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EDITED TRANSCRIPT

WFC - Q3 2014 Wells Fargo & Co Earnings Call

EVENT DATE/TIME: OCTOBER 14, 2014 / 2:00PM GMT

OVERVIEW:

Co. reported 3Q14 earnings of $5.7b and EPS of $1.02.

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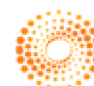

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PRESENTATION

Operator

Good morning. My name is Regina 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.

(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, Regina, and good morning everyone. Thank you for joining our call today where our Chairman and CEO, John Stumpf and our CFO, John Shrewsberry 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'd 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.

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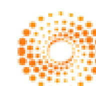

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Information about any non-GAAP financial measures referenced, including a reconciliation of those measures to GAAP measures, can also be found in our SEC filings in the earnings release and in the quarterly supplement available on our website. I will now turn the call over to our Chairman and CEO, John Stumpf.

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

Thank you, Jim, and good morning to everyone. Thank you for joining us today.

Our strong results in the third quarter reflect the benefit of our diversified business model, and were driven by our continued focus on meeting our customers' financial needs in the real economy. Let me highlight our growth during the third quarter compared with a year ago.

We generated earnings of $5.7 billion and earnings per share of $1.02, both up 3%. We grew net interest income and non interest income resulting in 4% revenue growth, and our efficiency ratio improved to 57.7%.

Pretax pre-provision profit increased 7%. We had strong broad-based loan growth, with our core loan portfolio up almost $51 billion, or 7%.

Our credit performance continued to be excellent, with a net charge-off ratio declining to only 32 basis points on average loans on an annualized basis. We had a $300 million reserve released this quarter, down from $900 million a year ago. In fact in my 32-plus years with the Company I've not seen credit better.

Our deposit franchise continued to generate strong customer and balance growth, with total deposits up $89 billion, or 9%. We grew primary consumer checking customers by 4.9%, and primary small business and business checking customers by 5.6%. This level of business performance has enabled us to maintain strong capital levels even while returning more capital to our shareholders through higher dividends and share repurchases.

We returned a net $3.6 billion to our shareholders in the third quarter, up 29% from a year ago. Before I turn it over to John Shrewsberry, our CFO, I'd like to take a minute or two and share some of my thoughts on the economy and the housing market.

While the path to a full economic recovery remains uneven, including the volatility we've seen recently, and the current low rate environment provides some challenges, I'm very optimistic about the future. The US economy added 248,000 jobs last month, the 48th straight monthly employment gain, tying the record for the longest consecutive string of job gains ever.

There are currently more job openings than at any time since early 2001. Household wealth is at an all-time high, and after years of paying down debt the consumer debt burden is at the lowest level in over 30 years. Consumers are now better positioned for increased spending and borrowing.

The US economy is also benefiting from the increase in domestic oil and gas production, which is at the highest level in almost 30 years and rising fast, up 14% over the past year. Fiscal conditions have improved at all levels of government, and government payrolls are once again on the rise for the first time this decade.

Historically most recoveries in this country have been led by housing. While the residential real estate market has definitely gotten better, which is good for the US economy, it has not fully recovered. I believe there are several factors holding the housing market back from a complete recovery.

First, household formation is slower than it has been in the past. Second, national student debt balances have increased, leaving less money available to pay for a mortgage.

Third, in some markets inventory is not available, especially in coastal areas. Finally, credit is still not attainable for all qualified borrowers due in part to the credit overlays that many mortgage lenders, including Wells Fargo, use to help reduce repurchase risk.

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Despite these challenges, our recent survey we conducted showed that homeownership is still an aspiration for 95% of respondents. Home prices are up 7% over the past year, and I believe the housing market will continue its recovery driven by pent-up demand and affordability that, even with the increase in home prices, is still far better than the historical average. These trends are all positive for our country, our customers, our shareholders, as well as Wells Fargo, and we continue our service to the real economy.

Now John Shrewsberry, CFO, will provide more details on our third quarter results. John?

John Shrewsberry - *Wells Fargo & Company - 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 answer your questions.

Wells Fargo had another strong quarter, earning $5.7 billion and growing EPS to $1.02. Generating this level of consistent earnings while economic growth has been uneven and interest rates have remained low, demonstrates the benefit of our diversified business model. We grew both revenue and pretax pre-provision profit from second quarter, and have grown pretax pre-provision profit for four consecutive quarters.

Our results also reflected solid loan and deposit growth that was diversified across our businesses. Our capital levels remain strong even as we returned $3.6 billion to shareholders through common stock dividends and net share repurchases.

As John highlighted and as you can see on page 3, we had strong year-over-year growth across a number of important business drivers. We grew net interest income amidst a persistent low rate environment with strong earning asset growth. And our ability to grow noninterest income by $542 million, or 6% from a year ago even as mortgage originations declined by 40%, demonstrates the benefit of our diversified sources of fee income.

Page 4 highlights our revenue diversification and the balance between spread and fee income. We have over 90 businesses, and in any given quarter some will drive more revenue growth than others. For example, the strength in the markets over the past few years has benefited our market sensitive businesses. Market sensitive revenue was 5% of our total revenue in the third quarter, up from 4% in the second quarter but lower than the 7% contribution in the first quarter.

Let me highlight some key drivers of our third quarter results from the balance sheet and income statement, perspective starting on page 5. Our balance sheet has never been stronger. We've increased our liquidity position, improved the quality of our assets, and hold more capital.

Furthermore while we're positioned to benefit from rising rates, we're confident in our ability to continue to deliver strong results if rates remain low. Investment securities increased $9.9 billion from the second quarter, with $25 billion of purchases partially offset by runoff.

We issued $16.3 billion of liquidity related long-term debt as well as some additional liquidity related short-term funding during the third quarter. We are now solidly over 100% for the LCR, but keep in mind that the LCR is a minimum requirement. We have a significant about cash available to deploy, both to meet our customers' financial needs and to opportunistically purchase high-quality assets.

Turning to the income statement on page 6, revenue grew $147 million during the quarter, with growth in net interest income and stable non interest income. I will highlight the drivers of revenue growth in more detail later, but let me take a moment now to highlight the growth in market sensitive revenue which increased $231 million from second quarter.

Net gains from debt securities were up $182 million as we sold securities, primarily non-agency MBS, as part of our ongoing balance sheet management. Net gains from equity investments were up $263 million from second quarter, reflecting strong results in our venture capital businesses, but were down $135 million from first quarter. We've been in these core businesses for decades and results are naturally cyclical and driven by market conditions.

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Non-controlling interest reduces the impact of the equity gains to our net income and increased $166 million from second quarter. The increase in market sensitive revenue from debt and equity gains was partially offset by $214 million of lower trading gains.

The decline in trading reflected $163 million of lower deferred compensation plan investment results, which was offset in employee benefits expense and lower customer accommodation trading. Our results this quarter also reflected $227 million of lower income tax expense from the second quarter, reflecting tax benefits primarily due to charitable donations of appreciated securities.

As shown on page 7 we continue to have strong broad-based loan growth in the third quarter, our 13th consecutive quarter of year-over-year growth. Our core portfolio grew by $50.8 billion, or 7% from a year ago, and was up $12.2 billion, or 6% annualized from the second quarter.

Our liquidating portfolio was down $21 billion from a year ago, and is now only 8% of our total loans, down from 10% a year ago. Average loan yields have remained relatively stable over the past year and were up one basis point from second quarter.

On page 8 we highlight a number of our loan portfolios that had strong year-over-year growth. C&I loans were up $23.8 billion, or 13% from a year ago, with diversified growth that I will highlight on the next page.

We are the largest commercial real estate lender in the country, and we're benefiting from the growth in new construction. Our commercial real estate portfolio grew $3.1 billion from a year ago.

Foreign loans grew $700 million, or 2% from a year ago, reflecting growth in trade finance and the UK commercial real estate acquisition we completed in the third quarter of last year. Core 1-4 family first mortgage loans grew $16.4 billion, or 9% from a year ago, with growth in high-quality nonconforming mortgages, primarily jumbo loans. The credit quality of our core mortgage portfolio was outstanding, with only seven basis points of loss in the third quarter.

We're the number one auto lender in the country. Auto loans were up $5.5 billion, or 11% from last year, reflecting strong originations. Credit card balances were up $2.8 billion, or 11% from a year ago, benefiting from continued account growth.

Slide 9 demonstrates the diversity of businesses that contributed to the growth in C&I loans. Let me highlight just a few. Asset-backed finance increased $5.3 billion, with increased utilization and new originations across all asset classes, corporate banking grew $4.4 billion driven by new customer growth and higher utilization rates from existing customers, and commercial banking, serving our middle market customers, grew $3.8 billion with diversified growth across geographies and industries.

As you can see on page 10 average deposits totaled $1.1 trillion in the third quarter, up $25.6 billion from second quarter with growth in both commercial and consumer balances. Due to our outstanding deposit franchise, we've been able to grow deposits over 5% on a year-over-year basis every quarter since the third quarter of 2011.

Our primary consumer checking customers were up 4.9% from a year ago, and we grew primary small business and business banking checking customers by 5.6%. Our average deposit costs were 10 basis points in the third quarter, consistent with second quarter and two basis points lower than a year ago.

Our NIM declined nine basis points from the second quarter. Four basis points of this decline was from strong customer-driven deposit growth. Because excess deposits remain invested in cash equivalents in the current environment, deposit growth put pressure on the NIM but was basically neutral to net interest income. Liquidity-related actions, both term deposits and long-term debt, also diluted the margin by four basis points.

The impact of all other balance sheet growth and repricing was again minimal this quarter, reducing the margin by one basis point. Despite the decline in the net interest margin, we continued to grow net interest income on a tax equivalent basis, up $147 million from the second quarter as a result to the growth in earning assets, higher PCI accretion, and one additional day in the quarter.

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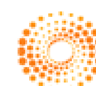

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Our balance sheet is asset sensitive so we're well-positioned to benefit from higher rates, but we're not relying on rates to increase in order to generate growth. As we have demonstrated in this historically low rate environment, we believe we can grow net interest income over time even if rates remain low.

While total non interest income was unchanged from the second quarter, we had growth across a number of business drivers including deposit service charges, retail brokerage, trust and investment management, card fees, commercial real estate brokerage, and the market sensitive revenue that I highlighted earlier. This growth was offset by lower investment banking fees, which declined 24% from second quarter, consistent with the decline in the market fee pools.

Insurance was down $65 million reflecting the impact from the sale of 40 offices last quarter, and also seasonality in the crop insurance business. Other noninterest income was down $95 million from second quarter, which had included the gain from the sale of the insurance offices.

Mortgage banking revenue declined $90 million from second quarter. Mortgage origination gains were up $266 million from last quarter, primarily due to gain on sale margins increasing to 182 basis points and a higher mortgage repurchase reserve release.

The majority of our originations were tied to purchase activity: 70% of originations in the third quarter, up from 59% a year ago. We currently expect originations to be down in the fourth quarter reflecting normal seasonality in a purchase market.

Servicing income declined $356 million from second quarter. Approximately one-half of this decline was from higher unreimbursed direct servicing costs, which reduced gross servicing fees. The rest of the decline was driven by lower net mortgage servicing rights results reflecting lower carry and hedging gains. Our gain on sale margin is expected to remain within the range we've seen over the past four quarters.

As shown on page 13, expenses were up $54 million from second quarter, while our efficiency ratio improved to 57.7%. We've consistently worked at improving our efficiency which has enabled us to maintain a high level of customer service while we've continued to appropriately invest in our businesses.

We've been significantly increasing our investment in our already strong risk management practices. Our quarterly expenses related to risk and compliance have increased by approximately $100 million over the past year, and we've added over 1,500 team members in this area.

Additionally, operating losses in the third quarter were $417 million, primarily reflecting litigation accruals. We expect our efficiency ratio will remain within our target range of 55% to 59% in the fourth quarter.

Turning to our business segments starting on page 14, community banking earned $3.5 billion in the third quarter, up 4% from a year ago and up 1% from second quarter. By consistently providing outstanding customer service with the convenience of the most extensive store network in the country, and award-winning mobile and online banking, we've had strong net household growth.

In fact August was our strongest month for net retail bank household growth in over three years. These additional households will help drive our future growth as we focus on offering customers the products and services they need to help them succeed financially.

Our results continue to benefit from growth in our debit and credit card businesses. Debit card purchase volume was up 8% from a year ago, driven by primary checking customer growth and increased usage from existing customers.

Credit card purchase volume grew 16% from a year ago. We've continued to increase our credit card penetration rate, growing from 36% a year ago to 39.7%, and our new customers are spending more and transacting at a greater frequency.

By consistently focusing on meeting the financial needs of our small business customers, Wells Fargo has been America's number one lender to small businesses for 12 consecutive years. We do business with 1 in 10 small businesses and grew primary business checking customers by 5.6% from a year ago.

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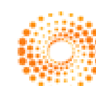

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Wholesale banking earned $1.9 billion in the third quarter, down 3% from a year ago and 2% from second quarter. While earnings were down there were a number of underlying trends that demonstrated business momentum.

Loan growth remained strong, up $28.8 billion or 10% from a year ago, with growth across many businesses as I highlighted earlier. Credit quality remained outstanding, with seven consecutive quarters of net recoveries.

Deposit growth was also strong, with average core deposits up $43.1 billion, or 18% from a year ago, with diversified growth across wholesale businesses. Wholesale banking cross-sell increased to 7.2 products per relationship, up from 7.0 a year ago, and treasury management grew revenue by 9% from a year ago reflecting new product sales and repricing.

Wealth, brokerage, and retirement earned $550 million in the third quarter, up 22% from a year ago and 1% from second quarter. Year-over-year results were driven by strong revenue growth, up 7% with increases in both net interest income and non interest income.

Asset-based fees increased 18% from a year ago, reflecting increased market valuation and net flows. WBR results continued to benefit from strong loan growth, up 13% from a year ago, driven by growth in high-quality nonconforming mortgage loans and security-based lending. This was WBR's fifth consecutive quarter of double-digit year-over-year loan growth.

Turning to page 17, credit quality continued to improve with charge-offs at historic lows. Our net charge-off ratio declined to just 32 basis points of average loans. Consumer losses were 62 basis points and commercial loans had a net recovery of two basis points.

The improvement in our asset quality reflected the benefit of the improving economy and our continued focus on originating high-quality loans. For example approximately 57% of the consumer first mortgage portfolio was originated after 2008 when new underwriting standards were implemented.

Nonperforming assets have declined for eight consecutive quarters and were down $406 million from second quarter. Nonaccrual loans declined $607 million, while foreclosed assets increased $201 million driven by higher government insured or guaranteed properties primarily in judicial states.

The reserve release was $300 million in the third quarter, down $200 million from the second quarter and down $600 million from a year ago. We continue to expect future reserve releases absent a significant deterioration in the economy, but expect a lower level of future releases as the rate of credit improvement slows and the loan portfolio continues to grow.

Our capital levels remain strong, with our estimated Common Equity Tier 1 ratio under Basel III using the advanced approach fully phased in at 10.46% in the third quarter. While the amount of RWA we determined under the standardized and advanced approaches has been converging, our ratio, this quarter was determined under the advanced approach because RWA under the advanced approach was higher.

As shown on slide 19 our strong capital levels have allowed us to return more capital to our shareholders. We returned $3.6 billion to shareholders in the third quarter and our net payout ratio was 66% in the third quarter, within our target range of 55% to 75%.

Our common shares outstanding declined by 34.9 million shares in the quarter, the largest decline in over six years. We purchased 48.7 million common shares and entered into a $1 billion forward repurchase contract that is expected to settle in the fourth quarter for approximately 19.8 million shares. We've reduced our common shares outstanding by 58.7 million shares from a year ago and expect further reductions in the fourth quarter.

In summary, our results in the third quarter reflect the benefit of our diversified business model which has enabled us to produce strong and consistent result over a variety of economic and interest rate environments. Our results were driven by strong loan and deposit growth and we grew revenue and pretax pre-provision profits. We increased our capital levels and returned more capital to shareholders.

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We continued to execute against all of the targets we established at investor day, operating within our stated ranges for ROA, ROE, efficiency ratio, and capital return. Our balance sheet has never been stronger, reflecting higher capital and liquidity levels and improved asset quality.

While we're well positioned to benefit from increased economic activity and higher rates, as we've demonstrated by our consistent financial performance in a variety of environments we're not dependent on the economy improving or rates rising to generate strong results. I'm optimistic about our future opportunities as we continue to focus on serving customers and growing relationships. I will now open up the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Erika Najarian, Bank of America Merrill Lynch.

Erika Najarian - *BofA Merrill Lynch - Analyst*

My first question is on the net interest income and interest margin. We hear you loud and clear in terms of the message with regards to the NII trajectory. As we think about the net interest margin going forward, given the stability of your loan yields over the past three quarters and your funding costs also stable over the past three quarters, is really sort of the incremental hit from on the margin in this rate environment really going to come from deposit flow, given that you did issue $16 billion in debt in the quarter for liquidity purposes already?

John Shrewsberry - *Wells Fargo & Company - CFO*

That's probably true. It also has a lot to do with what we choose to do with the excess deposits, or frankly excess funding as it sits on our balance sheet.

We're making choices between leaving that liquidity and cash equivalents sitting at the Fed, or deploying it in HQLA or loans for that matter if there's enough demand for it, or other assets with yield. And we're making those determinations based on how we feel about entry points in the market and what we think it does to our capital sensitivity in the event of a backup subsequently. And it's those types of choices that are going to drive us to increase the all-in yield on the left side of the balance sheet, whether the funding is coming from deposits or from term funding.

Erika Najarian - *BofA Merrill Lynch - Analyst*

Got it. And my second question is given Governor [Trujillo's] speech early in September there are clearly two looming issues for the industry that may not be as relevant to Wells; higher CET1 buffers relative to your short-term funding base and also the interpretation of NSFR final rules from Basel.

Do you see advantage given where you are on both the business mix and capital spectrum to perhaps take advantage of players that need to have more stringent buffers mainly in terms of continuing to grow market share in wholesale banking?

John Shrewsberry - *Wells Fargo & Company - CFO*

It's possible. In both of those measures we think we end up at the low end of the risk-adjusted spectrum in terms of the bad outcomes that could occur. And that might give us an opportunity to do a little bit more for our customers if they need it and if the risk-adjusted returns are appropriate.

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I think we're all waiting to see what happens to the returns in those businesses based on the actions taken by people who are constrained by both of those -- who are more constrained by both of those new ratios, what it means for pricing, what it means for customer behavior, et cetera. But we're happy with the approach that we've taken and we're here to serve the customers that we have. But you're right, we're probably at the more advantaged end of the spectrum with respect to both of those measures.

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

Erika, to add to that, nothing that's happening to date and nothing that we see in the horizon will get in our way or impede our way to help customers and to serve them. And I think that puts us in a very good position.

Erika Najarian - *BofA Merrill Lynch - Analyst*

Great. I'll step off. Thank you for taking my questions.

Operator

Ken Usdin, Jefferies.

Ken Usdin - *Jefferies & Company - Analyst*

John, I appreciated your color on reminding us about that minority interest back out on some of the trading related activities, but just wonder if you can help us understand from those portfolios that still generate a healthy amount of fee income, what's left in the till if you think across net gains from trading activities, debt securities, and net gains from equity investments, a question that comes up frequently with the investor community?

John Shrewsberry - *Wells Fargo & Company - CFO*

Sure. Well there are a variety of different businesses that contribute to those results. So the big drivers would be our venture activity that we have in Norwest Venture Partners, it would be the activity at investment banking where we've got customer combination trading, it's the impact of the hedging that we do for our deferred comp program, and then at least in this quarter and probably in future quarters some amount of balance sheet management on the debt portfolio.

And they all contribute. So it's a diversified set of investments, different drivers in each case. Some of them are more sensitive to where we are in the rate cycle, some of them are more sensitive to where we are in the equity evaluation cycle.

But they've contributed more or less call it 4% or 5% to 7% or 8% over a number of quarters. And there isn't one thing that I would hang your hat on. I think of them as being core to our business results in different ways but over the long-term.

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

And John mentioned that we've been in those business decades, actually, a lot of decades, 50 years. So at least with respect to venture and equity partners. So these are long-term businesses for us.

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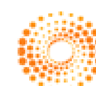

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Ken Usdin - *Jefferies & Company - Analyst*

Yes. I think that's the point, which is that you don't see any cliff coming as far as just the ability to continue to realize either gains or benefit from those activities and there's some countercyclical pieces within it as well?

John Shrewsberry - *Wells Fargo & Company - CFO*

Well they are a part of what's a broader set of diversified noninterest income levers. Right? So whether they're contributing 4% or 7% as has been in recent history and how they work in sync with all of the other things that are going on in terms of customer-facing fee generating activity, that is the diversified model.

And as I mentioned some of them are more interest rate sensitive and we're in a low rate environment so there's higher unrealized gains. Some of them are levered to equity markets and exit strategies for portfolio investments. But I would think of them as part of the broader mix of diversified non interest income sources.

Ken Usdin - *Jefferies & Company - Analyst*

Understood. My next question just on the expense side, understanding that you're going to still be living in this 55%, 59% range, we did see flattish fee side, a little bit of NII growth but then a little bit of higher expense as well. And I'm just wondering as you think about that level of expenses and continue to manage forward in what's still looking to be a pretty tough rate environment and these ongoing challenges from NIM pressure, any adjustments that you're thinking about or contemplating as far as the need to continue to manage that expense base even tighter than you've already been and where would opportunities be if so?

John Shrewsberry - *Wells Fargo & Company - CFO*

Well, we're always trying to be as efficient as we can be to make sure that we have the resources available to deliver what customers need. And of course, as we've mentioned, we're at a time when the focus in the investment and the risk management area is very high.

So we're working constantly to try and be as efficient as we can in areas where it won't impact customers and where it doesn't hinder us in terms of our risk management activity. Some examples -- which we've talked about a little bit before, are really in other areas.

For example the space that we consume, the way we think about our purchasing, the technology that we use, et cetera. We can always be a little bit more efficient and it's a constant job here to try and make the most of that.

Ken Usdin - *Jefferies & Company - Analyst*

But you guys haven't felt that incremental compliance burden increasing to a level where you feel the need to pull the continuous improvement cord?

John Shrewsberry - *Wells Fargo & Company - CFO*

I think we are pulling the continuous improvement cord, and in part because we are spending more in compliance and risk management like we're spending more in the customer experience and our customer facing activity.

But in order to afford both of those things we have to be really vigilant around the business as usual expenses. And that's continuous improvement.

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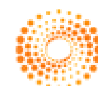

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Ken Usdin - *Jefferies & Company - Analyst*

Understood. Thanks, guys.

Operator

John McDonald, Sanford Bernstein.

John McDonald - *Sanford C. Bernstein & Company, Inc. - Analyst*

John, question on the mortgage revenues. On the servicing side, the gross servicing revenues are down about $200 million. You mentioned the unreimbursed servicing costs.

Does that feel one time-ish, the pop up in those? It seems like those were coming down for a while and then they've kind of reversed this quarter. Does that just bounce around or any color you can give on that?

John Shrewsberry - *Wells Fargo & Company - CFO*

It had come down. It bounced back up. Our sense is the trajectory is going to be reduced over the longer arc of the mortgage servicing cycle.

It's going to be hard to forecast it quarter to quarter. So I wouldn't expect it as low as it's been for the last couple of quarters. This may be a more average quarter.

And over some period of time as the level of nonperforming loans, foreclosed assets, et cetera begins to abate, then you'd expect that to ratchet itself down. But this is probably a relatively normal level.

John McDonald - *Sanford C. Bernstein & Company, Inc. - Analyst*

Okay. And in terms of capital, on the advanced approach you mentioned the RWA ratio to total assets, seems like it got a little better on better credit quality and data refinements. Any more color on that?

Is that something that also just kind of bounces around quarter to quarter, or will you still have some model improvements you can do from here?

John Shrewsberry - *Wells Fargo & Company - CFO*

There's always more that we can do with improved and more focus on data and modeling. But you could come to a point where just because of the nature of our assets, loans, and securities that attract the risk weights that they do that were constrained on the standardized side.

And we mentioned that they're converging, they're very close together right now in terms of the RWA calculation. But the takeaway is that our capital level did increase a little bit in the quarter under the advanced approach. And in spite of that we are still earning north of 13% as an ROA which we're very proud of.

John McDonald - *Sanford C. Bernstein & Company, Inc. - Analyst*

Is that stuff that just rolled off in terms of the better credit quality and older assets at roll off? Is that why it's getting better?

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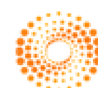

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John Shrewsberry - *Wells Fargo & Company - CFO*

It's a combination of roll off and hard work around data and modeling and continuous refinement.

John McDonald - *Sanford C. Bernstein & Company, Inc. - Analyst*

And with that ratio at 10.46% is this the kind of level that you want to run at on Tier 1 Common?

John Shrewsberry - *Wells Fargo & Company - CFO*

Tough to say. As we said at investor day, this is probably in excess of the buffer that we might have imagined when we originally vectored in toward our regulatory capital levels. And it's really as a function of CCAR and some of the assumptions that are made in the CCAR process as it's applied.

So as we go from CCAR to CCAR and we present our starting capital point, we present our expected capital generation and our capital actions and what they yield in terms of capital levels, we're trying to manage that as appropriately as we can to get the right amount of return back to shareholders, which we believe that we've done at a 66% payout ratio. But it's an art form because of all of the inputs and the other actors in the process.

John McDonald - *Sanford C. Bernstein & Company, Inc. - Analyst*

Okay. Just a quick follow-up to Erika's question on the liquidity building, it sounds like you're now above the minimums under your calculations but you might decide to build some buffer going forward? So we might expect a little bit more on that front from you?

John Shrewsberry - *Wells Fargo & Company - CFO*

I think we're at a period where big banks are trying to figure out what the right buffer is as a result of our own internal stress testing and the expectations on GSIBs in particular. So we're in that phase.

We feel great about where we are right now. Nobody's mentioned TLAC yet, but there's some work to do to figure out where we're going on that front and what the interplay is between liquidity we've already built and what future requirements are going to be.

So I think the heavy lifting is probably behind us for the time being. But I wouldn't say that we're stopped.

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

John, one of the strengths of the Company of course is our continued ability to grow high-quality low-cost core deposits, which is critical in all of this.

John McDonald - *Sanford C. Bernstein & Company, Inc. - Analyst*

Okay. Great. Thanks, guys.

Operator

Matt O'Connor, Deutsche Bank.

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Matt O'Connor - *Deutsche Bank - Analyst*

Just following up on some of the rate related questions earlier. This is not a Wells specific issue, but you are the first of the super-regional banks to come out. If the 10-year does stay right now it's sitting at 2 to 2.2 my screen shows. Is this meaningful as we think about both the NIM and then could there be some opportunities on refis if we stay down here for a little bit?

John Shrewsberry - *Wells Fargo & Company - CFO*

I don't know if that gets us back into in the money refi scenario. We're probably still some distance away from that. I think that it is meaningful.

And it's more about the expectation of how long rates stay low because that will influence the decision to redeploy cash equivalents into assets with duration. And if you imagine that term rates are going to backup in the foreseeable future, just from a capital preservation perspective, you're probably less likely to redeploy out of cash and into higher earning assets.

And so that's a calculus and a judgment that we make here relatively regularly. And it feels frankly like the market is now discounting the idea that there's any sort of meaningful move up in rates in the 2015 timeframe.

So if we're going to be lower for longer I think it means a lot for banks like ours. I think it means you have to be that much more vigilant on expenses.

I think it means you have to think about how your assets are deployed and how much cash you think you really need to carry. And we'll be conducting that balance between the risk to capital if rates back up and the risk to earnings if rates stay low and we're underinvested.

Matt O'Connor - *Deutsche Bank - Analyst*

Okay. And a somewhat related theme, spread pressure in the commercial lending business. We saw your yields down about 10 bps quarter to quarter.

And there's two phenomenon going on: one, the two loans that you're adding are at lower spreads generally speaking for the industry, but then maybe some loans that you did a few years ago are coming up for renewal and there's some depricing there. Maybe just talk about like which of those two is a bigger driver at this point as we think about the dynamics in that book?

John Shrewsberry - *Wells Fargo & Company - CFO*

I don't know which of those two drove the 10 basis point drop in this quarter, was a greater contributor to that drop in this quarter. It is a competitive environment out there.

We're happy to be able to have a full toolkit when we square off with our commercial customers because we're in a position to earn more of their business and to generate more of a return on the risk capital that's associated with the loan that we're going to make. We contrast ourselves with some other firms that we compete with who are getting paid primarily from the loan yield itself and not from the broader relationships. So we like our competitive stance in that range.

We have backed away from the table in some situations. Not so much on price but where we see credit or terms getting a little bit frothy. Because that's another lever that people pull in order to compete for these types of assets.

Matt O'Connor - *Deutsche Bank - Analyst*

Okay. Any signs of stabilization in that spread or just still under pressure?

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John Shrewsberry - *Wells Fargo & Company - CFO*

I think at some level it's got to be stabilized by the marginal player who's only getting a return from the asset itself, because there are levels below which they can't go because they're not going to generate a sufficient return on capital and they have no other cards to play in terms of generating relationship returns by providing product or service. And some of the smaller banks who participate in those markets would be examples of that.

Matt O'Connor - *Deutsche Bank - Analyst*

Okay. Thank you very much.

Operator

Joe Morford, RBC Capital Markets.

Joe Morford - *RBC Capital Markets - Analyst*

Looking at your new C&I slide on page 9, how much of your growth do you think is coming from market share gains as opposed to increased demand? And along those lines, last quarter you talked about seeing increased confidence among business owners. Is that still the case generally?

John Shrewsberry - *Wells Fargo & Company - CFO*

Well, speaking for market share gains, it depends on which column in that slide you're talking about. I think we have leading market share and our increasing share in some of those businesses.

In some of them they might include examples of businesses where we've chosen to slow down a little bit if the competitions got racy. So it's a combination of things, of both market share growth and of the size of the market increasing.

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

So Joe, if you look at more than just commercial customers broadly, there's actually been fairly good activity. Now there's been volatility lately in the market, but if you look at auto sales, and we participate in that business of course, August was the biggest sales month maybe in I don't know how many years.

Consumers -- our credit card activities are increasing. We're doing -- we had growth in our mortgage portfolio. So it's really broad based.

And when I'm out calling customers, corporate customers or middle-market customers, there seems to be at least more discussion about activity and the marketplace is not totally ubiquitous. There's places that are stronger in energy, for example, and those places are really doing well.

Ag is having a pretty good year of technology. So it depends on what part of the economy it is, but clearly I see and I hear more optimism than I heard a year ago for example.

Joe Morford - *RBC Capital Markets - Analyst*

Okay. That's helpful color. I guess lastly, just can you share with us any thoughts on Apple Pay and how readily you see it being adopted and what sort of impact it may have on the broader payments business?

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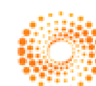

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John Stumpf - *Wells Fargo & Company - Chairman & CEO*

As you know we are participating in that and there are I think 7 million to 8 million terminals or merchants out in the marketplace and only a few hundred thousand have the NFC chip in them, and that you need that, the near field communications chip. So this will take, there will be an adoption, but we are pleased and excited on behalf of our customers to participate in that and it will evolve over time.

Joe Morford - *RBC Capital Markets - Analyst*

Okay. Thanks so much.

Operator

Betsy Graseck, Morgan Stanley.

Betsy Graseck - *Morgan Stanley - Analyst*

Couple questions. One was on the TLAC; you did mention that obviously something that you are in the review of.

I think the expectation is that in the US at least we'll have to have senior through common 20% to 25% of risk-weighted assets. And if you're on the high end of that range can you give us a sense of what you might do to minimize any impact?

John Shrewsberry - *Wells Fargo & Company - CFO*

There's still a lot to know. We are seeing similar headline numbers, maybe a little bit lower, 19.5% to 23.5%. And this is all research that's been published based on information that's in the market that hasn't been officially sanctioned. So who knows.

And over what period of time it has to get phased in is unknown. What counts, what doesn't count among your existing capital structure is unknown. Which entities that you issue out of and whether there are going to be caps on those types of things. There are a handful of questions that are unknown.

Our sense is that we're going to end up at the lower end of the range. We calculate that we probably have about 18% today that qualifies. And if we end up having the issue we'll probably be issuing a form of senior unsecured mostly HoldCo debt and it will happen over some period of time.

And it will end up being an earnings drag because we'll issue that debt and pay a corporate spread and we'll take that cash and we'll reinvest it in some lower yielding either HQLA or equivalent. And it will become a new part of the cost structure and capital structure of the bank. So my short answer is there's still a lot to know but we'll deal with it when it comes and it doesn't seem insurmountable.

Betsy Graseck - *Morgan Stanley - Analyst*

Right. And there's no rush to get it done quickly, right? I mean I think you have until January 1, 2019?

John Shrewsberry - *Wells Fargo & Company - CFO*

Don't know yet but I've heard similarly that it will -- there will be a longish phase-in period.

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Betsy Graseck - *Morgan Stanley - Analyst*

Okay. Then two other quick questions. One's on the auto business.

You highlighted that you are the nation's largest bank lender of auto and I wanted to understand how you're thinking about that given the risk retention rules that are out there. Clearly it's just a proposal so it's not fully baked yet, but there's this outline that you'd have to at some in the future hold 5% of any securitizations that you do in auto. Does that matter to you?

John Shrewsberry - *Wells Fargo & Company - CFO*

It doesn't matter to us in our current business model because we don't securitize our auto loans. We own 100% of the risk on every one of them.

And frankly, in the auto loan securitization business for those who do use securitization, that's the general business model which is that people own the bottom of the capital structure and retain their own risk. Which is different than mortgage, but that's how auto finance companies generally work. So I don't think that's going to have a real impact on Wells Fargo.

Betsy Graseck - *Morgan Stanley - Analyst*

Right. I was thinking about it from the perspective of the competitive dynamic if that were to come into play.

John Shrewsberry - *Wells Fargo & Company - CFO*

Well, to the extent that it makes it harder for other people to compete, then that could be good for Wells Fargo.

Betsy Graseck - *Morgan Stanley - Analyst*

Right. And then lastly just on mortgage, John you mentioned at the beginning a lot of the headwinds that are sitting in front of us in mortgage, one of the questions we get often is what about the credit box?

And is there an opportunity here as home prices improve and as consumer balance sheets improve that there is some loosening up of standards on the credit box? Maybe you could speak to that?

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

Well, I would say I don't know that it's value so much. I think the bigger part of the credit box right now to open up would be a better understanding of repurchase risk.

And we're doing a lot of work with folks in the government about that issue. I think that will influence it more than value of homes. Although values are important, but because credit overlays today are not related to values, they're related to in many cases repurchase risk.

Betsy Graseck - *Morgan Stanley - Analyst*

Right. And apparently the FHFA is working on crystallizing that more clearly for people. I assume that's what you're talking about?

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John Stumpf - *Wells Fargo & Company - Chairman & CEO*

Exactly. There has to be -- I think it's helpful to America, to American homeowners, prospective homeowners, to the agencies and to originators that there is an understanding of when risk transfers.

Now if the originator does a poor job and doesn't underwrite properly, surely they should be held accountable. But if a default happens later and it's due to a technical issue unrelated to the payment ability of the customer that could have been known, then risk should transfer.

And whatever that period of time is, I think that would be helpful. And there are a number of Americans who want to buy a home, can afford to buy a home, who simply can't get credit.

Betsy Graseck - *Morgan Stanley - Analyst*

So do you think you if you had a certain amount of clarity like T plus three years risk transfers, assuming we did a good job as an underwriter, would that have a material impact on how you are putting on your credit overlays?

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

Well, it would surely change -- it would surely change the way we look at overlays. And I'm not saying it is going to change the market, but those -- every home that gets sold that satisfies a customer's need not only fulfills a dream, but $1 spent on a home multiplies through the economy like no other thing that we do.

I mean, a loan to a small business, we love it, do a large [humbry], but a loan to a home owner is magical in that respect. So every time we can serve another customer good things happen.

Betsy Graseck - *Morgan Stanley - Analyst*

Okay. Thanks.

Operator

Mike Mayo, CLSA.

Mike Mayo - *CLSA - Analyst*

John, do you still dream about checking accounts? And the reason I asked -- or do your dream about them as much?

Because with the ten-year where it is, do you still go all gung ho, get as much deposits as you can get for the long-term value? Or do you somehow need to balance that with the need for shorter-term profitability?

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

In fact, Mike, I'm going to bed earlier these days so I can even dream longer about them. I still just love checking and here's why.

It's a good question, it's a serious question. First of all, when an account comes -- like we grew net primary checking accounts 4.9% in the consumer side and 5.6% in the business side, they don't come alone. They come with a relationship.

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And the increases you're seeing in debit card activity and credit card, we almost have 40% of our customers now credit carry our credit card. That was 22% in 2009. And they do other things with us.

And secondly, you know how expensive it is to build liquidity for the LCR and other things. Deposits are hugely important in that. So no, the love affair has not ended.

And we won't be in this environment forever. But if we can serve customers for a long time that feels like forever and we'd love that.

Mike Mayo - *CLSA - Analyst*

Well, you mentioned that you are trying to mitigate the impact somewhat with expenses. And you're actually increasing your number of branches, but I guess you're reducing the square feet? Can you give us some sense of what sort of square foot reduction you're looking for in your bank branches say, over 5 or even 10 years?

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

Let me give you a high-level and then I'll try to answer your question specifically. If you go back five, six years we had about 116 million or 117 million square feet, and that was not only for our stores but for all of our people.

Today that's in the 93 million, 94 million square foot range. We still think we have quite a ways to go.

We have 6,200 banking stores and we have another couple thousand other advisor and mortgage stores, but let's just talk about the banking stores for a second. We try to refresh 500, 600 of those every year.

Plus we are -- we're a pretty steady state right now. We're in that 6,200. We will replace two with a new one and relocate it.

When we do refresh them we will reduce in many cases square footage or increase the density in the stores. I think you and I have actually had discussions about which is now three stores in the Washington area where these are I wouldn't say stores of the future in terms of replacing all of our 6,200 stores, but they fit into the model where they are 1,000 to 1,200 square feet.

During the daytime it's a full functioning store. At nighttime, the walls fold in. It's an ATM vestibule 7/24.

So all of that matters in the mix. And the reason we are doing that is that we have found stores are still critically important to the overall distribution community and convenience we provide customers. So we will continue to march in this way.

Doesn't mean we're going to replace every store. Sometimes we are even adding space because it's the hub and spoke.

So it's really a collage of store designs and activities that all fit into this. But you're right. With the idea of reducing overhead, reducing space, we're providing the convenience customers want.

Mike Mayo - *CLSA - Analyst*

So over the last five years you reduced square feet by about one-fifth. Over the next five years how much do you think you can reduce it by?

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

I don't know that we have an absolute goal, but it will continue to go down. There are lots of opportunities. And that's going to be critical.

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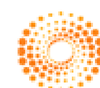

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Mike Mayo - *CLSA - Analyst*

And then just one separate question. You had a comment in the American Banker I think it was and you alluded to it today. That it's tougher for some individuals to get a mortgage loan from Wells Fargo because of the risk of repurchase. And so is this simply -- would you describe this as an unintended consequence of some of the regulatory actions over the past few years?

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

I would say it's unintended consequence of activity. I don't know if it's so much on the regulation side, but it sure is -- it gives us cause to pause and other originators.

We're not unique in this. When you have repurchase requests that go back 8 and 10 years and in many cases for things unrelated to the credit quality or the credit payment ability of the borrower at the time of the borrowing, we put overlays on.

Now, we've started to reduce a little bit of those as we start to understand more about repurchase. But it's just -- it is an unintended consequence. I don't know if it's so much regulation as it is the activities of the GSEs.

Mike Mayo - *CLSA - Analyst*

So is this a permanent dampening for the mortgage market?

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

No. I actually think that we're going to -- I'm hopeful we're going to figure this out. We're working with actually community groups who are saying to us, this isn't working for us.

And we're working with other originators. We're working with the Mortgage Bankers Association, we're working with the head of the FHFA.

We're working with the GSEs. We're working with government agencies, the Fed and others because we need to figure this out.

Mike Mayo - *CLSA - Analyst*

All right. Thanks a lot.

Operator

Bill Carcache, Nomura Securities.

Bill Carcache - *Nomura Securities - Analyst*

You guys mentioned in response to an earlier question that we're not going to be in this environment forever. Following up on that thought, I was hoping you could share your deposit growth outlook just from a high-level with QE now coming to an end?

Would you expect to see a slowdown in overall industry deposit growth and the corresponding excess liquidity building? And if so does that mean that some of the excess liquidity-driven NIM compression that we've been seeing should abate?

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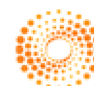

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John Stumpf - *Wells Fargo & Company - Chairman & CEO*

Let me take a shot at that. Clearly money supply and what's happening there has an influence, but I can tell you our household growth, I think John mentioned in his numbers in August, was the strongest we've seen in years.

And because of where our store distribution and the geography of it, we happen to be in higher growth states. We happen to get a disproportionate growth of millennials and emerging communities.

So I can't tell you what's going to happen at the top of the house with M1 or M2 or anything like that, but I'm confident about the way we run our retail franchise and the work we're doing in wealth brokerage retirement, and frankly on the corporate side in winning new customers and growing not only existing accounts, but growing new accounts. And frankly that's one of the reason stores are important.

Our strongest growth is in areas where we have the best distribution of a store network. Not that that's the only part of distribution, but it's a critical part for acquisition.

John Shrewsberry - *Wells Fargo & Company - CFO*

One thing that I would add to that is that our deposits are disproportionately core deposits, operational deposits, relationship types of deposits, and less so institutional deposits from people who are probably more inclined to immediately shift out as the Fed does whatever they're going to do to drain reserves from the system and to tighten monetary policy, if that ever happens. And as a result we feel like we've got a stickier deposit base.

And all things being equal, if we were -- if it was a question of losing deposits versus retaining them we obviously have the ability to price our deposits to compete with whatever the alternative investment opportunity -- or savings opportunity is for our customers. Because we're sitting here with a full-service capability and lots of levers in the relationships that we have. So unlike some firms that probably have a higher percentage of institutional deposits that are seeking the last basis point of yield, I don't think -- I think we compare favorably in terms of deposit stickiness.

Bill Carcache - *Nomura Securities - Analyst*

Thank you. That's very helpful. I had a second question on the rate environment.

Assuming that we do start to see the Fed funds rate increase next year, how are you thinking about the potential for an environment where the Fed's taking rates higher at short end of the curve, but demand for treasuries remains strong at the long end such that we end up with a flatter curve? How are you guys positioned to perform in that kind of environment?

John Shrewsberry - *Wells Fargo & Company - CFO*

That would actually be not a bad outcome at all because we would have less capital pressure on long rates backing up on our bond portfolio and we'd be benefiting as loans and other LIBOR linked assets reprice on the -- at the short end. So at least with respect to those two drivers of accounting outcomes, those would be favorable.

Bill Carcache - *Nomura Securities - Analyst*

Excellent. Thank you.

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Operator

Scott Siefers, Sandler O'Neill.

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

Was hoping you could spend just a moment or two talking about the operating losses just given the trajectory. I know they were up substantially in the second quarter and then up another bit again. I can imagine, given some of the conversations that we've had on the regulatory issues what might be driving that, but can you spend a second maybe discussing when or how or even why those might crest and then hopefully begin to ebb back down?

John Shrewsberry - *Wells Fargo & Company - CFO*

Well, we've mentioned that this month's elevated -- or this quarter's elevated level reflects primarily litigation accruals. And as a result there's not much more specific color we can offer except to point you to our crystal clear disclosure in our Qs and K that describe everything that's probable and estimable and then some.

And it's like anything else, it's hard to know whether you're cresting or not until you're on the other side of it. So we feel this is a somewhat higher level than it's been recently. And we think it's well disclosed.

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

All right. Sounds good. Thank you.

Operator

Marty Mosby, Vining Sparks.

Marty Mosby - *Vining Sparks - Analyst*

I wanted to talk about two different lines of questioning more long term in nature. One is that as your pulling your short-term assets higher by about $25 billion each quarter, and you mentioned that in terms of liquidity, but it's also adding about 2% to your asset sensitivity every quarter.

So it just seems like you're looking at the level of opportunities that you have in deciding to forgo the yields of today and the hope for better yields tomorrow increasing asset sensitivity. John, I just want to get your feel for how you're kind of managing that decision you mentioned several times?

John Shrewsberry - *Wells Fargo & Company - CFO*

Well, it's a complex decision. It involves our asset and liability committee and a lot of discussion among Management from time to time.

The items that you just mentioned tend to be a little bit backward looking because you don't know what a quarter's loan growth is until it's happened and floating rate loan growth contributes to asset sensitivity. The governing factor is probably what our capital sensitivity is to a backup in rates if we deploy into duration instruments and out of cash equivalents.

And getting that right is important so that we don't find ourselves with higher rates that we've always been waiting for and a higher level of economic activity, which would probably mean more non interest income generation, more loan growth, lot of exciting activity, and at the same

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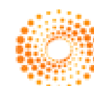

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time be damaging our capital to the point that we couldn't take full advantage of it. And so that is one of those marginal drivers that probably causes us to be a little bit more in cash or a little bit more asset sensitive than versus being more fully invested today.

Marty Mosby - *Vining Sparks - Analyst*

But at least looking back funding sources of long-term debt and sticky deposit to growth with growth in short-term liquid assets, naturally I guess I just want to make sure we're both agreeing that that makes you more asset sensitive each quarter?

John Shrewsberry - *Wells Fargo & Company - CFO*

That makes us more asset sensitive. That's right.

Marty Mosby - *Vining Sparks - Analyst*

And just real quickly the other line of thinking was John, how have you increased the growth in households and businesses? Moving that number up a full percentage point on the consumer side and two full percentage points on the business side long term is a big driver. How do you see the source of those and is that sustainable at these higher levels?

John Shrewsberry - *Wells Fargo & Company - CFO*

Well, it's hard to know whether it's sustainable because again, that's forward-looking. It's -- the reason that it's happening is a result of the quality of our people, the quality of our products, the execution of our business model, and a consistent application of the value proposition that we're bringing.

And it's paying dividends like we thought that it would, hoped that it would. Where it goes in the future is a function of a variety of inputs that are hard to know. But we like our competitive standing, and so to the extent that we're growing faster than our large and regional bank competition, we're not surprised by it and that's what we expect.

Marty Mosby - *Vining Sparks - Analyst*

And would you see that in the traditional markets or more in -- you've got the Wachovia markets and the franchise now pulled together. So are you really getting traction and being able to attract new customers now that you've got all that processed?

John Shrewsberry - *Wells Fargo & Company - CFO*

I think they're all traditional markets now.

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

Exactly. (laughter) We don't --

John Shrewsberry - *Wells Fargo & Company - CFO*

I understand. I didn't know if incrementally you're getting some new households in those newer let's say markets.

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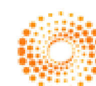

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John Stumpf - *Wells Fargo & Company - Chairman & CEO*

We're getting them in all of our markets.

Marty Mosby - *Vining Sparks - Analyst*

All right. Thanks.

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

They're all good to us.

Marty Mosby - *Vining Sparks - Analyst*

Appreciate it. Thank you, all.

Operator

Nancy Bush, NAB Research LLC.

Nancy Bush - *NAB Research - Analyst*

This is sort of an overarching question, John and John, that goes to a lot of the stuff we're hearing not only on your call but on the JPMorgan Chase call about these continuing calls for increased capital, all these other new requirements that are being put on the industry to which there is seemingly no end. And I'm sure you've read this in the press as well. This beginning characterization of the banking industry as the new electric utility.

Are the regulators trying to enforce so much conformity on the industry that they're going to do away with the dynamism and the inventiveness of the banking industry? John, could you just give us, either John, just give us some perspective on that and when do you think that indeed is happening?

John Shrewsberry - *Wells Fargo & Company - CFO*

Well, there's no question that they --the regulatory, the global regulatory community keeps, apparently keeps adding onto both capital and liquidity requirements that are going to have the combined effect of changing business models, increasing operating costs or financing costs, and then applying that to an increased denominator of equity in the ROE calculation to an industry that widely speaking, broadly speaking other than Wells Fargo and perhaps some regional banks has not been overachieving in returns over the last couple of years.

So if you roll the tape forward, I assume that that gets mathematically worse before it gets better unless a higher rate environment, a higher growth environment, or real optimization on the part of the most impacted banks in terms of changing their business model allows them to perform at a higher level.

So I think it is -- it's a consequence of what you're describing. It is happening and we can't tell how anybody else is going to deal with it, but as I mentioned earlier, we're proud to have continued to generate a top of the peer group type of set of returns in spite of the amount of capital that we are carrying and the ample liquidity that we're carrying too.

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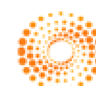

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John Stumpf - *Wells Fargo & Company - Chairman & CEO*

Nancy, it's an interesting question. And there's no question that there's been increases. Some of them are settled. And different issues become binding constraints in different ways.

Of our business 97% of our revenues come from the US. We love our international business but our dominant part of our business is here. It makes it a bit easier for us.

And the challenge and I think the opportunity for leadership is to make sure that we do both. We meet or exceed the requirements on the capital liquidity and those side and also we continue to invest in things that attract team members to us, attract customers to us, be dynamic in the marketplace, differentiating.

And we're so embedded in the real economy that the things we're doing continue to allow us to grow that business. So, can never predict the future. But that's a challenge for us as leaders, to do both.

Nancy Bush - *NAB Research - Analyst*

John, do you see yourself, John Stumpf, do you see yourself as having to change your plans for growth, either businesses that you would like to be in? Do you see that you might have to divest any of your present businesses should this sort of regulatory mindset continue and intensify?

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

At this point in time, the answer is no. Because again, virtually everything we do here starts with our customer. And we look at relationship, value, and pricing and different businesses have different returns and so forth.

And we're always thinking about, adjusting like few last quarter we sold some smaller insurance offices. Doesn't mean we don't like the insurance business we just -- but see there's always things that are going on, but there's nothing in anything I see today that would say, I can't be in this business or we can't be in that business, as it relates to customers.

Nancy Bush - *NAB Research - Analyst*

Okay. All right. Thank you.

Operator

Kevin Barker, Compass Point.

Kevin Barker - *Compass Point Research & Trading - Analyst*

I noticed that you had quite a bit of increasing construction loans quarter-over-quarter after basically staying flat for several years. Is there something in particular that's causing the development and expansion of construction loans? Or is that something that you're looking at as like an initiative going forward?

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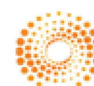

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John Stumpf - *Wells Fargo & Company - Chairman & CEO*

Well you know we're the largest commercial real estate lender in the country. And as I said someplace recently you fly around, go into any city it looks like the crane convention going on. I mean, there's a lot of commercial activity going on. And we serve that community in that sector of the economy.

There's also, housing is better than it has been in the past. So I think it reflects more the natural activity happening in the marketplace as opposed to us changing our strategy somehow.

Kevin Barker - *Compass Point Research & Trading - Analyst*

Okay. And then in regards to the student loan business, are you still planning on selling the FFELP portfolio by year end or can you talk about the overall investor appetite for these loans?

And then separately on the private side, I know this is a peak lending quarter for student loans. But could you provide any color around the demand trend from students given the overall level of student debt out there?

John Shrewsberry - *Wells Fargo & Company - CFO*

With respect to the first part of your question, we still do intend to shelve those loans. Can't really comment on the specifics.

The sale is moving forward, progressing as expected, and what I can tell you is like any other fixed income asset category in this highly liquid environment, there's plenty of interest. But in terms of whether it happens in the fourth quarter or later, I don't want to be too specific.

We remain very committed to private student lending, and of course our student lending team now will be even more focused on our private business once we've sold the FFELP loans. And with respect to whether demand after accounting for seasonality as you mentioned has changed or not changed, we are at a point in time when a very high number of people are already student borrowers.

But it's still one of the three or four most important things that our customers do. They buy a home, they buy a car, they finance their education, then they save for retirement. And we expect that to continue.

Kevin Barker - *Compass Point Research & Trading - Analyst*

Okay. Thank you for taking my questions.

John Stumpf - *Wells Fargo & Company - Chairman & CEO*

Okay. I think we're done with the call now. I want to first of all thank all of you for joining us and thank our 265,000 team members across our Company for an outstanding quarter.

If you look at the drivers of long-term growth, loans, deposits, capital, the liquidity we have, the household growth, it sure makes us optimistic about the future. We operate within our ROA, ROE, and efficiency ratio targets that we had provided a couple years ago.

And we're really proud that we've returned more capital to you, our owners. So we're well-positioned for the future and we'll see you in 90 days. Thank you very much everyone.

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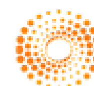

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Operator

Ladies and gentlemen, this does conclude today's conference. Thank you all for participating and you may now disconnect.

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