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Equity Research

Financial Services | U.S. Large-Cap Banks

15 July 2013

Wells Fargo

2Q13 EPS Review: Where the Benefits of a Balanced Model Begin To Shine

Bottom line: In keeping with tradition, WFC reported its ninth consecutive quarter of record earnings per share, as results benefited from a lower-than-anticipated loan loss provision and above forecast mortgage metrics. This marked the first time its ROTCE exceeded 19% since 3Q09. However, with rising rates tempering future mortgage expectations, WFC will need to effectively control expenses, take advantage of its diversified business mix (89 businesses outside of mortgage), capitalize on strengthening credit quality and actively repurchase stock if it intends to prolong its run of record earnings.

Results: WFC reported 2Q13 EPS of $0.98. Consensus was $0.93, up from $0.92 a month ago. Relative to our expectations, a lower loan loss provision and stronger fee income pushed reported results higher. Included in EPS was private equity gains of $203mn ($0.02), securities losses of $54mn ($0.01), and net MSRs gains of $68mn ($0.01). Its reserve release totaled $500mn ($0.06), up from $200mn in 1Q13.

Drivers: Relative to 1Q13, results evidenced an expanded balance sheet (loans ex. retained mortgages and liquidating loans +1.3%), modest net interest margin pressure (-2bps), lower fee income (other), seasonally lower expenses, a lower loan loss provision, improved NCOs and NPAs, a higher tax rate (+212bps), and a higher average share count (+0.6%) despite repurchasing 26.7mn shares (0.5% of outstanding).

Estimates: To reflect this quarter's beat, in addition to a larger-than-expected balance sheet and strong credit quality, we are raising our 2013 EPS estimate $0.10 to $3.85. Uncertainties regarding future mortgage volume amidst rising rates temper further upside. We are also raising our 2014 EPS estimate $0.05 to $3.95. Our price target is $48 (+$3) and represents 12x our 2014 EPS estimate (was 12x previous estimate).

WFC: Quarterly and Annual EPS (USD)

	2012	2013			2014			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2013	2014
Q1	0.75A	0.92A	0.92A	0.92A	N/A	N/A	0.90E	23%	N/A
Q2	0.82A	0.93E	0.98A	0.93E	N/A	N/A	0.97E	20%	N/A
Q3	0.88A	0.94E	0.97E	0.93E	N/A	N/A	1.01E	10%	N/A
Q4	0.91A	0.96E	0.98E	0.94E	N/A	N/A	1.03E	8%	N/A
Year	3.36A	3.75E	3.85E	3.72E	3.90E	3.95E	3.91E	15%	3%
P/E	12.7		11.1			10.8			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Stock Rating	OVERWEIGHT
	Unchanged
Industry View	POSITIVE
	Unchanged
Price Target	USD 48.00
	raised 7% from USD 45.00

Price (12-Jul-2013)	USD 42.63
Potential Upside/Downside	+13%
Tickers	WFC

Market Cap (USD mn)	225877
Shares Outstanding (mn)	5296.40
Free Float (%)	99.87
52 Wk Avg Daily Volume (mn)	23.1
Dividend Yield (%)	2.3
Return on Equity TTM (%)	12.89
Current BVPS (USD)	27.92

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 43.08-31.25

Link to Barclays Live for interactive charting

U.S. Large-Cap Banks

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

Wells Fargo (WFC)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2012A	2013E	2014E	2015E	CAGR
Net interest income	43,932.0	43,961.1	46,089.9	48,778.7	3.5%
Operating expenses	48,225	48,249	49,106	50,723	1.7%
Pre-provision earnings	37,206	37,268	39,286	41,640	3.8%
Loan loss provisions	7,217	3,810	5,511	7,390	0.8%
Pre-tax income	28,471	32,648	32,817	33,354	5.4%
Net income (adj)	17,999	20,610	20,740	21,101	5.4%

Balance sheet ($bn)					Average
Total assets	1,423	1,491	1,587	1,655	1,539
Risk-weighted assets	1,078	1,134	1,207	1,259	1,170
Non-performing loans ($mn)	20,486	17,000	15,300	13,005	16,448
Allowance for loan losses	17	16	14	14	15
Loans	799.6	823.8	865.0	908.2	849.1
Deposits	1,003	1,032	1,083	1,138	1,064
Tier 1 capital	123	133	143	152	138
Tier 1 common capital	109	122	132	141	126
Shareholders' equity	145	153	163	172	158
Tangible common equity	112	121	131	140	126
Loan/deposit ratio (%)	82.4	80.1	80.1	80.1	80.7

Valuation and leverage metrics					Average
P/E (reported) (x)	12.7	11.1	10.8	10.4	11.2
P/BV (tangible) (x)	2.0	1.8	1.7	1.5	1.8
Dividend yield (%)	2.1	2.7	2.8	2.9	2.6
P/PPE (x)	6.1	6.1	5.7	5.3	5.8
Tier 1 (%)	11.75	11.75	11.83	12.10	11.86
Tier 1 Common (%)	10.12	10.78	10.91	11.23	10.76
Tang assets/tang equity (x)	12.4	12.1	11.9	11.6	12.0

Margin and return data					Average
Return on RWAs (%)	1.8	1.9	1.8	1.8	1.8
ROA (%)	1.4	1.5	1.4	1.4	1.5
ROE (tangible common) (%)	17.3	18.1	16.9	16.0	17.1
Fee income/revenue (%)	48.6	48.6	47.9	47.2	48.1
Net interest margin (%)	3.8	3.4	3.4	3.4	3.5
Cost/income (%)	56.4	56.4	55.6	54.9	55.8

Credit quality ratios					Average
Loan loss provs/loans (%)	0.9	0.5	0.6	0.8	0.7
NCO ratio (%)	1.2	0.6	0.8	0.8	0.9
Coverage ratio (%)	83.3	93.4	92.7	111.1	95.1
NPL ratio (%)	2.6	2.1	1.8	1.4	2.0
Reserves/loans (%)	2.1	1.9	1.6	1.6	1.8

Per share data ($)					Average
EPS (reported)	3.36	3.85	3.95	4.10	3.82
DPS	0.88	1.15	1.19	1.23	1.11
BVPS (tangible)	21.2	23.0	25.4	27.9	24.4
Payout ratio (%)	26.2	29.9	30.0	30.0	29.0
Diluted shares (mn)	5,350.5	5,356.7	5,249.5	5,144.5	5,275.3

Price (12-Jul-2013)	USD 42.63
Price Target	USD 48.00

Why Overweight? WFC benefits from a talented management team, diversified business mix, and a retail deposit base that helps drive the highest NIM amongst its U.S. large-cap peers. We expect its cross-selling traction to continue as it drives further revenue and expense synergies from its WB acquisition.

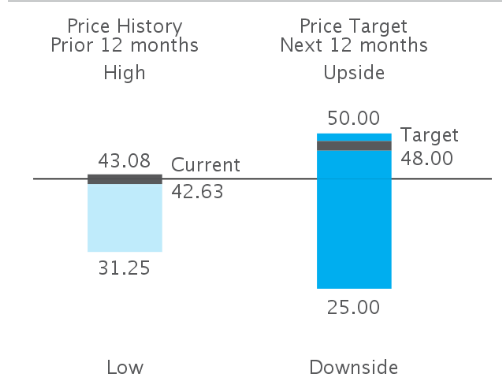
Upside case — USD 50.00

If mortgage banking activity comes in better than the MBA's current forecast and loan growth accelerates from our 4% expectations , it could reach the high-end of its 1.3-1.6% ROA target in 2014. As a result we would expect EPS to exceed $4.00 and shares to trade to 13x EPS.

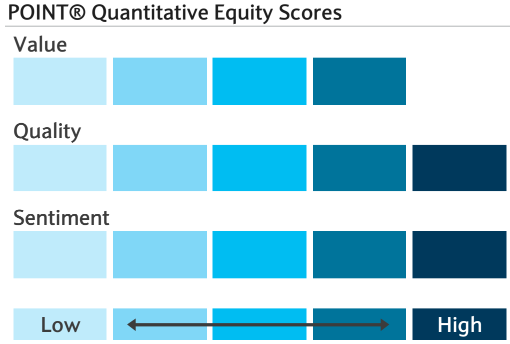
Downside case — USD 25.00

If the U.S. housing market were to experience another 10%-15% decline, we could envision a scenario in which WFC shares trade back down to their 1.3x price to tangible book minimum over the past two years or $25.00.

Upside/Downside scenarios



POINT® Quantitative Equity Scores



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

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

Executive Summary

Bottom line/rating

In keeping with tradition, WFC reported its ninth consecutive quarter of record earnings per share, as results benefited from a lower-than-anticipated loan loss provision and above forecast mortgage metrics. This marked the first time its ROTCE exceeded 19% since 3Q09. However, with rising rates tempering future mortgage expectations, WFC will need to effectively control expenses, take advantage of its diversified business mix (89 businesses outside of mortgage), capitalize on strengthening credit quality and actively repurchase stock if it intends to prolong its run of record earnings. We rate WFC Overweight.

Estimates

To reflect this quarter's beat, in addition to a larger-than-expected balance sheet and strong credit quality, we are raising our 2013 EPS estimate $0.10 to $3.85. Uncertainties regarding future mortgage volume amidst rising rates temper further upside. We are also raising our 2014 EPS estimate $0.05 to $3.95. Our price target is $48 (+$3) and represents 12x our 2014 EPS estimate (was 12x our previous 2014 estimate of $3.90).

Results Overview

- WFC reported 2Q13 EPS of $0.98. Consensus was $0.93, up from $0.92 a month ago. This marks WFC 14th straight quarter of increased EPS and 9th consecutive record quarter. EPS rose 19% y-o-y and increased 6% from 1Q13.

- Private equity gains were $203mn, while securities losses were $54mn. Net MSRs results were $68mn, compared with $129mn in the prior quarter. Operating losses rose $131mn, primarily from litigation accruals on various legal matters. Its loan loss reserve release totaled $500mn ($0.06), up from $200mn in 1Q13.

- Relative to 1Q13, results evidenced an expanded balance sheet (loans ex. retained mortgages and liquidating loans +1.3%), modest net interest margin pressure (-2bps), lower fee income (other), seasonally lower expenses, a lower loan loss provision, improved NCOs and NPAs, a higher tax rate (+212bps), and a higher average share count (+0.6%) despite repurchasing 26.7mn shares (0.5% of outstanding).

- Operating revenues rose 1% on both a y-o-y and linked quarter basis to $21.4bn. It posted an ROA of 1.55% and an ROE of 14.02%. Its Basel III tier 1 common ratio was 8.54% (said 8.39% last quarter). It had net unrealized securities gains of $5.1bn at 2Q13, down from $11.2bn at 1Q13, as market interest rates increased late in the quarter. It repurchased 26.7mn shares of common stock in 2Q13 (0.5% of outstanding) and an additional estimated 13mn (0.2%) shares through a forward repurchase transaction expected to settle in 3Q13.

- Its retail household cross-sell metric stood at 6.14, up from 6.10 at 1Q13. Meanwhile, its commercial cross-sell metric was 6.9 as of 2Q13, up from 6.8 a year ago. Credit card penetration in its retail households rose to 34.9% from 34.1% at 1Q13.

- Its 1Q13 revenue mix (ex. other) was 58% (58%) community banking, 27% (27%) wholesale banking, and 15% (14%) wealth, brokerage & retirement. Businesses generating y/y double-digit revenue growth included asset-backed finance, capital markets, corporate banking, credit card, personal credit management, real estate capital markets, retail brokerage, retail sales finance, retirement services, and small business administration loans.

Quality of Earnings

- Private equity gains totaled $203mn ($0.02), up from $113mn ($0.01) in 1Q13.
- Losses on debt securities AFS totaled $54mn ($0.01).
- Net MSR gains totaled $68mn ($0.01), down from $129mn ($0.02) in 1Q13.
- Its mortgage repurchase provision came in at $65mn ($0.01), down from $309mn ($0.03) in 1Q13.
- Its loan loss reserve release was $500mn ($0.06), up from $200mn ($0.02) in 1Q13. It expects continued reserve release barring significant deterioration in the economy.
- Accretion into interest income was $458mn ($0.06) in 2Q13, up modestly from $447mn in 2Q13.

Forward-Looking Statements

- **Net interest income/net interest margin:** After seeing its net interest margin decline 2bps sequentially, WFC stated that it expects continued margin pressure in coming quarters. Its goal remains to grow net interest income over time.
- **Mortgage:** With mortgage rates on the rise, WFC would expect declines in future gain on sale margins and origination volume. Recall, this quarter, originations rose 3% to $112bn, while its gain on sale margin declined 35bps to 2.21%. As mortgage originations decline, WFC maintains its ability to effectively curb related expenses, with revenue based compensation declining in real-time and any scale benefits realized on a lagged quarter basis. In 3Q13 QTD, it has and will continue to make such scale adjustments where it appears necessary. As for MSRs, it continues to evaluate potential sales, although it did not undertake any sales in 2Q13.
- **Efficiency:** WFC continues to expect an efficiency ratio in the 55-59% range, following the 57.3% reported in 2Q13. Expenses benefitted from a seasonal decline in employee benefits expense and the elimination of expenses related to the IFR settlement in January (declined $35mn from 1Q13 to $5mn).
- **Credit quality:** Having seen strong improvement in both its consumer and commercial portfolios, WFC released $500mn of reserves in 2Q13, up from $200mn in 1Q13. The higher reserve release was primarily driven by improving housing prices and economy. Although it cannot predict the size of 3Q13's reserve release, it does expect continued reserve release and notes that the factors that drove strong performance in 2Q13 have not dissipated.
- **Share repurchase:** WFC repurchased 26.7mn shares in 2Q13, or 0.5% of outstanding. In addition, it entered into a forward repurchase contract to repurchase $500mn (0.2% of outstanding) of common stock expected to settle in 3Q13. Still, in 2Q13 its average share count increased sequentially. It expects its share count to decline in 2H13, exhibiting the benefits of share repurchase activity.
- **Securities:** During the quarter, WFC purchased $21.1bn in securities, largely consisting of agency MBS, taking advantage of rising available yields. The portfolio yield improved as prepayments of existing MBS slowed. In addition, it has purchased $6bn of securities in QTD 3Q13.

- **Leverage ratio:** Based on its initial review of the recently introduced leverage ratio proposal, WFC believes it exceeds the proposed regulatory minimums at both the holding company and the bank subsidiary.

Net Interest Income

- Net interest income rose 3% from 1Q13, principally reflecting an expanded balance sheet only partially offset by modest net interest margin pressure. Average earning assets rose 3% linked quarter, including a 4% rise in average securities, as excess cash was deployed into securities during the quarter to take advantage of rising yields. Loans HFS declined 17% from 1Q13. Recall, in 1Q13, net interest income declined 3% sequentially.

- Period-end loans rose a modest 0.3% linked quarter to $802bn. However, excluding the effects of conforming mortgages retained in 1Q13 ($3.4bn) and liquidating loans, period-end balances were 1.3% higher. By category, balances increased in card (+3%), C&I (+2%), other revolving (+2%) and foreign (+2%). Declines were seen in lease finance (-5%), home equity (-3%), other mortgage (-1%) and C&D (-1%). Period-end securities balances rose 0.5% after rising 6% in 1Q13.

FIGURE 1

Period-end Loan Growth ($ in billions)

	2Q13	1Q13	% change	$ change
Commercial loans excluding liquidating loans	$ 361	$ 359	0.57%	$ 2.0
Consumer loans excluding liquidating loans	$ 353	$ 350	0.96%	$ 3.4
Retained mortgages	$ -	$ 3.4	-100.0%	$ (3.4)
Consumer loans excluding liquidating loans/retained mortgages	$ 353	$ 347	1.95%	$ 6.8
Total core loans excluding liquidating loans/retained mortgages	$ 714	$ 706	1.25%	$ 8.8
Liquidating loans	$ 88	$ 91	-3.67%	$ (3.3)
Reported loans	$ 802	$ 800	0.26%	$ 2.1
Liquidating loans as a % of total loans	10.9%	11.4%		

Source: Barclays Research and Company Documents

- Its net interest margin declined 2bps linked quarter to 3.46%. This was much improved from the 8bps of pressure reported in 1Q13. Driving the decline was deposit growth, which weighed by 6bps, while variable income and balance sheet repricing, growth and mix offset, contributing 2bps each (total of 4bps).

- Its yield on average earning assets declined 6bps to 3.80%, including a 3bp decline in total loan yields (to 4.46%). However, its yield on average securities increased 7bps sequentially to 3.77% (prepayments of existing MBS slowed), helping offset. Its cost of interest-bearing liabilities declined 4bps to 0.47%, including a 2bp decline in interest-bearing liabilities and an 18bp decline in LT debt. Its cost of total funding declined 4bps to 0.34%. Its cost of total deposits slipped 1bp to 0.14%. Period-end deposits rose 1.1%, including a 1.6% increase in interest-bearing balances.

- Of its $802bn of loans at 2Q13, PCI loans totaled $35.2bn ($4.0bn commercial, $31.2bn consumer), or 4% of total loans. This is $0.9bn below the $36.4bn of PCI loans reported in 4Q12. Non-accretable difference stood at $5.4bn, down from $6.5bn at 1Q13. The decline was driven by an $876mn reclassification into accretable yield and a $152mn loss from resolutions and write-downs. Its remaining non-accretable difference equates to 20.0% of remaining UPB (22.9% at 1Q13). Pick-a-pay PCI loans had an UPB of $30.3bn ($25.1bn carry value), with a non-accretable difference equal to 20.6% of UPB.

Fee income & Expenses

- Fee income declined 1% from 1Q13. Relative to 1Q13, trust & investment fees (+$292mn; investment banking and higher retail brokerage asset-based fees), operating leases (+$95mn), card fees (+$75mn, card/account growth), other fees (+$55mn, CRE/merchant), service charges (+$34mn), insurance (+$22mn) and mortgage (+$8mn) all gained. Other (-$465mn; lower income from investments accounted for under the equity method and lower PCI loan sale gains) and trading (-$239mn) declined. Of note, its domestic investment banking market share was 5.8% in 2Q13.

- Mortgage banking noninterest income was $2.8bn, stable with 1Q13. Although origination fees declined 11% from 1Q13, higher servicing fees (+4%) and a lower provision for mortgage loan repurchase ($65mn in 2Q13 vs. $309mn in 1Q13) offset. Net MSR results were $68mn, down from $129mn in 1Q13. First mortgage applications rose 4% linked quarter to $146bn and originations increased 3% to $112bn. Its unclosed pipeline stood at $63mn in 2Q13, down 15% from 1Q13. Its gain on sale margin declined 35bps to 2.21%. Refinance accounted for 54% of total applications, down from 65% at 1Q13.

- It posted a net MSR gain of $68mn, down from $129mn in 1Q13. Its MSR ratio was 0.81%, up 11bps from 1Q13. The average note rate on its servicing portfolio was 4.59%, down 10bps from 4.69% at 1Q13 (FRE at 4.29%). Its portfolio of mortgages serviced for others was stable with 1Q13 at $1.9trn.

- It provision for mortgage repurchase losses was $65mn, down from $309mn in 1Q13. Realized losses declined $38mn from 1Q13 to $160mn, as its total repurchase reserve decreased to $2.2bn ($2.3bn at 1Q13). Total outstanding repurchase demands increased 240 to 8,080. GSE repurchase demands totaled 6,313 (+403), private label stood at 1,206 (-72), and insurance totaled 561 (-91).

- Core expenses declined 1% sequentially and were stable y/y to $11.98bn. Compared to 1Q13, declines were seen in employee benefits (-$465mn), equipment (-$110mn) and FDIC assessment expense (-$33mn), while other (+$361mn), salaries (+$105mn) and commissions (+$49mn) came in higher. Operating losses rose $131mn, primarily from litigation accruals on various legal matters. Its efficiency ratio fell within its 55-59% target at 57.3% in 2Q13. This was down from the 58.2% reported in 1Q13.

Asset Quality

- After releasing $500mn of reserves in 2Q13, WFC anticipates further reserve releases in 2013 so long as economic conditions don't deteriorate. In addition, it expects continued NCO improvement, driven by consumer segments, as commercial NCOs are expected to remain near absolute low levels.

- Its NPA ratio declined 23bps linked quarter to 2.62%. This follows a 20bp decline in 1Q13. NPLs declined 8% to $17.9bn and OREO was 6% lower to $3.1bn. The decline in NPLs was broad based across categories. Loans 90-plus days past due, excluding government guaranteed/insured, declined $206mn to $1.15bn.

- Its NCO ratio declined 13bps linked quarter to 0.58% in 2Q13, adding to the 33bp decline reported in 1Q13. Commercial NCOs declined 5bps to 0.05% and consumer declined 22bps to 1.01%. Consumer losses have improved rapidly, primarily driven by the positive momentum in residential real estate.

- Its loan loss provision was $652mn, down $567mn from 1Q13. Its loan loss reserve release totaled $500mn ($0.06), up from $200mn in 1Q13. Its reserve/loan ratio declined 8bps to 2.01%. It continues to expect future reserve releases.

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

		Actual					Quarterly Forecast					Annual Forecast				Annual Change							2Q13A vs.	
	2011A	1Q12A	2Q12A	3Q12A	4Q12A	2012A	1Q13A	2Q13A	3Q13E	4Q13E	2013E	2014E	2015E	2016E	2017E	10/11	11/12	12/13	13/14	14/15	15/16	16/17	2Q12A	1Q13A
EPS - operating	$2.82	$0.75	$0.82	$0.88	$0.91	$3.36	$0.92	$0.98	$0.97	$0.98	$3.85	$3.95	$4.10	$4.40	$4.90	13%	19%	0.144	3%	4%	0.072	11%	0.1941	6%
EPS - reported	**$2.82**	**$0.75**	**$0.82**	**$0.88**	**$0.91**	**$3.36**	**$0.92**	**$0.98**	**$0.97**	**$0.98**	**$3.85**	**$3.95**	**$4.10**	**$4.40**	**$4.90**	**28%**	**19%**	**14%**	**3%**	**4%**	**7%**	**11%**	**19%**	**6%**
Book value	$24.48	$25.45	$26.06	$27.10	$27.64	$27.64	$28.27	$28.26	$28.58	$29.18	$29.18	$31.65	$34.25	$37.03	$40.12	9%	13%	6%	8%	8%	8%	8%	8%	0%
Tangible book	$18.19	$19.13	$19.50	$20.61	$21.22	$21.22	$21.78	$21.92	$22.48	$23.05	$23.05	$25.39	$27.85	$30.51	$33.45	15%	17%	9%	10%	10%	10%	10%	12%	1%
Dividend	$0.48	$0.22	$0.22	$0.22	$0.22	$0.88	$0.25	$0.30	$0.30	$0.30	$1.15	$1.19	$1.23	$1.32	$1.47	140%	83%	31%	3%	4%	7%	11%	36%	20%
Diluted average shares	5,323	5,338	5,370	5,356	5,339	5,351	5,354	5,385	5,358	5,331	5,357	5,250	5,145	5,042	4,941	1%	1%	0%	-2%	-2%	-2%	-2%	0%	0.58%
Period-end shares	5,263	5,302	5,276	5,290	5,266	5,266	5,289	5,302	5,275	5,248	5,248	5,141	5,036	4,933	4,833	0%	0%	0%	-2%	-2%	-2%	-2%	1%	0%
Payout ratio	17%	29%	27%	25%	24%	26%	27%	31%	31%	31%	30%	30%	30%	30%	30%									
Operating revenue	**$79,956**	**$21,449**	**$21,284**	**$21,204**	**$21,494**	**$85,431**	**$21,277**	**$21,425**	**$21,374**	**$21,442**	**$85,517**	**$88,393**	**$92,363**	**$96,497**	**$102,048**	**-6%**	**7%**	**0%**	**3%**	**4%**	**4%**	**6%**	**1%**	**1%**
Avg earning assets ($bn)	$1,102	$1,135	$1,151	$1,178	$1,213	$1,169	$1,235	$1,266	$1,285	$1,311	$1,274	$1,356	$1,414	$1,470	$1,529	3%	6%	9%	6%	4%	4%	4%	10%	3%
Net interest margin	**3.95%**	**3.91%**	**3.91%**	**3.66%**	**3.56%**	**3.76%**	**3.48%**	**3.46%**	**3.43%**	**3.40%**	**3.44%**	**3.40%**	**3.45%**	**3.50%**	**3.60%**	**-28**	**-19**	**0**	**-4**	**5**	**5**	**10**	**(45)**	-2
Net interest income	$43,460	$11,058	$11,213	$10,820	$10,841	$43,932	$10,675	$10,946	$11,109	$11,232	$43,961	$46,090	$48,779	$51,465	$55,053	-4%	1%	0%	5%	6%	6%	7%	-2%	3%
FTE adjustment	$697	$170	$176	$158	$198	$702	$176	$196	$175	$175	$722	$758	$796	$836	$878	11%	1%	3%	5%	5%	5%	5%	11%	11%
Average loans ($bn)	$757	$769	$768	$777	$787	$775	$798	$800	$810	$822	$808	$848	$890	$935	$982	-2%	2%	4%	5%	5%	5%	5%	4%	0%
Loan loss provision	$7,899	$1,995	$1,800	$1,591	$1,831	$7,217	$1,219	$652	$911	$1,027	$3,810	$5,511	$7,390	$8,320	$9,227	-50%	-9%	-47%	45%	34%	13%	11%	-64%	-47%
Provision/loan ratio	1.04%	1.04%	0.94%	0.82%	0.93%	0.93%	0.61%	0.33%	0.45%	0.50%	0.47%	0.65%	0.83%	0.89%	0.94%	-100	-11	0	18	18	6	5	(61)	-28.507
Net credit income	$34,864	$8,893	$9,237	$9,071	$8,812	$36,013	$9,280	$10,098	$10,022	$10,029	$39,430	$39,820	$40,593	$42,309	$44,949	20%	3%	9%	1%	2%	4%	6%	9%	9%
Service charges on deposit accounts	$4,280	$1,084	$1,139	$1,210	$1,250	$4,683	$1,214	$1,248	$1,275	$1,300	$5,037	$5,289	$5,553	$5,831	$6,123	-13%	9%	8%	5%	5%	5%	5%	10%	3%
Trust and investment fees	$11,304	$2,839	$2,898	$2,954	$3,199	$11,890	$3,202	$3,494	$3,400	$3,450	$13,546	$14,223	$14,934	$15,681	$16,465	3%	5%	14%	5%	5%	5%	5%	21%	9%
Card fees	$3,653	$654	$704	$744	$736	$2,838	$738	$813	$800	$800	$3,151	$3,309	$3,474	$3,648	$3,830	0%	-22%	11%	5%	5%	5%	5%	15%	10%
Other fees	$4,193	$1,095	$1,134	$1,097	$1,193	$4,519	$1,034	$1,089	$1,100	$1,100	$4,323	$4,409	$4,586	$4,815	$5,056	5%	8%	-4%	2%	4%	5%	5%	-4%	5%
Mortgage banking (details below)	$7,832	$2,870	$2,893	$2,807	$3,068	$11,638	$2,794	$2,802	$2,455	$2,350	$10,401	$9,800	$9,510	$9,265	$9,450	-20%	49%	-11%	-6%	-3%	-3%	2%	-3%	0%
Insurance	$1,960	$519	$522	$414	$395	$1,850	$463	$485	$425	$400	$1,773	$1,791	$1,880	$1,974	$2,073	-8%	-6%	-4%	1%	5%	5%	5%	-7%	5%
Net gains from trading activities	$1,014	$640	$263	$529	$275	$1,707	$570	$331	$400	$400	$1,701	$1,786	$1,875	$1,969	$2,068	-38%	68%	0%	5%	5%	5%	5%	26%	-42%
Operating leases	$524	$59	$120	$218	$170	$567	$130	$225	$160	$160	$675	$709	$744	$781	$820	-36%	8%	19%	5%	5%	5%	5%	88%	73%
Other	$1,736	$631	$398	$411	$367	$1,807	$457	($8)	$250	$250	$949	$987	$1,026	$1,067	$1,110	-20%	4%	-47%	4%	4%	4%	4%	NA	NA
Fee income	$36,496	$10,391	$10,071	$10,384	$10,653	$41,499	$10,602	$10,479	$10,265	$10,210	$41,556	$42,303	$43,584	$45,032	$46,995	-9%	14%	0%	2%	3%	3%	4%	4%	-1%
Salaries	$14,462	$3,601	$3,705	$3,648	$3,735	$14,689	$3,663	$3,768	$3,700	$3,700	$14,831	$15,128	$15,581	$16,049	$16,530	4%	2%	1%	2%	3%	3%	3%	2%	3%
Commissions and incentive compensation	$8,857	$2,417	$2,354	$2,368	$2,365	$9,504	$2,577	$2,626	$2,450	$2,425	$10,078	$10,280	$10,691	$11,118	$11,452	2%	7%	6%	2%	4%	4%	3%	12%	2%
Employee benefits	$4,348	$1,608	$1,049	$1,063	$891	$4,611	$1,583	$1,118	$1,150	$1,100	$4,951	$5,050	$5,202	$5,358	$5,518	-7%	6%	7%	2%	3%	3%	3%	7%	-29%
Equipment	$2,283	$557	$459	$510	$542	$2,068	$528	$418	$510	$550	$2,006	$2,046	$2,128	$2,213	$2,279	-13%	-9%	-3%	2%	4%	4%	3%	-9%	-21%
Net occupancy	$3,011	$704	$698	$727	$728	$2,857	$719	$716	$730	$730	$2,895	$2,953	$3,101	$3,225	$3,321	-1%	-5%	1%	2%	5%	4%	3%	3%	0%
Core deposit and other intangibles	$1,880	$419	$418	$419	$418	$1,674	$377	$377	$400	$400	$1,554	$1,585	$1,648	$1,714	$1,766	-15%	-11%	-7%	2%	4%	4%	3%	-10%	0%
FDIC and other deposit assessments	$1,266	$357	$333	$359	$307	$1,356	$292	$259	$290	$300	$1,141	$1,164	$1,199	$1,223	$1,259	6%	7%	-16%	2%	3%	2%	3%	-22%	-11%
Other	$10,258	$2,808	$3,092	$2,771	$2,795	$11,466	$2,466	$2,827	$2,800	$2,700	$10,793	$10,901	$11,173	$11,509	$11,854	-1%	12%	-6%	1%	3%	3%	3%	-9%	15%
Expenses	$46,365	$12,471	$12,108	$11,865	$11,781	$48,225	$12,205	$12,109	$12,030	$11,905	$48,249	$49,106	$50,723	$52,408	$53,981	-1%	4%	0%	2%	3%	3%	3%	0%	-1%
Preprovision net revenue	**$33,591**	**$8,978**	**$9,176**	**$9,339**	**$9,713**	**$37,206**	**$9,072**	**$9,316**	**$9,344**	**$9,537**	**$37,268**	**$39,286**	**$41,640**	**$44,089**	**$48,067**	**-13%**	**11%**	**0%**	**5%**	**6%**	**6%**	**9%**	**2%**	**3%**
OREO expense	$1,354	$304	$289	$247	$221	$1,061	$195	$146	$135	$120	$596	$300	$200	$100	$100								-49%	-25%
Securities gains	$54	($7)	($61)	$3	($63)	($128)	$45	$0	$0	$0	$45	$0	$0	$0	$0								NA	NA
OTTI	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0								NA	NA
Net gains (losses) from equity investments	$1,482	$364	$242	$164	$715	$1,485	$113	$203	$100	$100	$516	$100	$100	$100	$100								-16%	80%
Nonrecurring gains	$153	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0								NA	NA
Nonrecurring losses	$1,674	$218	$0	$0	$894	$1,112	$0	$54	$0	$0	$54	$0	$0	$0	$0								NA	NA
Pretax income	$23,656	$6,648	$7,092	$7,510	$7,221	$28,471	$7,640	$8,471	$8,222	$8,314	$32,648	$32,817	$33,354	$34,933	$37,963	24%	20%	15%	1%	2%	5%	9%	19%	11%
Taxes	$7,445	$2,328	$2,371	$2,480	$1,924	$9,103	$2,420	$2,863	$2,713	$2,744	$10,740	$10,796	$10,972	$11,492	$12,489	17%	22%	18%	1%	2%	5%	9%	21%	18%
Tax rate - stated	31.5%	35.0%	33.4%	33.0%	26.6%	32.0%	31.7%	33.8%	33.0%	33.0%	32.9%	32.9%	32.9%	32.9%	32.9%								37	212
Net income	$16,211	$4,320	$4,721	$5,030	$5,297	$19,368	$5,220	$5,608	$5,509	$5,570	$21,907	$22,021	$22,382	$23,441	$25,474	28%	19%	13%	1%	2%	5%	9%	19%	7%
Change in acctg. principle/ minority interest	$342	$72	$99	$93	$207	$471	$49	$89	$89	$89	$316	$300	$300	$300	$300	14%	38%	-33%	-5%	0%	0%	0%	-10%	82%
Preferred dividends	$844	$226	$219	$220	$233	$898	$240	$247	$247	$247	$981	$981	$981	$981	$981	16%	6%	9%	0%	0%	0%	0%	13%	3%
Net income to common	**$15,025**	**$4,022**	**$4,403**	**$4,717**	**$4,857**	**$17,999**	**$4,931**	**$5,272**	**$5,173**	**$5,234**	**$20,610**	**$20,740**	**$21,101**	**$22,160**	**$24,193**	**29%**	**20%**	**15%**	**1%**	**2%**	**5%**	**9%**	**20%**	**7%**

Source: Barclays Research, Company Reports

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

		Actual					Quarterly Forecast									Annual Change							2Q13A vs.	
	2011A	1Q12A	2Q12A	3Q12A	4Q12A	2012A	1Q13A	2Q13A	3Q13E	4Q13E	2013E	2014E	2015E	2016E	2017E	10/11	11/12	12/13	13/14	14/15	15/16	16/17	2Q12A	1Q13A
Average Balance Sheet ($ in billions)																								
Assets	$1,270	$1,303	$1,322	$1,354	$1,387	$1,341	$1,404	$1,429	$1,450	$1,479	$1,441	$1,533	$1,599	$1,663	$1,729	4%	6%	7%	6%	4%	4%	4%	8%	2%
Earning assets	$1,102	$1,135	$1,151	$1,178	$1,213	$1,169	$1,235	$1,266	$1,285	$1,311	$1,274	$1,356	$1,414	$1,470	$1,529	3%	6%	9%	6%	4%	4%	4%	10%	3%
Securities	$175	$215	$214	$212	$215	$214	$226	$235	$236	$243	$235	$247	$259	$272	$286	8%	23%	5%	5%	5%	5%	5%	10%	4%
Loans held for sale	$38	$48	$50	$53	$47	$50	$43	$44	$44	$44	$44	$44	$44	$44	$44	-5%	29%	0%	0%	0%	0%	0%	-13%	1%
Loans	$757	$769	$768	$777	$787	$775	$798	$800	$810	$822	$808	$848	$890	$935	$982	-2%	2%	4%	5%	5%	5%	5%	4%	0%
Deposits	$872	$915	$924	$947	$976	$940	$986	$1,010	$1,015	$1,020	$1,008	$1,058	$1,111	$1,166	$1,225	7%	8%	5%	5%	5%	5%	5%	9%	2%
Borrowed funds	$193	$176	$179	$179	$180	$179	$183	$183	$183	$183	$183	$192	$202	$212	$223	-19%	-7%	5%	5%	5%	5%	5%	2%	0%
Equity	$137	$145	$149	$152	$158	$151	$160	$165	$167	$169	$165	$174	$184	$194	$204	12%	10%	9%	6%	5%	5%	5%	10%	3%
Period-end Balance Sheet ($ in billions)																								
Assets	$1,314	$1,334	$1,336	$1,375	$1,423	$1,423	$1,437	$1,441	$1,462	$1,491	$1,491	$1,587	$1,655	$1,721	$1,790	4%	8%	5%	6%	4%	4%	4%	8%	0%
Risk-weighted assets	$1,006	$1,000	$1,009	$1,052	$1,078	$1,078	$1,094	$1,096	$1,112	$1,134	$1,134	$1,207	$1,259	$1,309	$1,362	3%	7%	5%	6%	4%	4%	4%	9%	0%
Securities	$223	$230	$227	$229	$235	$235	$248	$249	$251	$258	$258	$271	$285	$299	$314	29%	6%	10%	5%	5%	5%	5%	10%	1%
Loans held for sale	$50	$44	$51	$51	$47	$47	$47	$39	$39	$39	$39	$39	$39	$39	$39	-6%	-5%	-18%	0%	0%	0%	0%	-24%	-17%
Loans	$770	$767	$775	$783	$800	$800	$800	$802	$812	$824	$824	$865	$908	$954	$1,001	2%	4%	3%	5%	5%	5%	5%	3%	0%
Loan loss reserve	$19.4	$19	$18	$18	$17	$17.1	$17	$16	$16	$16	$15.9	$14	$14	$15	$17	-16%	-12%	-7%	-11%	2%	6%	9%	-12%	-3%
Deposits	$920	$930	$929	$952	$1,003	$1,003	$1,011	$1,022	$1,027	$1,032	$1,032	$1,083	$1,138	$1,194	$1,254	9%	9%	3%	5%	5%	5%	5%	10%	1%
Tangible common equity	$95	$100	$103	$109	$112	$112	$115	$116	$119	$121	$121	$131	$140	$151	$162	14%	18%	8%	8%	7%	7%	7%	13%	1%
Common equity	$129	$133	$136	$142	$145	$145	$148	$148	$151	$153	$153	$163	$172	$183	$194	9%	12%	6%	6%	6%	6%	6%	9%	1%
Goodwill & other intangibles	$34	$34	$34	$33	$33	$33	$33	$32	$32	$32	$32	$32	$32	$32	$32	-4%	-3%	-2%	0%	0%	0%	0%	-4%	-1%
Performance Ratios																								
Return on equity	**11.81%**	**11.92%**	**12.64%**	**13.20%**	**13.44%**	**12.82%**	**13.02%**	**13.62%**	**13.20%**	**13.16%**	**13.25%**	**12.62%**	**12.18%**	**12.11%**	**12.48%**	**145**	**101**	**43**	**-63**	**-44**	**-7**	**36**	**98**	**60**
Return on tang com equity	17.10%	17.33%	18.36%	18.46%	18.96%	17.33%	18.13%	19.30%	18.58%	18.42%	18.11%	16.87%	15.96%	15.57%	15.76%	184	23	78	-124	-91	-38	18	94	117
Return on assets	**1.28%**	**1.33%**	**1.43%**	**1.49%**	**1.53%**	**1.44%**	**1.49%**	**1.57%**	**1.52%**	**1.51%**	**1.52%**	**1.44%**	**1.40%**	**1.41%**	**1.47%**	**24**	**17**	**8**	**-8**	**-4**	**1**	**6**	**14**	**8**
Return on tangible assets	1.31%	1.36%	1.47%	1.52%	1.56%	1.48%	1.52%	1.61%	1.55%	1.54%	1.56%	1.47%	1.43%	1.44%	1.50%	25	17	8	-9	-4	1	6	14	8
Return on RWA	1.61%	1.73%	1.87%	1.91%	1.97%	1.80%	1.91%	2.05%	1.98%	1.96%	1.93%	1.82%	1.78%	1.79%	1.87%	32	18	13	-11	-5	1	8	18	14
Efficiency ratio	58.0%	58.1%	56.9%	56.0%	54.8%	56.4%	57.4%	56.5%	56.3%	55.5%	56.4%	55.6%	54.9%	54.3%	52.9%	337	-154	-3	-87	-64	-61	-141	-37	-84
Net profit margin	20.3%	20.1%	22.2%	23.7%	24.6%	22.7%	24.5%	26.2%	25.8%	26.0%	25.6%	24.9%	24.2%	24.3%	25.0%	544	240	295	-70	-68	6	67	399	164
Fee income/revenue	45.6%	48.4%	47.3%	49.0%	49.6%	48.6%	49.8%	48.9%	48.0%	47.6%	48.6%	47.9%	47.2%	46.7%	46.1%	-120	293	2	-74	-67	-52	-61	159	-92
Loans/AEA	67.7%	67.7%	66.7%	66.0%	64.9%	64.9%	64.6%	63.2%	63.0%	62.7%	62.7%	62.5%	63.0%	63.6%	64.2%	-193	-279	-217	-17	42	61	61	-351	-142
Equity/loans	18.3%	18.9%	19.4%	19.6%	20.0%	20.0%	20.1%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%	20.7%	20.8%	155	170	57	-2	6	6	10	113	48
Loans/deposits	87%	84%	83%	82%	81%	82%	81%	79%	80%	81%	80%	80%	80%	80%	80%	-308	-442	-229	0	0	0	0	-389	-168
Asset Quality ($ in millions)															\									
Nonperforming loans	$21,304	$22,026	$20,578	$21,044	$20,486	$20,486	$19,526	$17,915	$17,600	$17,000	$17,000	$15,300	$13,005	11054.25	$11,054	-19%	-4%	-10%	-10%	-15%	-0.15	-15%	-13%	-8%
OREO	$4,661	$4,617	$4,307	$4,209	$4,023	$4,023	$3,350	$3,140	$3,100	$3,000	$3,000	$2,850	$2,565	$2,385	$2,385	-22%	-14%	-2%	-5%	-10%	-7%	-7%	-27%	-6%
Nonperforming assets	**$25,965**	**$26,643**	**$24,885**	**$25,253**	**$24,509**	**$24,509**	**$22,876**	**$21,055**	**$20,700**	**$20,000**	**$20,000**	**$18,150**	**$15,570**	**$13,440**	**$13,440**	**-19%**	**-6%**	**-18%**	**-9%**	**-14%**	**-14%**	**0%**	**-15%**	**-8%**
Accruing TDRs	$15,846	$15,859	$16,024	$17,400	$16,765	$16,765	$17,375	$14,500	$14,000	$13,500	$13,500	$12,150	$10,935	$9,295	$9,295	50%	6%	-10%	-10%	-10%	-15%	-15%	-10%	-17%
NPL ratio	2.77%	2.87%	2.65%	2.69%	2.56%	2.56%	2.44%	2.23%	2.17%	2.06%	2.06%	1.77%	1.43%	1.16%	1.10%	-70	-21	-50	-29	-34	-27	-6	-42	-21
NPA ratio	**3.35%**	**3.46%**	**3.19%**	**3.21%**	**3.05%**	**3.05%**	**2.85%**	**2.62%**	**2.54%**	**2.42%**	**2.42%**	**2.09%**	**1.71%**	**1.41%**	**1.34%**	**-87**	**-30**	**-63**	**-33**	**-38**	**-30**	**-7**	**-58**	**-23**
NPA ratio (including accruing TDRs)	5.40%	5.51%	5.25%	5.42%	5.14%	5.14%	5.01%	4.42%	4.26%	4.05%	4.05%	3.49%	2.91%	2.38%	2.27%	-21	-26	-108	-56	-58	-53	-11	-83	-59
NCOs ($)	$11,299	$2,395	$2,200	$2,358	$2,081	$9,034	$1,419	$1,152	$1,114	$1,089	$4,774	$7,207	$7,122	$7,479	$7,853	-36%	-20%	-47%	51%	-1%	5%	5%	-48%	-19%
NCO ratio	**1.49%**	**1.25%**	**1.15%**	**1.21%**	**1.06%**	**1.17%**	**0.71%**	**0.58%**	**0.55%**	**0.53%**	**0.59%**	**0.85%**	**0.80%**	**0.80%**	**0.80%**	**-81**	**-33**	**-57**	**26**	**-5**	**0**	**0**	**-57**	**-14**
Provision/loans	1.04%	1.04%	0.94%	0.82%	0.93%	0.93%	0.61%	0.33%	0.45%	0.50%	0.47%	0.65%	0.83%	0.89%	0.94%	-100	-11	-46	18	18	6	5	-61	-29
Reserve/NPLs	90.9%	85.6%	89.0%	84.8%	83.3%	83.3%	85.6%	90.1%	90.6%	93.4%	93.4%	92.7%	111.1%	138.3%	150.8%	320	-765	1013	-70	1841	2722	1243	109	453
Reserve/loans	**2.52%**	**2.46%**	**2.36%**	**2.28%**	**2.13%**	**2.13%**	**2.09%**	**2.01%**	**1.96%**	**1.93%**	**1.93%**	**1.64%**	**1.59%**	**1.60%**	**1.66%**	**-52**	**-38**	**-21**	**-29**	**-5**	**1**	**6**	**-35**	**-8**
90 days past due	$2,048	$1,636	$1,360	$1,492	$1,435	$1,435	$1,360	$1,154																
Capital ($ in billions)																								
Equity/assets	10.80%	11.13%	11.30%	11.25%	11.36%	11.26%	11.42%	11.53%	11.51%	11.44%	11.48%	11.38%	11.49%	0.1163755	11.81%	84	46	21	-9	11	14	17	22	10
TCE ratio	7.41%	7.67%	7.90%	8.13%	8.04%	8.04%	8.20%	8.25%	8.29%	8.29%	8.29%	8.40%	8.64%	8.91%	9.20%	62	63	25	11	25	27	29	36	5
Tier 1 common	$95.1	$99.5	$101.7	$105.8	$109.1	$109.1	$113.6	$117.6	$119.9	$122.3	$122.3	$131.7	$141.3	$151.4	$162.4	17%	15%	12%	8%	7%	7%	7%	16%	4%
Tier 1 common ratio	**9.46%**	**9.95%**	**10.08%**	**10.05%**	**10.12%**	**10.12%**	**10.38%**	**10.73%**	**10.78%**	**10.78%**	**10.78%**	**10.91%**	**11.23%**	**11.56%**	**11.93%**	**116**	**66**	**66**	**13**	**31**	**34**	**36**	65	**35**
Tier I capital	$113.9	$117.4	$117.9	$120.9	$123.2	$123.2	$126.1	$128.7	$131.0	$133.4	$133.4	$142.8	$152.4	$162.5	$173.5	4%	8%	8%	7%	7%	7%	7%	9%	2%
Tier I capital ratio	11.33%	11.74%	11.69%	11.66%	11.75%	11.75%	11.80%	12.14%	11.78%	11.75%	11.75%	11.83%	12.10%	12.41%	12.74%	17	42	0	7	28	30	33	45	34
Leverage ratio	9.03%	9.35%	9.25%	9.45%	9.47%	9.47%	9.53%	9.63%	9.16%	9.14%	9.14%	9.18%	9.39%	9.62%	9.87%	-16	44	-33	5	21	23	25	38	10
Tang assets/tang equity	13.5x	13.0x	12.7x	12.3x	12.4x	12.4x	12.2x	12.1x	12.1x	12.1x	12.1x	11.9x	11.6x	11.2x	10.9x									

Source: Barclays Capital, Company Reports

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Primary Stocks (Ticker, Date, Price)

Wells Fargo (WFC, 12-Jul-2013, USD 42.63), Overweight/Positive, A/C/D/J/K/L/M/N/O

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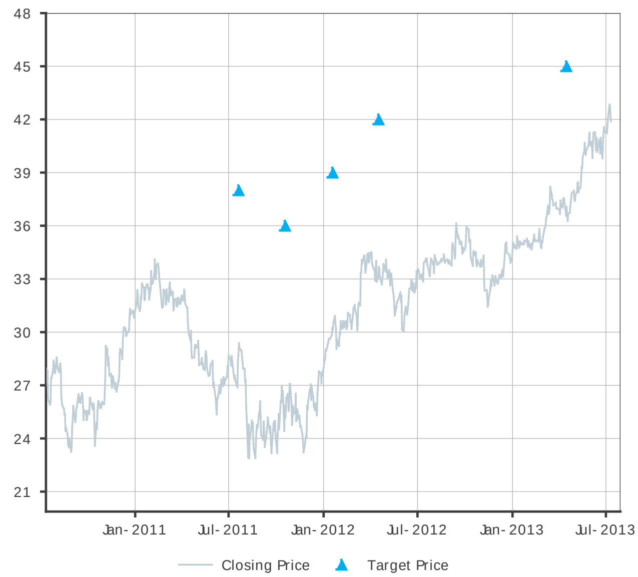
Wells Fargo (WFC)

Wells Fargo (WFC)	Stock Rating	Industry View
USD 42.63 (12-Jul-2013)	**OVERWEIGHT**	**POSITIVE**

Rating and Price Target Chart - USD (as of 12-Jul-2013) | **Currency=USD**



Date	Closing Price	Rating *	Price Target
15-Apr-2013	36.57		45.00
16-Apr-2012	33.15		42.00
18-Jan-2012	30.24		39.00
18-Oct-2011	25.86		36.00
20-Jul-2011	28.70		38.00

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

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