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EDITED TRANSCRIPT

WFC - Q3 2013 Wells Fargo Earnings Conference Call

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OVERVIEW:

WFC reported 3Q13 earnings of $5.6b and EPS of $0.99.

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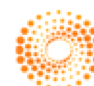

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CORPORATE PARTICIPANTS

Jim Rowe *Wells Fargo & Company - Director of IR*

John Stumpf *Wells Fargo & Company - Chairman, President and CEO*

Tim Sloan *Wells Fargo & Company - Senior VP and CFO*

CONFERENCE CALL PARTICIPANTS

Erika Najarian *BofA Merrill Lynch - Analyt*

John McDonald *Sanford Bernstein & Company - Analyst*

Joe Morford *RBC Capital Markets - Analyst*

Betsy Graseck *Morgan Stanley - Analyst*

Matt O'Connor *Deutsche Bank - Analyst*

Marty Mosby *Guggenheim Securities - Analyst*

Mike Mayo *CLSA - Analyst*

Scott Siefers *Sandler O'Niell & Partners - Analyst*

Ken Usdin *Jefferies & Company - Analyst*

PRESENTATION

Operator

Good morning. My name is Brent and I will be your conference operator today. At this time I would like to welcome everyone to the Wells Fargo third-quarter earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions).

I would now like to turn the call over to Jim Rowe, Director of Investor Relations. Mr. Rowe, you may begin your conference.

Jim Rowe - *Wells Fargo & Company - Director of IR*

Thank you, Brent, and good morning, everyone. Thank you for joining our call today during which our Chairman and CEO, John Stumpf, and our CFO, Tim Sloan, will discuss third-quarter results and answer your questions.

Before we get started, I would like to remind you that our third-quarter earnings release and quarterly supplement are available on our website at WellsFargo.com.

I would also like to caution you that we may make forward-looking statements during today's call that are subject to risks and uncertainties. Factors that may cause actual results to differ materially from expectations are detailed in our SEC filings including the Form 8-K filed today containing our earnings release and quarterly supplement.

Information about any non-GAAP financial measures referenced including a reconciliation of those measures to GAAP measures can also be found in our SEC filings, in the earnings release, and in the quarterly supplements available on our website.

I will now turn our call over to Chairman and CEO, John Stumpf.

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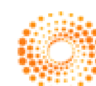

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John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

Thank you, Jim, and thanks everyone for joining us today. Wells Fargo continued to demonstrate the benefit of our diversified business model generating record earnings in the third quarter and achieving our 15th consecutive quarter of earnings per share growth.

While the drivers of our earnings growth over this period have differed reflecting the changing economic and interest rate environment, our focus on meeting our customers' financial needs has remained at the same.

There are currently some new economic challenges with the US government shutdown and the possibility of the government defaulting on its debt but prior to these recent events, the economy had continued its pace of moderate growth with gains in consumer spending, business investment, and employment. While the recovery remains uneven, there are many positive signs including increased small business optimism and a dramatic improvement in household net worth with household leverage now lower than any time since 2002 which provides capacity for consumer spending and borrowing going forward.

The housing market also continues to demonstrate strong momentum. While as expected higher rates reduced mortgage refinancing activity this quarter, home price appreciation remains strong and affordability remains excellent. This improvement has benefited our customers and contributed to our overall credit performance.

Let me take a moment to comment on the current situation in Washington and how we think about the implications for Wells Fargo.

A prolonged government shutdown and potential debt ceiling breach is unnecessary and troublesome and will likely create new needs for our customers and their families. I have asked our business leaders to identify ways we can help our customers directly affected by the shutdown whether it is furloughed government workers or a customer distressed by agency closures and we stand ready to assist our customers during this period.

More importantly, for our country, I feel it is important for our leaders in Washington to set aside partisan differences, break the logjam and find workable solutions that are in the best interests of our nation and our economy. I am encouraged by the news coming out of the nation's capital yesterday.

We have managed through changing environments in the past and our experience and vision will guide us through this period of transition as well. Our results this quarter reflected the dynamic environment we are in and the benefit of our diversity. Let me share some highlights.

Our record earnings of $5.6 billion and record earnings per share of $0.99 were up 13% from a year ago. Our core loan portfolio grew by $44.2 billion, up 6%. This strong performance was broad-based with growth in our commercial and consumer portfolios reflecting organic growth and the acquisition of two commercial real estate portfolios.

Our credit performance was exceptional as we continued to benefit from our conservative underwriting and improving economic conditions especially in housing with our net charge-offs down to 48 basis points annualized and our total net charge-off dollars down 59% from year ago.

Our outstanding deposit franchise continues to generate strong deposit growth with average deposits up $79.1 billion from year ago while reduced deposit costs by 6 basis points to just 12 basis points for the entire portfolio.

We deepened relationships across our Company achieving record retail banking cross-sell of 6.15 products per household. Wholesale banking grew their cross-sell to 7 products and wealth brokerage retirement cross-sell increased to 10.41 OpEx.

We had very strong returns, growing return on assets by 8 basis points to 1.53% and return on equity increased by 69 basis points to 14.07%. Our capital levels continued to grow and our estimated Tier 1 common equity under Basel III increased to 9.54% surpassing our stated 9% target. We look forward to the upcoming CCAR process where we expect to request a higher dividend and an increase to our share repurchases.

Tim will now provide more details on our third-quarter results. Tim?

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Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Thanks, John, and good morning, everyone. My comments will follow the presentation included in the quarterly supplement starting on page 2. John and I will then take your questions.

Our financial results this quarter demonstrated the benefit of our diversity and our risk discipline as we continued to produce strong results. Wells Fargo earned a record $5.6 billion and grew earnings per share to $0.99, both up 13% from year ago. We have now achieved 15 consecutive quarters of earnings per share growth and 10 consecutive quarters of record EPS.

As John highlighted and as you can see on page 3, our year-over-year results reflected loan growth that was well diversified as well as strong deposit growth. Lower mortgage banking revenue resulted in a decline in pre-tax pre-provision profit compared with the year ago. The higher rate environment which has reduced mortgage refinancing volume has resulted in a transitional period for our mortgage business. We have expected and planned for lower mortgage volumes and have managed through these periods in the past. I will provide more detail on mortgage trends later in the call.

However, we are still able to grow earnings and increase returns driven by strong net interest income, fee growth across many of our businesses, and significantly improved credit.

Our revenue diversification is highlighted on page 4. Different businesses naturally contribute more or less to our revenue depending on the economic and interest rate environment but our revenue remained almost evenly split between net interest and noninterest income and our sources of fee income were very well diversified. This is a benefit of our business model. We don't rely on any one business to generate growth.

Let me start by highlighting some of the key drivers of our third-quarter results from a balance sheet and income statement perspective starting on page 5.

Our balance sheet has never been stronger. We increased earning assets by growing loans and purchasing securities. We continued to strengthen our capital levels even as we returned more capital to our shareholders.

Let me take a moment to highlight our improved liquidity position. While we believe our liquidity position was already strong, with heightened regulatory expectations, we have been adding to our position over the past few months. We increased long-term debt and term deposits at very low rates and most of the proceeds went into cash and short-term investments. While building our liquidity put some pressure on our net interest margin, it did not impact our bottom line.

Turning to the income statement on page 6, net interest income remained strong driven by a $23.3 billion increase in average earning assets. Mortgage revenue declined as expected but we had growth in other fee categories. Our expenses decline, driven by lower personnel expense and lower operating losses.

Our effective tax rate in the third quarter was 31.9%. During the quarter, we finalized settlements with tax authorities regarding prior period tax issues primarily associated with certain cross-border transactions. Primarily due to these settlements, we recorded a net reduction in our reserve for uncertain tax positions which resulted in a tax benefit in the third quarter of $166 million.

Let me now cover our business drivers in more detail. As shown on page 7, we continue to have strong loan growth with period end loans up $29.7 billion or 4% from a year ago and up $10.3 billion from the second quarter. Excluding our liquidating portfolio, our core portfolio grew by $44.2 billion or 6% from a year ago and was up $13.8 billion from the second quarter.

Commercial loans grew $8.5 billion in the quarter with broad-based organic growth and $5.2 billion from acquisitions. Consumer loans grew $1.8 billion with growth in nonconforming first mortgage loans, auto, credit card and private student lending partially offset by the expected runoff from the liquidating portfolio and core home equity loans.

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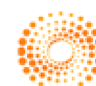

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Even during a period with tepid industry loan growth, we have been able to grow our loans on a year-over-year basis for nine consecutive quarters and for the past six quarters, year-over-year growth has been at least 3% despite runoff from a liquidating portfolio. Our growth is the result of remaining committed to meeting the financial needs of our customers and benefiting from opportunities to grow through acquisitions.

On slide 8, we highlight the drivers of our loan growth from a year ago. Real estate one- through four-family first mortgage loans grew $14.4 billion, or 6% even with the runoff from our liquidating portfolio and included growth in high quality nonconforming mortgages and the retention of conforming mortgages.

C&I loans were up $13.5 billion, or 8%. We had broad-based growth in asset-backed finance, government banking, corporate banking and commercial banking.

Foreign loans grew $6.9 billion, or 17% which included $4 billion from the UK CRE acquisition we completed in the quarter as well as trade finance growth.

Auto loans were up $3.6 billion, or 8% reflecting continued strong originations.

Credit card balances were up $1.8 billion or 7% with strong new account growth reflecting increased car penetration as well as marketing efforts.

Deposit growth remains strong with average deposits up $15.8 billion from the second quarter and up $79.1 billion or 8% from a year ago. We grew our primary consumer checking customers by a net 3.9% from a year ago, up from 3.5% last quarter. The growth in these relationship-based customers should benefit our future results as we remain focused on meeting more of our customers' needs.

We continued to reduce deposit costs which were down 6 basis points from a year ago and 2 basis points from the second quarter. We have successfully grown deposits while reducing our deposit cost for 10 consecutive quarters with average deposit costs declining to 12 basis points in the third quarter. Our strong deposit performance over an extended period of time is a fundamental strength of our franchise.

As shown on page 10, tax equivalent net interest income remained strong. Our ability to grow net interest income over the past year while the net interest margin has declined 28 basis points reflected the benefit of our loan growth and our disciplined approach to investing.

Net interest income was essentially unchanged from the second quarter benefiting from one additional day in the quarter, higher securities balances, loan growth, and lower funding costs. These benefits were offset by an expected decline in mortgages held for sale and lower variable income.

Average earning assets grew $23.3 billion from the second quarter reflecting increases in short-term investments, AFS securities, and loans. We purchased $19.8 billion of AFS securities primarily in the form of Agency MBS during the third quarter prior to the decline in rates late in the quarter.

While our net interest income remained stable, our net interest margin declined by 8 basis points from the second quarter to 3.38%. This decline was driven by four primary factors. First, our continued deposit growth which has little impact on net interest income but is dilutive to the NIM, reduced the margin by 3 basis points. The liquidity related actions that we took in the quarter reduced the margin by 3 basis points also.

The net impact of balance sheet repricing and growth reduced the margin by 1 basis point. And then finally, variable income which includes PCI loan resolutions, had periodic dividends was lower this quarter and reduced the margin by 1 basis point. We currently expect continued net interest margin pressure.

Non-interest income was down $898 million from the second quarter driven primarily by lower mortgage refinance volume and reduced gain on sale margins, which I will highlight shortly.

Because the reduction in mortgage revenue and the impact from seasonality on a linked-quarter basis can make it difficult to demonstrate the underlying momentum we have in many of our businesses, it is helpful to look at our year-over-year trends excluding mortgage. On page 11, we show noninterest income excluding mortgage banking and you can see that we grew 5% compared with a year ago.

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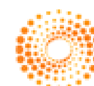

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Let me highlight some of the momentum we have across a number of our businesses. Deposit service charges were up $68 million from a year ago benefiting from strong account growth. Trust and investment fees were up $322 million with strong growth in brokerage asset base fees and investment banking. Card fees were up $69 million benefiting from strong account growth and increased usage in both our credit and debit card business.

Commercial real estate brokerage commissions grew $35 million from strong private and public market activity. Equity gains were up $338 million, reflecting gains from several transactions in the quarter. Equity gains are naturally volatile on a quarterly basis but on a year-to-date basis, gains are only up $48 million compared with 2012.

We are in a transitional period in our mortgage business. As expected with the increase in mortgage rates, our mortgage origination volume declined this quarter, particularly refinance activity, as highlighted on page 12. We have managed through many refi cycles in the past and remain committed to the mortgage business which is an important product for our customers and benefits from our cross-sell focus.

We are originated $80 billion of mortgages in the third quarter and with the rise in rates, refi volume declined to 41% of originations down from 56% in the second quarter and down from 71% in the first quarter of 2012.

Purchase volume remained relatively strong in the third quarter, down 4% from the second quarter benefiting from the continued strong housing market. Our unclosed pipeline declined to $35 billion at the end of the quarter reflecting lower application volume and shorter processing times to close mortgage loans as capacities increased. If rates remain where they are today, we would expect lower origination volume in the fourth quarter reflecting lower refi volume and normal fourth-quarter seasonality in the purchase market.

Our gain on sale margin declined from the historically high levels we experienced for the past year to 1.42%. As rates seem to have stabilized and competition has remained rational, we currently expect the margin to remain relatively steady in the fourth quarter.

Reflecting lower origination volume, we had lower incentive compensation expenses related to mortgage production in the quarter. We announced reductions of 5,300 mortgage FTEs in the third quarter which increased our severance cost. Most of the expense reduction from the lower FTEs was not reflected in our expense numbers for the third quarter because of the notice period we provided to our team members. But you should begin to see a reduction in expenses more significantly during the fourth quarter and we will continue to manage our capacity based on demand.

With higher mortgage rates -- while higher mortgage rates reduce our mortgage refi volume, they benefit our servicing business. Our servicing revenue was up $111 million from the second quarter benefiting from a slowdown in the economic amortization of mortgage servicing rights.

As we announced last week, we reached an agreement with Freddie Mac that resolved substantially all repurchase liabilities for loans sold prior to 2009. The cost of this agreement was fully accrued for in prior periods. As a result, our outstanding repurchase demands were down 25% from the second quarter and for the first time in over five years, we did not add to our repurchase reserve in the third quarter other than for reserves established for current period loan sales.

Expenses declined $153 million from the second quarter as shown on page 13. Salary expense was up $142 million which included $63 million in mortgage-related severance expense. Incentive compensation expense was down $225 million driven by lower mortgage revenue and lower capital markets and retail brokerage activity.

Expenses also reflected lower operating losses, down $93 million primarily from lower litigation accruals. The environmentally elevated costs primarily related to our residential mortgage business that we have highlighted over the last few quarters have been significantly reduced. However over time, we do expect to recognize additional benefits from the continued improvement in the housing market including additional reductions to these costs.

We had higher expenses related to the regulatory environment and our compliance activities. We have had a long history of strong risk management practices and in response to the heightened regulatory environment, our expenses increased by approximately $200 million annually.

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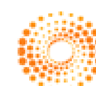

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Our efficiency ratio rose to 59.1% in the quarter reflecting the immediate impact of the reduction in mortgage origination volume. We expect our efficiency ratio to improve in the fourth quarter and we continue to target an efficiency ratio of between 55% and 59%.

Turning to our business segments starting on page 14, community banking earned $3.3 billion in the third quarter, up 3% from the second quarter and up 22% from a year ago. Retail banking continued to consistently grow cross-sell achieving a record of 6.15 products per household, up from 6.04 a year ago.

We continued to benefit from momentum in the credit card business by growing accounts, purchase volumes and balances. We had record new accounts up 9% from a year ago and household penetration increased to 36%, up from 32% a year ago and 28% just two years ago as we continued to increase marketing and enhance our product line. The 14% increase in purchase volume from a year ago reflects this account growth and an increase in active accounts.

Credit card balances were up 3% from the second quarter and up 7% from a year ago.

We also had strong loan growth in our auto business with balances up 2% from the second quarter and up 8% from a year ago. Originations were down 3% from the second quarter due to seasonality but up 9% from a year ago.

By remaining focused on serving the needs of all our small business customers, we were once again America's number one small business lender in dollars for the 11th consecutive year. We extended $14.2 billion of new loan commitments to small business customers during the first nine months of 2013, up 24% from a year ago.

Wholesale banking earned $2 billion in the second quarter, down 2% from the second quarter with lower sales and trading, investment banking and seasonally lower crop insurance fees. Earnings were down 1% from a year ago as lower sales and trading income offset growth in other commercial businesses and strong loan and deposit growth.

While revenue was down from a year ago, we had strong momentum across a number of our commercial businesses including a 10% increase in treasury management revenue. This growth was driven by strong sales growth including continued penetration of existing customers as well as new customer growth and pricing increases.

In addition, commercial card treasury management spend volume increased 22% compared with a year ago. Wholesale banking also benefited from growth in assets under management with AUM up 6% from a year ago driven by strong net inflows and market performance. Wholesale banking's cross-sell grew to 7 products per relationship up from 6.7 a year ago.

Wholesale banking results continued to benefit from consistent loan growth with loans having grown for 12 consecutive quarters. Average loans grew 5% compared with the year ago and was broad-based with growth coming from nearly all our portfolios including asset-backed finance, capital finance, commercial banking, commercial real estate, corporate banking, equipment finance and government and institutional banking.

As I mentioned earlier, loan growth also benefited from UK and US commercial real estate acquisitions.

Wealth brokerage and retirement earned $450 million in the third quarter, up 4% from the second quarter driven by higher net interest income and improved credit quality partially offset by seasonally lower brokerage transaction revenues. Earnings were up 33% from a year ago driven by strong growth in asset-based fees, higher net interest income, and improved credit quality.

Revenue grew 9% from a year ago reflecting strong growth in asset-based fees and higher net interest income. Retail brokerage managed account assets grew to a record $350 billion, up 18% from a year ago driven by strong market performance and net flows.

WBR has strong balance sheet growth with average loans and deposits up 10% from a year ago. Loan balances were up 3% from the second quarter, the fourth consecutive quarter of linked quarter growth. The benefit of meeting all the financial needs of our customers was also reflected in WBR's steadily increasing cross-sell growing to 10.41 products per household in the third quarter, up from 10.27 a year ago.

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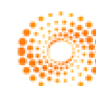
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Turning to credit quality on page 17, our strong performance reflected our long-term risk focus and the benefit from the improving housing market. Third-quarter net charge-offs declined to historically low levels, only 48 basis points at average loans. Losses in our commercial portfolio were only $19 million, or 2 basis points of average loans. Consumer losses declined to 86 basis points.

We continue to have especially strong improvement in our commercial and residential real estate portfolios. Our commercial real estate portfolios were once again in a net recovery position and our consumer real estate portfolios reduced their losses by $1.2 billion from a year ago, down 70%. Reflecting these improvements, our provision expense declined $577 million from the second quarter to $75 million and included a $900 million reserve release compared with the release of $500 million in the second quarter. Given current favorable conditions, we continue to expect future reserve releases absent a significant deterioration in the economy.

In addition to lower charge-offs and provision expense, nonperforming assets also improved with NPAs down $360 million from the second quarter. Nonaccrual loans declined $1 billion while foreclosed assets increased $662 million driven by an increase in government insured foreclosed assets. The increase was primarily driven by enhancements to loan modification programs, slowing foreclosures in prior quarters.

Loans 90 days or more past due decreased $104 million from the second quarter and were down 30% from a year ago with improvement in both commercial and consumer loans. Our restaged consumer loan delinquency balances and rates also declined from the second quarter and from a year ago.

Our estimated Tier 1 common equity ratio under Basel III increased to 9.54%, exceeding our target of 9% for the first time which includes a 100 basis point internal capital buffer. The growth in the Basel III ratio demonstrated our strong underlying earnings performance and a reduction in risk-weighted assets reflecting an improved Company credit profile and model refinements for commercial portfolios.

In addition after the Basel rules were finalized, we took a number of actions to reduce RWA. We disposed of an asset that had a punitive risk weighting and generated and evaluated more granular data on underlying investments of our BOLI assets.

We reduced our common share count by $28.4 million from the second quarter. We purchased 50.9 million shares and we executed a $400 million forward contract that is expected to settle in the fourth quarter for approximately 9.8 million shares. We are focused on returning more capital to our shareholders through dividends and share repurchases.

In summary, we had another solid quarter by focusing on our vision of meeting our customers' financial needs resulting in strong loan growth and deposit growth. We benefited from a continued improvement in credit quality with losses down significantly reflecting our conservative underwriting and an improvement in the economy especially the rebound in housing.

Our ROA and ROE continue to grow and we have strong capital generation which will benefit us as we enter the upcoming CCAR process.

We will now open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Erika Najarian, Bank of America Merrill Lynch.

Erika Najarian - *BofA Merrill Lynch - Analyt*

Good morning. With the provision at $75 million this quarter and your efficiency ratio at 59%, to continue the record quarterly earnings growth for next quarter it seems like you have to move to the midpoint of your efficiency ratio. I guess the question really here is can you get to the midpoint of your efficiency ratio next quarter all through cutting mortgage expense?

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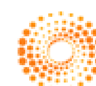

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Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Well, Erika, I would push back a little bit on the math there because that just assumes that we only have one lever to pull and that is expenses. If you step back and look at the performance that we had this quarter, you saw broad-based growth across the Company. There is no question that the efficiency ratio deteriorated a little bit but that was just because of the immediate impact of the mortgage revenue decline.

Now our expectation for all of our businesses is that we are going to see growth over time. We believe that we are going to improve the expense efficiency ratio in the fourth quarter and we are hopeful that credit continues to improve, and as I mentioned, we believe that we can -- that we will have further loan-loss reserve releases.

So I don't think it is necessarily going to be one item that is going to impact our earnings next quarter and that has really been the case for the last 15 quarters. Every quarter is a little bit different and that is fine because we have got the diversity and the strength in our businesses to be able to grow regardless of what is thrown at us.

Erika Najarian - *BofA Merrill Lynch - Analyt*

Got it. So I guess the message there is we should expect efficiency improvement next quarter and you will get there through both -- on both sides of the denominator? Sorry both sides of the equation, denominator and numerator?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

That's correct. We expect our efficiency ratio to improve in the fourth quarter from the third-quarter results.

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

Erika, if you look at and as you do it the balance sheet, just think of the growth we had this quarter and the last number of quarters in loans. That is the first call on our liquidity. Secondly, we do have liquidity -- ample liquidity there. This past quarter we were able as we have in recent quarters to deal with liability costs. So there are lots of things going on here, and as Tim mentioned, the expense side is just an important side but it is not the only lever.

Erika Najarian - *BofA Merrill Lynch - Analyt*

Got it. And my second question and I will step back is on capital return for next year. I think we hear you loud and clear that we should expect more capital return next year versus this year and my question is really on the CCAR process. Given sort of the fluidity on US leverage standards and global leverage standards which doesn't impact you as much as other large banks -- but.

I guess how do the regulators think of the buyback authorization that they approve relative to the fluidity of the new leverage rules? I guess the real question there is without the leverage proposals being final in the US or globally, will they allow banks to announce large authorizations on buybacks thinking that if something changes with the rules or the rules are just as stringent as proposed, you could dial back your actual buyback relative to your authorization?

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

Here is how we think about that. If you think about the CCAR process, we now have every year we do this, we learn more, we have more experience, rules that were proposed are becoming more known. Not everything is known today but this CCAR process we will know a lot more about final rules than we knew in the past. That doesn't mean everything that is known.

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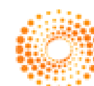

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Secondly, we have made great progress, and Tim mentioned and I mentioned in our comments, that if you look at just one ratio but we don't look at only one, the Tier 1 common using Basel III rules as we understand them, we are over the 7% plus the 1% SIFI buffer gets us 8 (technical difficulty) plus self-imposed 1% to 9%. We are already 9.50 -- north of 9.50. And in our Company, the way you run it here is really about shareholder.

You saw the activity we had last year in returning capital to our stockholders. We purposely made a comment, both Tim and I did, about returning more to our shareholders and we are looking forward to this upcoming CCAR process. It is surely an iterative process. It is collaborative with the Federal Reserve. I don't want to get ahead of that process but I know you will appreciate how much we care about returning and we are in a great position to do that.

So let's see where it all ends up.

Erika Najarian - *BofA Merrill Lynch - Analyt*

Okay, thank you for taking my questions.

Operator

John McDonald, Sanford Bernstein.

John McDonald - *Sanford Bernstein & Company - Analyst*

Hi, good morning. Tim, I was wondering on the liquidity additions, Tim, was this in preparation for your expectation of what the rules will be on LCR or OLA or both? And do you anticipate doing more of this liquidity build in coming quarters or are you now positioned for your best read of what you expect on these rules?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Yes, a very good question. I am glad you asked it. It had nothing to do with OLA. It was primarily focused on just liquidity. We have always operated the Company with sufficient liquidity to meet the needs of our customers and also weather the volatility in the markets and we have seen a lot of volatility over the last few years for sure.

But that said, there is no question that the regulatory expectations for the industry have increased. And we have been building liquidity throughout the year and I think the important thing is that throughout the year as well as in this quarter, it didn't affect our ability to serve customers, invest in securities when rates were higher, or as you have seen, report another quarter of record earnings.

But we did accelerate the liquidity build this quarter and we were able to do so in a way that was favorable because of the strong balance sheet that we have.

To your question about the standards, we don't know what domestic standard is going to be. Our expectation is that will be announced sometime toward the end of this year. But as it relates to the international standard, we have exceeded that. But again, we don't want to make a big deal about that because that is not really the standard that we are going to operate under. It is going to be the domestic standard.

But I wouldn't worry about our ability to have sufficient liquidity to meet the standards, to serve our customers, to continue to generate earnings.

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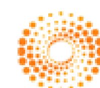

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John McDonald - *Sanford Bernstein & Company - Analyst*

Okay. And on the mortgage side, any sense for how much the mortgage originations could fall in the fourth quarter? And can we look at the decline in the end of the quarter pipeline as a guide to the possible magnitude from the decline from the $80 billion level or what is the danger of us doing that?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Well, yes, well there is always danger in something, right, John? But I think that a big driver for mortgage origination volume is going to be where rates turn out. We have seen that in great form this last quarter. Assuming that we are going to stay in this current interest rate environment, our expectation is that the mortgage originations will be down. The reason that I didn't provide any more specific guidance is that we are early in the quarter.

Having said that, I wouldn't use the point to point reduction in pipeline as the primary driver for coming up with any sort of expectation about mortgage origination volume because what we are experiencing right now in terms of the business is that the closing times from origination to close on a mortgage are shortening up. That is the case for us as well as I am sure the entire industry.

So I wouldn't jump to that conclusion. Assume that they are going to be down but in terms of exactly how much, it would be premature to guess right now.

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

You know, John, I think the thing that we should all remember on the mortgage business is while refinance volume is down and it has an impact on us, the improvement in housing is really good for America, good for our customers and ultimately good for our Company. And we have been through these cycles before and affordability still remains very attractive. Household leverage has come down and the interest by Americans in home ownership is still there.

So this is just a great thing. People are feeling better and we will respond as volumes go up and down and so forth. We have done that in the past. But an improving housing market is good, it is good for everyone.

John McDonald - *Sanford Bernstein & Company - Analyst*

Okay. Thanks, John. And one quick follow-up. Tim, if the current credit trends persist, is there any reason we couldn't see the reserve releases remain at the current level in this $900 million ballpark we saw this quarter?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

John, I would hesitate to provide you with a specific number because that is a process that we decide at the end of the quarter. I do think as we said that you should have an expectation that we will continue to have reserve releases because of the trends that we are seeing not only in terms of the continued improvement in our portfolio but because of the continued improvement in home prices.

So we will have a release in the fourth quarter. I don't know what it is going to be but you should count on us having a release.

John McDonald - *Sanford Bernstein & Company - Analyst*

Okay, thank you.

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Operator

Joe Morford, RBC Capital.

Joe Morford - *RBC Capital Markets - Analyst*

Thanks, good morning guys. You know excluding acquisitions on the end of period basis, it looked like core loan growth strengthened a bit in the quarter. How do you feel about demand through year-end and how much of these uncertainties around the government shutdown and the debt ceiling are affecting customer sentiment at this point?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

I would say it is a little bit too soon to gauge the impact as to what -- how consumers and our commercial customers are going to react to what is going on or not going on in Washington. But the trends that we saw in the fourth quarter -- or excuse me -- in the third quarter as you said, ex the acquisition, are continuing.

I don't know what the growth is going to be but I think what we were really excited about in the third quarter was how broad-based loan growth was. It wasn't just in one of our portfolios in wholesale, it wasn't just in WBR, it wasn't just in one of the consumer portfolios. So it is broad-based.

And this gets back to John's comments about the recovery again setting what is going on in Washington aside, we are in the midst of a recovery. It is a little bit uneven but because of our diversification, we are able to pick up wherever the low growth might be.

And again, I think it is really a testament to the scheme that we have out there dealing with customers every day because we are continuing to grow at a multiple of what the underlying industry is growing at.

Joe Morford - *RBC Capital Markets - Analyst*

And you announced a couple of loan portfolio acquisitions in the quarter. Do you expect to see more of these opportunities in coming months and just how competitive are these situations given that industry loan growth overall is fairly sluggish?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Well, you know what, Joe, you have got to pay the highest price to win. So we are always going to be competitive. But we have been very pleased over the last two years to have been in the position because of our financial condition, our liquidity, our capital position to be able to acquire a number of loan portfolios. We are hopeful that we will continue to see opportunities to make acquisitions of good quality loan portfolios in the future.

We certainly don't count on it and we don't assume that we need it to be able to grow earnings but the short answer is there is competition out there but the fact of the matter is that we are viewed as a good counterparty to sell to because we have got very experienced people that can provide good underwriting. We are able to transform that into competitive bids and when we say we are going to close, we close.

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

You know, Tim is absolutely right on that and I think it is a competitive advantage we have for those reasons. But we also -- and you know this -- we don't do every deal we look at. We look at a number of things and transactions. If it doesn't add to our customer base, I mean these are not only loans, these are customers and we are doing more things with them besides just the loan.

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And as you go through a number of these, it is logical that there will be fewer available but we still as I always say kick a lot of tires. But the ones we bring home are the ones that really add value to our customer base.

Joe Morford - *RBC Capital Markets - Analyst*

Okay, that's helpful. Thanks.

Operator

Betsy Graseck, Morgan Stanley.

Betsy Graseck - *Morgan Stanley - Analyst*

Hi, good morning.

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Hi Betsy.

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

Hi Betsy.

Betsy Graseck - *Morgan Stanley - Analyst*

Just a couple of questions on the mortgage expense side. I am wondering if you could just give us a sense of the amount of mortgage expense reduction you already have in your 3Q run rate? And roughly how far along you think you are in that reduction based on current volumes and when you think you get to your new run rate of expense there?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Betsy, it's a real good question. The primary reduction in expenses in the third quarter from the mortgage business was really in the incentive compensation line which we mentioned. Most of the 5300 team members that were noticed in the third quarter were still with us as of the end of the quarter. So most of that expense, just the underlying personnel expense, was not out of the run rate. So you are going to see that come out of the run rate during the fourth quarter. And our expectation is that as we start the first quarter, it will be completely out of the run rate.

So not a lot of reduction with the exception of incentive comp in the third quarter metering through the fourth quarter and then out in the first quarter.

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

In fact, Tim is right; actually it is even -- we actually took a charge in the third quarter for severance so it actually went through the expense numbers. So you can almost argue that it was elevated by $63 million or so whatever. So Tim is right, the direct variable is out but the support costs actually in an unusual way, went up for a quarter.

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Betsy Graseck - *Morgan Stanley - Analyst*

And then on the MSR valuation with the backup in rates, I guess I was a little bit surprised not to see a higher upward revaluation. Maybe you could speak a little bit to how you got to your number?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Sure. There is no question that we have had obviously a bit of a backup in rates but we did reduce the value of the MSR by about $240 million and the driver for that was the assumption that we have regarding prepayments during the quarter because of the increase in home values. And again, we try to appropriately hedge the portfolio so the impact was primarily driven by the change in the estimated -- estimate of prepayments.

Betsy Graseck - *Morgan Stanley - Analyst*

Okay. So the LTV is outweighing the rate impact still?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

So far that is correct.

Betsy Graseck - *Morgan Stanley - Analyst*

Okay. And then just one last thing, you have your card partnership that you announced recently with American Express and I just wanted to understand how you are thinking about offering that product versus your other card products. I mean how do you determine which one you are going to be marketing to your different client bases?

And maybe if you could let us understand if there is a merchant angle to the AmEx partnership as well.

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

You know, Betsy, that's an area of opportunity and focus for our Company. And just a little bit of history here, when we put Wells and Wachovia together in fact, we announced it almost five years ago to this date, they had of course sold their card portfolio to MBNA and when we put the two companies together, we had something like an 18% or 20% penetration to our customer base. Today it happens to be 35%, 36% and we are really growing that.

But we knew and understood there was a client base within our customer base who call us their bank, who carry a card but not our card and it tended to be in some cases a high-end card or it was a card that fit really nicely with what we are now partnering with American Express. And we all have a personal goal around here to satisfy all of our customers' needs and help them succeed financially and we are not satisfied here with a 35% or 36% penetration into our customer base on card.

Every one of our card customers, our customers has a card, more than one card. We want our card to be the top of the wallet and by expanding our partnership to American Express in some spaces, this is going to be hugely valuable in helping us do that. It's not like from the economics of the card, it is from the payments, knowing our customers better and so forth.

And you are right, we do a lot of things on the issuing side and this will help us there but we are also a big Company on the acquiring side, the merchant side. And we will be sharing more of that as time goes on but we are really excited about continuing to grow the penetration of our customers who carry our card.

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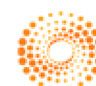

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Betsy Graseck - *Morgan Stanley - Analyst*

Okay, thanks.

Operator

Matt O'Connor, Deutsche Bank.

Matt O'Connor - *Deutsche Bank - Analyst*

Hi guys.

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

Hey Matt.

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Hey Matt.

Matt O'Connor - *Deutsche Bank - Analyst*

I was just hoping to drill down on the expenses a little bit. Obviously as we go forward there is the severance coming out, there is the capacity reduction in mortgage that has already taken place. I would assume some more to come as pressure comes down. But can you give us a sense of what the all-in run rate of expenses may be for the revenue environment that you see out there?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

No. We don't look at the expense number as a number and we are not going to be able to provide the guidance. I certainly appreciate why you asked the question. We really look at our performance based upon the efficiency rate. And we provided guidance a year and a half ago that we want to be in the 55% to 59% range. It deteriorated, as I mentioned this quarter because of the [immediate] impact of the mortgage revenue decline.

We are going to improve our efficiency in the fourth quarter and we are going to continue to look at our expenses based upon our efficiency ratio because it has got to be as a percentage of revenues.

Matt, it would not be difficult if we wanted to just cut expenses. The problem is when you look at your expenses just in terms of dollars and you just focus on a dollar reduction, you have the propensity and we have seen this with lots of companies over the years then give up revenues. And we are not going to do that.

This is a revenue-focused Company that has got to deliver expenses efficiently and we are going to continue to do that. So again, I appreciate the question but we are not going to provide any dollar guidance.

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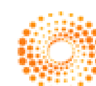

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John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

And just one added comment. We still believe and we mention this I think every quarter, that we have opportunities. We are spending more in some areas -- compliance, risk and so forth and on the other hand, we continue to innovate with our customers, with our delivery models. I mean our neighborhood store in Washington DC has an operating cost base that is 40% last than a traditional store and we are making investments at the ATM about taking paper out and all kinds of things.

But never at the expense of serving customers or at the expense of walking away from revenue. There is always a balance there. That is why we talk in terms of an efficiency ratio and we still feel comfortable with those guardrails.

Matt O'Connor - *Deutsche Bank - Analyst*

And obviously a lot of stuff has come up so far on the call. Just thinking out beyond the fourth quarter to next year, it seems like it is going to be a tough revenue environment for a lot of folks including you guys and even beyond mortgage cost save, it does feel like there is other opportunities. So I think over time to put some numbers around that might be helpful.

Just separately on the sale of MSRs over time, any sense or color that you can provide in terms of how meaningful those could be both in just an absolute sense and I guess from like a gain perspective?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Matt, I wouldn't look for us to start to sell MSRs just from a gain perspective. I think as we have talked about in the past, we do think it is prudent from a risk management standpoint to look at them as our portfolio and take advantage of the fact that there is more demand for mortgage servicing rights today than there was six months ago or a year ago. So don't be surprised if we do sell some of our MSRs.

I don't expect it to be a material reduction but I think from a risk management standpoint it is good to go ahead and test the waters every once in a while and you should expect that we will probably be doing that in the next few quarters.

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

And Matt, as far as going forward, you mentioned the next few quarters and what we are excited about here is if you look at first of all, you look at the absolute performance of the Company in a pretty difficult environment, north of 14% return on equity and an ROA north of 150. But if you look at the liquidity we have now on the balance sheet, almost $200 billion and the first call on that is for serving customers loans. You look at the opportunity we have in certain businesses like card and wealth brokerage, retirement, and insurance distribution in addition to all the existing businesses, our ability to grow loans, outgrow the industry you know there is also a lot of opportunity here.

Surely headwinds. We get that. But not foreign to us and that is why we like this as we many times talk about, the 85 to 90 horses that pull this coach along in being different businesses.

Matt O'Connor - *Deutsche Bank - Analyst*

Okay, thank you very much.

Operator

Marty Mosby, Guggenheim.

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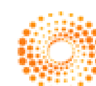

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Marty Mosby - *Guggenheim Securities - Analyst*

Thank you.

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Hi Marty.

Marty Mosby - *Guggenheim Securities - Analyst*

Hey.

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Hey, Marty, thanks for being a Dodgers fan, by the way.

Marty Mosby - *Guggenheim Securities - Analyst*

Oh, I appreciate that. You never know what you are going to get asked when you get out there. I have two technical mortgage questions and I had one general kind of balance sheet question.

On the gain on sale margin dropping from 220 down to around 140, the curiosity I had was because you recognize your gain on sale at closing or funding, a lot of times we have a spike in interest rates, you have a closed rate that actually increases pretty substantially and can create a loss. I didn't know if the acceleration of the drop in this gain on sale margin wasn't tied somewhat to that phenomenon which is pretty unusual and only happens when you have these real dramatic shifts in rates like we just went through.

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Marty, you raise a good point and you are going in the right direction but it wasn't because of any sort of a loss. I think very frequently when you are in a period of a decline in rate as you are referring to, you do get an acceleration in terms of the decline in rate of your margin. I would describe that as more of a competitive impact as well as sometimes a mix impact from whether your originations are coming from the retail or a correspondent business. So there was no question that because of the rapid increase in rate, there was a more rapid decline in the margin.

That said, our expectation given if you believe that interest rates have more or less stabilized right now and also given the competitive environment that we think that the margin is more or less going to stay in this range for the next quarter.

Marty Mosby - *Guggenheim Securities - Analyst*

And just to kind of hit on that one last time was did you have any pull-through in the sense of when you are doing refis, you kind of think there is always going to be some breakage. Was there any increase in the closure rate as the rates went higher because the refi folks just want to go in and make sure they had that locked in rate?

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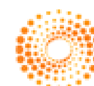

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

No, I wouldn't say that. I mean I do think when -- what we did see toward the end of the quarter once rates started to come down the last few weeks of the month, you did see an increase in volume on a daily basis just because there were folks that were hoping to have refinanced and then once they saw rates rise, they put the brakes on that. Then when they saw rates fall, they wanted to take advantage of it. But beyond that, nothing more.

Marty Mosby - *Guggenheim Securities - Analyst*

Okay and then the other technical question on mortgage was when you are looking at the servicing hedging, you use swaps -- the majority of your hedging is in swaps and when the rates went up, you can really kind of restructure that swap portfolio before you can start to increase the positive carry. And I just didn't know if you had the chance to take advantage of that with that spike in rates that we got in the third quarter.

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Well, there is no question that with the volatility in rates we needed to watch our hedging very, very closely and there was more volatility in that this quarter. But we really -- but we didn't -- just because of where rates went this quarter, we didn't change the fundamental strategy in terms of how we hedge or the hedge ratios to try to speculate on where rates are going ago. We really want to look at that servicing business based upon the hedge carry and not try to either increase it or decrease it too much based upon where rates are going.

Marty Mosby - *Guggenheim Securities - Analyst*

And all I was getting at is you can kind of keep the same hedge ratio while taking advantage of a wider steeper yield curve. Sometimes there is a benefit related to that so I was just curious if that is something that you were able to take advantage of when you had that opportunity?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Not materially, no.

Marty Mosby - *Guggenheim Securities - Analyst*

Okay. And then lastly, John, you brought up the fact that your liquidity had increased so substantially -- I mean it is around $200 billion which is about twice what it was last year. So as much as you have tried to eat into that with purchases in the securities portfolio or loan growth, the deposit growth just keeps outpacing what you are able to do on the asset side.

What's your thoughts that as this number gets to be so substantial, how you take that and begin to utilize it given the opportunities that you have right now?

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

Sure. Well I think that is one of the hidden strengths here in the Company in that the customers that are looking to borrow money, we think they have the first call on that. We surely will be thoughtful about making investments as we see backups. So there is a lot of what I would call dry powder there that is available and a lot of that is just because of what the deposit curve has been.

We have grown deposits over the last year by about $79.1 billion or $80 billion. And we brought even the cost of deposits down by 6 basis points down to 12 basis points. And I have said this I think in the past and you know this, that we are not turning away customers.

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If a customer -- and we have been growing our primary checking accounts by 3.6 to 3.9 depending whether you are talking about small business or consumer -- they bring a lot of other stuff to us when they do this. And even though it might not look like a great trade today or tomorrow, it is a fabulous trade over time. I will take all the customer households with all the checking accounts and all the balances they want to bring here because it is going to pay huge dividends.

Marty Mosby - *Guggenheim Securities - Analyst*

And just a slight follow-up to that is -- and this is a tough question -- how much of this $200 billion do you all estimate is related -- is sustainable through the cycle and not just temporarily parked on your balance sheet? And thanks for all the time this morning.

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

You know, I think when it comes to primary accounts, they are very sticky. And if you look at the makeup of the liability side of our balance sheet, of the $1.030 trillion, $1.040 trillion, only about $40 billion is CDs. I mean these are accounts that people -- they are transaction accounts, they are checking accounts, savings accounts and that is where people believe and if you ask where they bank, they will say I bank at Wells Fargo because that is where their basic and main account is. It is the driver of almost every sale on the retail side.

So very much the lion's share of that is core. If rates back up, will there be some disintermediation? Yes likely maybe even within the Company but probably a lot less than other companies or others that would have more one product households so-called hot money. That is just not who we are.

Marty Mosby - *Guggenheim Securities - Analyst*

Understood. Thanks.

Operator

Mike Mayo, CLSA.

Mike Mayo - *CLSA - Analyst*

Hi.

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Good morning, Mike.

Mike Mayo - *CLSA - Analyst*

Hi. How important is it to have consecutive quarters of increasingly higher EPS growth? And I will get back to my question in a second. I know it is probably the outcome of the way you run the business.

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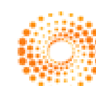

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Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Mike, that is exactly right. It is an outcome and we don't set about trying to hit a certain earnings number. What we do is we try to set about serving our customers' needs and earnings are just an outcome. The fact that we highlight it is it is something -- because we are proud of it. We have had 270,000 people working really, really hard for the last quarter in a pretty interesting environment where there have been a lot of headwinds. We have talked about some of them and we are very proud of the performance. We hope that continues. But it is an outcome not a goal.

Mike Mayo - *CLSA - Analyst*

And I know I have asked the question on past conference calls. How do you mine the gap from the time when mortgage revenues decline and you don't yet have a chance to cut expenses? And it seems like the answer this quarter was partly reserve releases which equaled over 1/10 of your earnings for the quarter.

So I am trying to understand the offsets a little bit better and you have touched on a lot of them. What sort of expense or efficiency gains should you get from those 5300 employees leaving the mortgage business in the third quarter? Can you put any numbers on that?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

No. Mike, it is a very fair question and I think if you look back on any of the 15 quarters that you were referring to, every quarter is going to have a little bit different complexion. And I bet as we look back -- I don't that I know -- if you look back on every one of those quarters, there has been some sort of headwind that we have had to deal with.

And I think that whether we have been through in those quarters the ups and downs in the mortgage business, we have been through the ups and downs in credit, we have been through the ups and downs in operating losses and so on and so forth. And I think the important thing to appreciate again is that it is not just one driver that is going to get us to continue to be able if it is going to allow us to continue to be able to grow the Company.

You saw this quarter I mean the fundamentals are pretty exciting, $10 billion, $10.3 billion of point-to-point loan growth multiple of the industry average. You saw it year over year, nonmortgage fee revenue up 5%. Again, multiple of what the underlying economy is growing. You have seen deposits grow, as John was just talking about. We are not going to turn down deposits. We want to wave them in. Those are great relationships.

Expenses are down from the second quarter to the third quarter $150 million. And the improvement in credit is terrific. Sure we had a reserve release. The reserve release is the result of a lot of good decisions over a long period of time. So we are just -- everything that we have done this quarter is really core to banking. It is core to our performance so it is not just going to be one thing, it is going to be the combination of everything.

If it was just one item, we would point to it and we'd move on but that is what is exciting about Wells Fargo it's the diversity of the business model.

Mike Mayo - *CLSA - Analyst*

If I can just have a follow-up one on revenues and one on expenses. As far as you increased securities by $10 billion during the quarter and you bought the commercial real estate portfolios for another $5 billion. When in the quarter did those go on roughly -- the beginning, the middle, the end?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Most of the securities purchases were done toward the beginning to the middle of the quarter when rates were higher and then as rates dropped after the Fed announcement, we slowed down our purchases because we didn't think the rates were as attractive.

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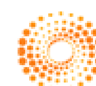

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In terms of the loan purchases, my recollection is that the Eurohypo portfolio closed beginning to the middle of the quarter and then the ING portfolio is closing loan by loan from about the middle of the quarter to the end.

Mike Mayo - *CLSA - Analyst*

All right. So there should be some NII pickup in the fourth quarter from those moves I would assume?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Yes, I don't know where NII is going to go but over time we certainly want to grow net interest income and we are hopeful to grow it in the fourth quarter and clearly having those two portfolios close will be beneficial to NII in the fourth quarter.

Mike Mayo - *CLSA - Analyst*

And then the follow-up on the efficiency side, I mean 59.1% is outside your range. I know it is just one quarter but that was the fear, you get the mortgage slowdown and the efficiency ratio doesn't look as good. And you made up for it with some other things. But what else can you do outside of mortgage? You mentioned the neighborhood stores. How many of those neighbor stores -- neighborhood stores do you plan to roll out over two or three years? What is the potential for that? Can you size that which I don't think you have done?

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

Yes, good question, Mike. What we do is test and learn so we are testing that and learning. There are others on the docket but we also have an existing 6200 stores and if I would just take a step back from that, when we put the companies together five years ago, we had about 117 million or 118 million square feet. Today we are down to about 93 million or 94 million square feet. And we think we have more opportunity to go. That is a broad issue around the expenses around distribution. Not all that is distribution of course. That is the top of the house.

But within the 6200 banking store distribution, we are upgrading, creating more density. We are looking at every lease that comes up. So by not only the neighborhood store, which has a big cost advantage, and there will be more. We don't know how many yet but even with the existing 6200, we continue to look at those things.

So every expense that dollar we spend gets considered, it gets considered in and of itself and how it relates to revenue. But you are right, we are 59.1 but I think we also said that none of the benefits or very few of the benefits of the mortgage side, the revenue came out immediately and yet the expenses of the 5300 are not out yet. And plus on top of that, we added 63 million or 65 million to it for a severance reserve that actually made the expenses go up if you will.

So we still think those guardrails make sense. Surely we have touched the high end, but we will continue to work on that. And also, like we said each quarter has its own character. Sometimes revenue comes out right away, expenses trail a bit but we still feel comfortable with those numbers.

Mike Mayo - *CLSA - Analyst*

And then lastly, the 94 million square feet, where could that go? Could it go to 80 million, 70 million?

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

It will go down. Again, we continue to challenge our thinking and some things that just to give you some ideas of things that we are thinking about. When we redo stores, we look at -- we look at density, we look at this whole idea in some cases of hoteling as technology becomes more available

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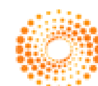

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and more usable so -- and as our customer spend more time with self-serving. But the goal here is not to get square footage gone. The goal here is to serve customers in the exceedingly well way, have a great place for team members to come to work and if we can make all that work and have less square feet, then it is a win-win-win. Everybody wins here.

Mike Mayo - *CLSA - Analyst*

All right, thank you.

Operator

Scott Siefers, Sandler O'Neill.

Scott Siefers - *Sandler O'Niell & Partners - Analyst*

Good morning guys.

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

Hi, Scott.

Scott Siefers - *Sandler O'Niell & Partners - Analyst*

Good morning. I guess I just wanted to follow up on some of the credit related questions. I guess specifically I guess what was it this quarter in particular that allowed for such a dramatic reserve release? And I guess the reason I ask is I generally understand credit is continuing to improve but there have been other quarters where -- in other words, it has been improving for a while and some quarters has been more robust than this quarter even.

So I guess number one, what was it for this quarter in particular? And then I guess as I look back over really a decade or more, I think this is by far the lowest absolute level of credit cost you've had in any given quarter despite you being several times larger than at some points there. So is there any philosophical difference in the way you guys are thinking about the need to reserve or reserve releases, etc.?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

I'm glad you asked the question. No change in the philosophy in terms of how we are thinking about reserving. And you are right, $900 million is an increase over the prior quarter. It is not the largest reserve release we have had over the last few years but it is in the last year or so.

And I would say it wasn't any one item, it was just a buildup of a number of items. When you think about it, a year ago we had the OCC guidance that we had to adjust to and that clearly would have affected the amount of the reserve release. And then we had Hurricane or Superstorm Sandy and there was a concern about what losses might be and so we needed to make sure that we were adequately reserved.

And then throughout that same period, we have had a continuation of home price appreciation that I think has surprised everybody. It is amazing. It seems like every time one of the surveys come out that the conclusion is oh, it can never continue at that rate and then it has just continued. So those are just some examples of why the reserve releases have grown so far this year.

I can't promise you that they will continue to grow but we do feel very comfortable about the continued improvement in our credit quality.

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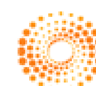

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And the other point that I would make is also it is important to appreciate that the complexion of our loan portfolio is changing. When you look at our commercial loan portfolio, almost half of the loans that are in that portfolio today were originated post crisis, so 2009 and forward. And somewhere -- and I don't have the number exact and I apologize -- but somewhere plus or minus 45% of the consumer loan portfolio was originated post crisis.

So we are seeing the impact of not only the improvement in credit quality of the precrisis portfolio, and John talked about how our consumers' and our customers' balance sheets are improving, also the housing price appreciation is impacting that. But it is also the fact that the new loan portfolio, the post crisis, the credit quality is just exceptional. So it is a combination of all of that. It is not just one item.

Scott Siefers - *Sandler O'Niell & Partners - Analyst*

Okay, all right, I definitely appreciate the context around it. Thank you.

Operator

Ken Usdin, Jefferies.

Ken Usdin - *Jefferies & Company - Analyst*

Thanks. Hey, John, Tim. You know I just wanted to ask you a little bit more on the revenue side. I get the context for NII. We know kind of what is happening on the mortgage front. So can you just flesh out a little bit -- I know you talked about that other areas of the business are in fact growing.

But can you give us a thought about are there any other areas of the fees where you see potential acceleration or increased growth potential to help fill in for the kind of flattish NII and down mortgage trends that we have been seeing of late?

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Sure. I mean I would just go back to looking at the year-over-year improvement on that noninterest income slide that we walked through. What you saw and I wouldn't conclude that any one of these items is going to grow any faster or slower than the others, but what you have seen is a growth in our retail deposit business in terms of fees. That is reflective of the fact that we have had a growth of primary checking account customers which is very exciting to see.

You see year-over-year growth in terms of our wealth, brokerage and retirement business on the fee side both in terms of the brokerage activity but maybe even as importantly if not more importantly in terms of the account-based fees are continuing to grow. Investment banking has been -- has continued to see good growth. Credit card has been growing and so on and so forth. I mean I am leaving some business out but the fact of the matter is it is very broad-based.

So I wouldn't point to any one specific item. As John talked about, we are very excited about credit card but that is not the only area of the Company that is growing. So I think it is going to be a number of the businesses that will help fill in any sort of gap over the next few quarters.

Ken Usdin - *Jefferies & Company - Analyst*

And I guess just within that, Tim though, I am just wondering if there are any businesses newer businesses that are kind of hitting their post investment cycle that you have been kind of ramping up but that could show a better growth rate? I get all your points that you made but I am just wondering if there is -- are the things that we haven't seen as much out of that we could see more out of that are just kind of hitting their right pace of their ramp?

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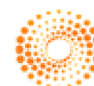

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Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Well, the last time I checked, John's expectations of all of my colleagues is that he wants to see growth from all of them.

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

You bet. They all have opportunity to grow.

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

So I wouldn't -- no one --

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

No one gets special treatment.

Tim Sloan - *Wells Fargo & Company - Senior VP and CFO*

Yes, no one is going to get any special treatment either positively or negatively. Again, there is nothing too new and exciting. It is all exciting.

Ken Usdin - *Jefferies & Company - Analyst*

Okay. And then last question just on loans again and this quarter you had the purchases but then there was a little bit core as well. I guess a broader question for you, John, there is the government stuff, there was Syria, there is the Fed, where do think customers are in terms of their desire to invest in the business especially on the commercial side?

Everyone has been talking about how lame H8 has been over the course of the last couple of months or so. What does it take to get to break through and what are your customers saying about their desires to take loans and take loans out and build their businesses?

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

There is I would say guarded optimism. Surely what happens in Washington is not helpful. I have said this for some time. I still think it is about confidence. Think of the great attributes and advantages this country has and we have talked about them before. The best rule of law even though government looks dysfunctional today, you know compared to a lot of other places, we wouldn't trade it. We have natural resources, we have an educated workforce. We have a strong financial services industry, the deepest, most transparent on the planet.

Housing is getting better. There are just so many advantages. That is why we are so bullish long-term. Clearly in the interim in the intermediate period as we go through budgets and at the national level, the federal level, and debt ceilings, that is not helpful. But I am always reminded of our larger shareholders' comments. You don't bet against the US and we have 97% of our revenues here and we couldn't be more excited about the long-term.

So I am optimistic. But recognize that we still have a ways to go.

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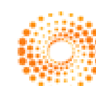

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Ken Usdin - *Jefferies & Company - Analyst*

Yes, okay, guys. Thanks very much.

John Stumpf - *Wells Fargo & Company - Chairman, President and CEO*

Thank you. And I would like to just take this opportunity to thank all of you on the phone and thank our team members. This is now within a day or two the five-year anniversary of our announcement of our merger with Wachovia. Five years later we couldn't be more excited about the future. I thank all of the 270,000 some team members who come to work every day and make our brand promises come true.

So thank you for those of you on the phone and again thanks to all of our teammates. Have a great day and we will see you next quarter.

Operator

Thank you. This concludes today's conference call. You may now disconnect.

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