,033	$1,372	$1,170	$1,200	$1,200	$4,942	$4,942	$5,090	$5,294	$5,243	6%	9%	-2%	0%	3%	4%	3%	5%	-15%
Equipment	$2,068	$528	$418	$471	$567	$1,984	$490	$445	$500	$500	$1,935	$1,974	$2,033	$2,114	$2,094	-9%	-4%	-2%	2%	3%	4%	3%	6%	-9%
Net occupancy	$2,857	$719	$716	$728	$732	$2,895	$742	$722	$745	$745	$2,954	$3,013	$3,073	$3,196	$3,166	-5%	1%	2%	2%	2%	4%	3%	1%	-3%
Core deposit and other intangibles	$1,674	$377	$377	$375	$375	$1,504	$341	$349	$350	$350	$1,390	$1,390	$1,418	$1,475	$1,460	-11%	-10%	-8%	0%	2%	4%	3%	-7%	2%
FDIC and other deposit assessments	$1,356	$292	$259	$214	$196	$961	$243	$225	$220	$220	$908	$908	$926	$954	$945	7%	-29%	-6%	0%	2%	3%	2%	-13%	-7%
Other	$11,466	$2,466	$2,827	$2,670	$2,794	$10,757	$2,484	$2,913	$2,400	$2,400	$10,197	$10,299	$10,402	$10,610	$10,610	12%	-6%	-5%	1%	1%	2%	2%	3%	17%
Expenses	$48,225	$12,205	$12,109	$11,878	$11,982	$48,174	$11,816	$12,064	$11,615	$11,565	$47,060	$47,603	$48,925	$50,665	$50,438	4%	0%	-2%	1%	3%	4%	3%	0%	2%
Preprovision net revenue	**$37,206**	**$9,072**	**$9,316**	**$8,305**	**$8,262**	**$34,955**	**$8,096**	**$8,707**	**$9,179**	**$9,423**	**$35,405**	**$38,050**	**$41,721**	**$46,152**	**$50,297**	**11%**	**-6%**	**1%**	**7%**	**10%**	**11%**	**21%**	**-7%**	**8%**
OREO expense	$1,061	$195	$146	$161	$103	$605	$132	$130	$125	$125	$512	$200	$100	$200	$100								-11%	-2%
Securities gains	($128)	$45	($54)	($6)	($14)	($29)	$83	$71	$0	$0	$154	$0	$0	$0	$0								NA	-14%
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	$449	$200	$200	$1,696	$100	$100	$100	$100								121%	-47%
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	$8,655	$8,762	$8,893	$34,663	$34,914	$37,145	$39,789	$43,063	20%	15%	6%	1%	6%	7%	16%	2%	4%
Taxes	$9,103	$2,420	$2,863	$2,618	$2,504	$10,405	$2,277	$2,869	$2,905	$2,948	$10,999	$10,823	$11,515	$12,335	$13,349	22%	14%	6%	-2%	6%	7%	16%	0%	26%
Tax rate - stated	32.0%	31.7%	33.8%	31.54%	30.47%	31.9%	27.3%	33.1%	33.15%	33.15%	31.7%	31.0%	31.0%	31.0%	31.0%								(65)	589
Net income	$19,368	$5,220	$5,608	$5,682	$5,713	$22,223	$6,075	$5,786	$5,858	$5,945	$23,664	$24,091	$25,630	$27,454	$29,713	19%	15%	6%	2%	6%	7%	16%	3%	-5%
Change in acctg. principle/ minority interest	$471	$49	$89	$105	$103	$346	$182	$60	$100	$100	$442	$300	$300	$300	$300	38%	-27%	28%	-32%	0%	0%	0%	-33%	-67%
Preferred dividends	$898	$240	$247	$261	$241	$989	$286	$302	$250	$250	$1,088	$1,088	$1,088	$1,088	$1,088	6%	10%	10%	0%	0%	0%	0%	22%	6%
Net income to common	**$17,999**	**$4,931**	**$5,272**	**$5,316**	**$5,369**	**$20,888**	**$5,607**	**$5,424**	**$5,508**	**$5,595**	**$22,134**	**$22,703**	**$24,242**	**$26,066**	**$28,325**	**20%**	**16%**	**6%**	**3%**	**7%**	**8%**	**17%**	**3%**	**-3%**

Source: Barclays Research, Company Reports

FIGURE 2

WFC Earnings Model- Balance Sheet and Performance Metrics

	Actual	Quarterly Forecast					Quarterly Forecast				Annual Forecast					Annual Change							2Q14A vs.	
	2012A	1Q13A	2Q13A	3Q13A	4Q13A	2013A	1Q14A	2Q14A	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	11/12	12/13	13/14	14/15	15/16	16/17	17/18	2Q13A	1Q13A
Average Balance Sheet ($ in billions)																								
Assets	$1,341	$1,404	$1,429	$1,450	$1,509	$1,448	$1,526	$1,564	$1,450	$1,479	$1,505	$1,610	$1,703	$1,802	$1,908	6%	8%	4%	7%	6%	6%	12%	9%	2%
Earning assets	$1,169	$1,233	$1,264	$1,287	$1,344	$1,282	$1,364	$1,403	$1,424	$1,452	$1,411	$1,509	$1,597	$1,690	$1,789	6%	10%	10%	7%	6%	6%	12%	11%	3%
Securities	$214	$226	$235	$246	$251	$239	$244	$242	$243	$244	$243	$255	$268	$282	$282	23%	12%	2%	5%	5%	5%	5%	3%	-1%
Loans held for sale	$50	$43	$44	$33	$22	$35	$17	$19	$19	$19	$18	$18	$18	$18	$18	29%	-29%	-48%	0%	0%	0%	0%	-57%	13%
Loans	$775	$798	$800	$805	$817	$805	$824	$831	$843	$860	$840	$882	$926	$972	$972	2%	4%	4%	5%	5%	5%	5%	4%	1%
Deposits	$940	$986	$1,010	$1,026	$1,060	$1,020	$1,077	$1,102	$1,113	$1,124	$1,104	$1,159	$1,217	$1,278	$1,278	8%	9%	8%	5%	5%	5%	5%	9%	2%
Borrowed funds	$179	$183	$183	$187	$206	$190	$208	$218	$220	$222	$217	$228	$240	$252	$252	-7%	6%	15%	5%	5%	5%	5%	19%	5%
Equity	$151	$160	$165	$165	$170	$165	$175	$180	$181	$183	$180	$186	$197	$208	$220	10%	9%	9%	4%	6%	6%	12%	9%	3%
Period-end Balance Sheet ($ in billions)																								
Assets	$1,423	$1,437	$1,441	$1,488	$1,524	$1,524	$1,547	$1,599	$1,623	$1,655	$1,676	$1,794	$1,898	$2,008	$2,126	8%	7%	10%	7%	6%	6%	12%	11%	3%
Risk-weighted assets	$1,078	$1,094	$1,097	$1,131	$1,141	$1,141	$1,168	$1,192	$1,210	$1,234	$1,255	$1,343	$1,421	$1,504	$1,592	7%	6%	10%	7%	6%	6%	12%	9%	2%
Securities	$235	$248	$249	$259	$264	$264	$270	$279	$280	$282	$269	$282	$296	$311	$311	6%	12%	2%	5%	5%	5%	5%	12%	3%
Loans held for sale	$47	$47	$39	$26	$17	$17	$16	$10	$10	$10	$9	$9	$9	$9	$9	-5%	-64%	-48%	0%	0%	0%	0%	-75%	-40%
Loans	$800	$798	$800	$809	$822	$822	$826	$829	$841	$858	$858	$901	$946	$993	$993	4%	3%	4%	5%	5%	5%	5%	4%	0%
Loan loss reserve	$17.1	$17	$16	$15	$14.5	$15	$14	$13	$13	($62)	$13	$12	$11	$12	$14	-12%	-15%	-11%	-10%	-8%	14%	37%	-19%	-4%
Deposits	$1,003	$1,011	$1,022	$1,042	$1,079	$1,079	$1,095	$1,119	$1,130	$1,141	$1,167	$1,226	$1,287	$1,351	$1,351	9%	8%	8%	5%	5%	5%	5%	9%	2%
Tangible common equity	$112	$115	$116	$120	$125	$125	$127	$133	$134	$135	$133	$141	$152	$163	$176	18%	12%	7%	5%	8%	8%	16%	14%	5%
Common equity	$145	$148	$148	$152	$155	$155	$159	$162	$164	$165	$163	$170	$181	$193	$206	12%	7%	5%	4%	6%	7%	14%	9%	2%
Goodwill & other intangibles	$33	$33	$32	$32	$30	$30	$26	$26	$26	$26	$30	$30	$30	$30	$30	-3%	-10%	0%	0%	0%	0%	0%	-20%	0%
Performance Ratios																								
Return on equity	**12.82%**	**13.02%**	**13.62%**	**13.77%**	**13.47%**	13.47%	**13.93%**	**12.88%**	**12.91%**	**12.97%**	13.16%	**12.93%**	**13.04%**	**13.22%**	**13.52%**	**101**	**65**	**-31**	**-23**	**11**	**18**	**48**	(74)	-105
Return on tang com equity	17.33%	18.13%	19.30%	18.97%	18.26%	17.76%	19.19%	17.45%	17.49%	17.58%	17.74%	17.14%	16.91%	16.80%	16.84%	23	43	-2	-60	-23	-11	-7	(185)	-173
Return on assets	**1.44%**	**1.49%**	**1.57%**	**1.57%**	**1.51%**	1.53%	**1.59%**	**1.48%**	**1.62%**	**1.61%**	1.57%	**1.50%**	**1.50%**	**1.52%**	**1.56%**	**17**	**9**	**4**	**-8**	**1**	**2**	**5**	(9)	-11
Return on tangible assets	1.48%	1.52%	1.61%	1.60%	1.54%	1.57%	1.62%	1.50%	1.65%	1.64%	1.60%	1.52%	1.53%	1.55%	1.58%	17	9	4	-8	1	2	5	(10)	-12
Return on RWA	1.80%	1.91%	2.04%	2.01%	2.00%	1.95%	2.08%	1.94%	1.94%	1.93%	1.88%	1.79%	1.80%	1.83%	1.87%	18	15	-6	-9	1	2	6	(10)	-14
Efficiency ratio	56.4%	57.4%	56.5%	58.9%	59.2%	58.0%	59.3%	58.1%	55.9%	55.1%	57.1%	55.6%	54.0%	52.3%	50.1%	-154	150	-88	-149	-160	-164	-390	156	-126
Net profit margin	22.7%	24.5%	26.2%	28.2%	28.2%	26.7%	30.5%	27.9%	28.2%	28.3%	28.7%	28.1%	28.3%	28.4%	29.5%	240	406	196	-57	15	8	122	168	-265
Fee income/revenue	48.6%	49.8%	48.9%	45.8%	45.6%	47.6%	45.6%	47.0%	46.2%	45.9%	46.2%	45.4%	44.5%	43.4%	41.5%	293	-102	-139	-80	-87	-113	-303	(195)	136
Loans/AEA	64.9%	64.7%	63.3%	62.6%	60.8%	60.8%	60.4%	59.2%	59.2%	59.2%	59.5%	58.4%	58.0%	57.5%	54.3%	-279	-413	-124	-111	-44	-44	-364	(406)	-114
Equity/loans	20.0%	20.1%	20.6%	20.5%	20.8%	20.8%	21.2%	21.6%	21.5%	21.3%	21.4%	21.1%	21.2%	21.4%	22.6%	170	75	64	-28	11	13	138	104	44
Loans/deposits	82%	81%	79%	78%	77%	78.9%	76%	75%	76%	77%	76.1%	76%	76%	76%	76%	-442	-355	-281	0	0	0	0	(381)	-102
Asset Quality ($ in millions)																								
Nonperforming loans	$20,486	$19,526	$17,915	$16,893	$15,668	$15,668	$14,650	$13,972	$13,900	$13,500	$14,101	$11,986	10188.117	$8,660	$8,660	-4%	-10%	-10%	-15%	-15%	-15%	-15%	-22%	-5%
OREO	$4,023	$3,350	$3,140	$3,802	$3,937	$3,937	$4,115	$4,107	$3,900	$3,850	$3,740	$3,366	$3,131	$2,911	$2,911	-14%	-2%	-5%	-10%	-7%	-10%	-7%	31%	0%
Nonperforming assets	**$24,509**	**$22,876**	**$21,055**	**$20,695**	**$19,605**	**$19,605**	**$18,765**	**$18,079**	**$17,800**	**$17,350**	**$17,841**	**$15,352**	**$13,319**	**$11,571**	**$11,571**	**-6%**	**-20%**	**-9%**	**-14%**	**-13%**	**-13%**	**-13%**	**-14%**	**-4%**
Accruing TDRs	$16,765	$17,375	$18,500	$18,400	$13,500	$13,500	$13,000	$12,500	$12,000	$11,500	$12,150	$10,935	$9,295	$7,901	$7,901	6%	-10%	-10%	-10%	-15%	-10%	-15%	-32%	-4%
NPL ratio	2.56%	2.45%	2.24%	2.09%	1.91%	1.91%	1.77%	1.69%	1.65%	1.57%	1.64%	1.33%	1.08%	0.87%	0.87%	-21	-66	-26	-31	-25	-21	-21	(55)	-9
NPA ratio	**3.05%**	**2.85%**	**2.62%**	**2.55%**	**2.37%**	**2.37%**	**2.26%**	**2.17%**	**2.11%**	**2.01%**	**2.07%**	**1.70%**	**1.40%**	**1.16%**	**1.16%**	**-30**	**-68**	**-30**	**-37**	**-29**	**-24**	**-24**	(45)	-9
NPA ratio (including accruing TDRs)	5.14%	5.02%	4.93%	4.81%	4.01%	4.01%	3.82%	3.67%	3.53%	3.35%	3.48%	2.91%	2.38%	1.96%	1.96%	-26	-113	-53	-57	-52	-43	-43	(126)	-15
NCOs ($)	$9,034	$1,419	$1,152	$975	$963	$4,509	$825	$717	$738	$75,279	$2,939	$3,527	$4,629	$3,888	$3,888	-20%	-50%	-35%	20%	31%	-16%	-16%	-38%	-13%
NCO ratio	**1.17%**	**0.71%**	**0.58%**	**0.48%**	**0.47%**	**0.56%**	**0.40%**	**0.35%**	**0.35%**	**35.00%**	**0.35%**	0.004	0.005	0.004	0.004	**-33**	**-61**	**-21**	**5**	**10**	**-10**	**-10**	(23)	-6
Provision/loans	0.93%	0.61%	0.33%	0.04%	0.18%	0.29%	0.16%	0.10%	0.15%	0.20%	0.15%	0.25%	0.40%	0.55%	0.65%	-11	-64	-13	10	15	15	25	(22)	-5
Reserve/NPLs	83.3%	85.6%	90.1%	89.7%	92.6%	92.6%	93.5%	93.8%	91.2%	-460.5%	91.1%	96.2%	104.1%	139.3%	167.3%	-765	928	-142	505	789	3520	6326	365	28
Reserve/loans	**2.13%**	**2.09%**	**2.02%**	**1.87%**	**1.76%**	**1.76%**	**1.66%**	**1.58%**	**1.51%**	**-7.24%**	**1.50%**	**1.28%**	**1.12%**	**1.21%**	**1.46%**	**-38**	**-37**	**-27**	**-22**	**-16**	**9**	**34**	(44)	-8
90 days past due	$1,435	$1,360	$1,154	$1,050	$1,045	$1,045	$950	$897															-22%	-6%
Capital ($ in billions)																								
Equity/assets	11.26%	11.42%	11.53%	11.39%	11.24%	11.39%	11.44%	11.49%	12.52%	0.123977	11.95%	11.57%	0.1154005	11.52%	11.52%	46	13	56	-38	-3	-2	-2	(4)	5
TCE ratio	8.04%	8.20%	8.25%	8.23%	8.38%	8.38%	8.33%	8.43%	8.39%	0.083044	8.10%	7.97%	8.11%	8.26%	8.41%	63	34	-28	-13	15	15	30	18	10
Tier 1 common	$109.1	$113.6	$117.6	$120.3	$123.5	$123.5	$125.9	$127.5	$129.5	131.562	$131.6	$138.5	$149.3	$160.9	$173.7	15%	13%	7%	5%	8%	8%	16%	8%	1%
Tier 1 common ratio	**10.12%**	**10.38%**	**10.72%**	**10.64%**	**10.82%**	**10.82%**	**10.78%**	**10.70%**	**10.71%**	0.106634	**10.48%**	**10.31%**	**10.50%**	**10.70%**	**10.90%**	**66**	**70**	**-35**	**-17**	**19**	**20**	**40**	(2)	-8
Tier I capital	$123.2	$126.1	$128.7	$130.2	$132.6	132.64015	$135.1	$136.7	$138.6	140.7021	140.70061	$147.6	$158.4	$170.0	$182.8	8%	8%	6%	5%	7%	7%	15%	6%	1%
Tier I capital ratio	11.75%	11.80%	12.14%	12.11%	12.33%	12.33%	11.56%	11.47%	11.46%	0.114043	11.21%	10.99%	11.15%	11.31%	11.48%	42	58	-112	-22	16	16	33	(67)	-9
Leverage ratio	9.47%	9.53%	9.63%	9.76%	9.60%	9.60%	8.88%	8.69%	8.68%	0.086368	8.54%	8.37%	8.48%	8.60%	8.72%	44	13	-106	-17	11	11	24	(94)	-19
Tang assets/tang equity	12.4x	12.2x	12.1x	12.2x	11.9x	11.9x	12.0x	11.9x	11.9x	12.04185	12.3x	12.6x	12.3x	12.1x	11.9x									

Source: Barclays Capital, Company Reports

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Primary Stocks (Ticker, Date, Price)

Wells Fargo (WFC, 10-Jul-2014, USD 51.81), Overweight/Positive, A/C/D/J/K/L/M/N/O

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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)

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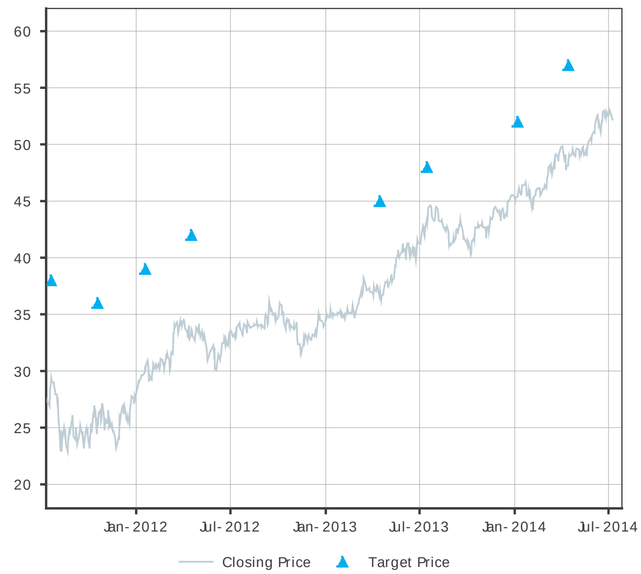
Wells Fargo (WFC)	Stock Rating	Industry View
USD 51.81 (10-Jul-2014)	**OVERWEIGHT**	**POSITIVE**

Rating and Price Target Chart - USD (as of 10-Jul-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.

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