EQUITY RESEARCH AMERICAS

Wells Fargo & Co. (WFC)

Well-Positioned on Both Sides of the Ball; Investor Day Preview

BUY

Price target $55.00

Price $49.29

Key Takeaway

WFC will host its Investor Day on 5/20. We expect an upbeat message on market share gains, cross-sell, and growth plans, and believe WFC could provide add'l color on rate sensitivity. We don't expect changes to long-term ROA (1.3%-1.6%), ROE (12%-15%) or efficiency (55%-59%) targets. WFC could raise its payout target range (currently 50%-65%) given strong capital and will likely reit. that losses will stay well-below its 100bp thru-the-cycle view. Maintain Buy.

Capital payout target range could widen on the high end. WFC's Basel III Tier 1 common ratio of 10.1% is above its longer-term target of 9.0%. This should allow the bank to gradually increase capital payout (dividends and buybacks) over the next several years and still leave room for balance sheet growth. We believe mgmt. could increase the high-end of its target payout ratio (currently 50%-65%) and we look for 75%-80% total payout over the next year. With buybacks accelerating and employee share issuance slowing, there should finally be downward pressure on the sharecount.

Higher rates and capital deployment could drive EPS power above $5. We expect mgmt. to help frame longer-term earnings power with its ROA and ROE targets, which we expect will remain unchanged at 1.3%-1.6% and 12%-15%, respectively. With help from interest rates, additional share buybacks, and continued expense discipline, we believe the high-ends of these targeted ranges are achievable. In our "normalized" scenario, which uses '17 as the base year and assumes rates are 200bp higher than today, we can see a path to EPS power of $4.75-$5.00. Assuming the capital stack is rationalized, EPS power could approach $5.25-$5.50.

Asset-sensitivity in the limelight. We anticipate that mgmt. could use the Investor Day as a forum to help investors better understand its interest rate sensitivity. We estimate that WFC will prove to be slightly more asset-sensitive than the average large/mid-cap bank, with the differentiator being WFC's low-cost, sticky deposit base. Its commanding market share and deeper client relationships should lead to greater pricing power and better deposit retention as rates rise. Using our bottoms-up forecast, we estimate that WFC could see 30bp of NIM expansion over a two-year period - again assuming rates gradually increase by 200bp.

Valuation/Risks

Our $55 PT applies a 13x multiple to '15E EPS. This is below the historical multiple of 14x to account for slower post-cycle growth and lower ROE. Risks: low rates, regulation.

USD	*Prev.*	2012A	*Prev.*	2013A	*Prev.*	2014E	*Prev.*	2015E
Rev. (MM)	--	85,431.0	--	84,601.0	--	83,682.0	--	87,714.0
EV/Rev		3.0x		3.1x		3.1x		3.0x
Cons. EPS	--	--	--	--	*4.05*	4.11	*4.29*	4.31
EPS								
Mar	--	0.75	--	0.92	--	1.05A	--	--
Jun	--	0.82	--	0.98	--	0.99	--	--
Sep	--	0.88	--	0.99	--	1.00	--	--
Dec	--	0.91	--	1.00	--	1.01	--	--
FY Dec	--	3.36	--	3.89	--	4.05	--	4.20
FY P/E		14.7x		12.7x		12.2x		11.7x

Financial Summary

Book Value (MM):	$158,475.0
Book Value/Share:	$30.10
Net Debt (MM):	$0.0
Dividend Yield:	2.8%

Market Data

52 Week Range:	$50.49 - $38.21
Total Entprs. Value (MM):	$258,821.8
Market Cap. (MM):	$258,821.8
Insider Ownership:	0.1%
Institutional Ownership:	78.7%
Shares Out. (MM):	5,251.0
Float (MM):	5,247.4
Avg. Daily Vol.:	16,418,483

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Price Performance

Wells Fargo

Buy: $55 Price Target

Scenarios

Target Investment Thesis

- Loan growth continues in the low-to-mid single-digit range.
- Net interest margin stabilizes in '15, short-term rates increase in 2H15.
- Tough comps in mortgage banking weigh on fee income growth in '14.
- Capital return accelerates.
- 2015 EPS: $4.20; Target Multiple: 13x; Target Price $55.

Upside Scenario

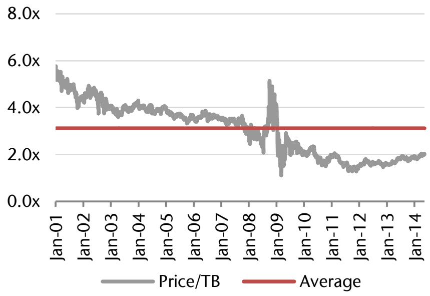
- Portfolio acquisitions supplement organic loan growth.
- Fed raises rates in early-'15, NIM expands in '15.
- Mortgage purchase volume helps offset lower refi volume.
- Credit costs remain well-below normal thru '15.
- 2015 EPS: $4.90; Target Multiple: 13.5x; Target Price $66.

Downside Scenario

- Run-off weighs on loan growth, making it tough to grow the balance sheet.
- Reinvestment yields remain challenged.
- Fed remains on-hold thru '15.
- Mortgage banking fees continue to trend lower.
- Credit quality starts to normalize in '15.
- 2015 EPS: $3.50, Target Multiple: 11x; Target Price $39.

Long Term Analysis

Historical price-to-tangible-book



Source: FactSet, Jefferies

Long Term Financial Model Drivers

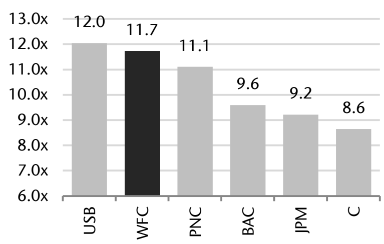
Loan Growth CAGR ('12-'15)	**4%**
Net Interest Margin ('15)	**3.19%**
Efficiency Ratio ('15)	**55%**
ROA ('15)	**1.5%**
ROTE ('15)	**16%**

Other Considerations

Wells Fargo has less exposure to investment banking and international markets, giving it a less complex risk model relative to other universal banks.

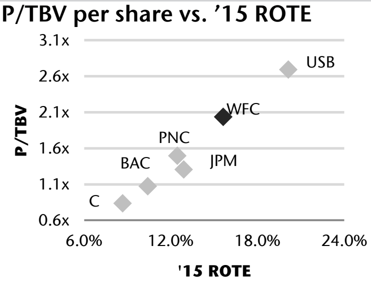
Peer Group

Price-to-EPS (2015)



Source: FactSet, Jefferies

P/TBV per share vs. '15 ROTE



Source: FactSet, Jefferies

Recommendation / Price Target

Ticker	Rec.	PT
WFC	**Buy**	**$55**
BAC	Buy	$18
C	Hold	$55
JPM	Buy	$65
PNC	Buy	$94
USB	Hold	$45

Catalysts

- Earnings releases in January, April, July, and October.
- Industry conferences.
- Annual stress test.
- Higher interest rates.

Company Description

The second largest US bank by deposits, Wells Fargo is known for its strong sales culture and emphasis on cross-sell. Along with its strong deposit franchise, the bank also has significant market share in mortgage banking, retail brokerage, and insurance.

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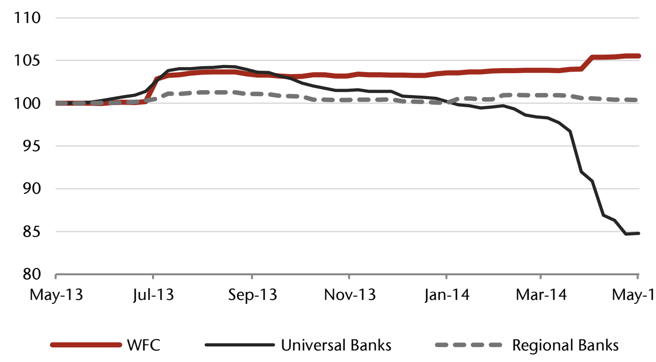
Well-Positioned on Both Sides of the Ball

We do not expect major changes to long-term financial targets, but WFC could raise the range for its capital return payout target.

Wells Fargo will host an Investor Day on 5/20. We expect a consistent and upbeat message highlighting the bank's strong financial results, recent market share gains, and progress on revenue growth initiatives and cross-selling. We expect mgmt. to reiterate its existing long-term financial targets, including ROA of 1.3%-1.6%, ROE of 12%-15%, and an efficiency ratio of 55%-59%. We believe the bank could increase the range for its annual total capital return payout target (currently 50%-65% of earnings) given the bank's excess capital position and relatively slow balance sheet growth today. This may not be taken as a surprise given previous hints by management of late, but it would be a directional positive fundamentally.

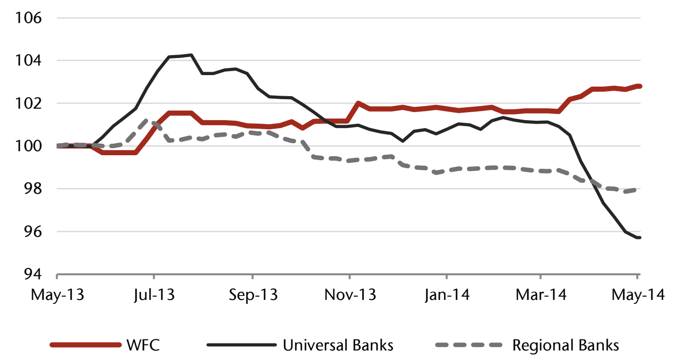
Overall, we continue to like the WFC story due to its diverse business model and numerous earnings levers. These factors have led to better EPS revision trends than peers (see Exhibits 1 and 2 below), as WFC has navigated the tough operating environment better than most. WFC has been able to accomplish this without cutting deeply into the expense base, which leaves the bank well-positioned both offensively and defensively. Should the low interest rate and low growth environment persist for longer-than-expected, WFC could still take a closer look at costs to find efficiencies, in our view. Alternatively, if the revenue backdrop meaningfully improves, its consistent investment strategy over the past several years and its embedded asset-sensitivity should lead to better revenue and earnings growth. Maintain Buy.

Exhibit 1: 2014 EPS revision trends



Estimates indexed to 100 as of 5/14/13. Universal banks include BAC, C, and JPM. Regional banks include BBT, CMA, FITB, HBAN, KEY, MTB, PNC, RF, STI, USB, and ZION. Source: Jefferies, FactSet.

Exhibit 2: 2015 EPS revision trends



Estimates indexed to 100 as of 5/14/13. Universal banks include BAC, C, and JPM. Regional banks include BBT, CMA, FITB, HBAN, KEY, MTB, PNC, RF, STI, USB, and ZION. Source: Jefferies, FactSet.

We see $5+ of EPS potential w/higher rates and normalized capital levels

We expect the majority of the Investor Day will focus on the longer-term and anticipate that management will use its previously disclosed ROA (1.3%-1.6%) and ROE (12%-15%) targets to help frame WFC's earnings potential. We believe these ranges are still appropriate and do not expect any major tweaks. For full-year '13, ROA was approximately 1.5% and ROE was 14%. We note that '13 results included outsized mortgage banking revenues driven by refinancing volumes, but also still-high environmental costs and a depressed net interest margin (NIM) due to low interest rates.

Higher rates and capital deployment will add to EPS over time.

In a normalized environment, we believe the high-end of the profitability target ranges are achievable. If we assume "normalized" occurs in '17 and interest rates are approximately 200bp higher (on average) relative to today, we believe EPS can approach the $4.75-$5.00 range. This conservatively assumes that WFC does not outright reduce capital levels and that Basel III Tier 1 common ratio continues to modestly grow from today's 10.1% level. Should the bank be able to manage its Tier 1 common ratio down to its 9.0% long-term target through buybacks and do so by '17, we believe earnings power could approach $5.25-$5.50. Refer to Exhibit 3 on the following page.

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Key long-term EPS growth drivers (which we expect to hear more about at Investor Day) include:

- **Higher interest rates** – WFC's asset-sensitivity disclosure is different than peers, but it still shows that higher interest rates should benefit the bottom line. In the most recent 10-Q, WFC disclosed that in a scenario where the Fed funds rate increases to 1.75% and the 10-year Treasury yield moves to 4.06%, earnings would increase by up to 5% over 24-months relative to its "most likely" scenario (Fed funds to 1.00%, 10-year to 3.56%).

Better fee growth should emerge in '15, led by brokerage and card fees.

- **Improving fee growth** – Tough mortgage and trading comps are likely to restrain fee growth in '14, but underlying trends across other categories have been strong, especially trust and investment fees (particularly brokerage) and card fees. Comps should get easier in '15, and we expect WFC will be able to grow total fees in the mid single-digit range in '15 and beyond.

- **Solid expense control** – We expect expenses will remain well-controlled, as the bank carefully balances efficiency improvement and investing for growth. Expenses were down 4% Y-Y in 1Q14, which should pave the way for lower expenses on a full-year basis this year. Starting in '15, we estimate that expenses will resume growth in the low single-digit range as revenue growth improves.

- **Capital deployment** – Despite buying back stock, WFC's end-of-period share count has been flat since '11. Going forward, we expect that the combination of larger share repurchases and lower issuance for employee purposes will finally lead to a reduction in the diluted share count. With a Basel III Tier 1 common ratio of 10.1% today vs. a longer-term target of 9.0%, the bank should be able to deploy excess capital over time and improve its base earnings power.

Exhibit 3: EPS could exceed $5 with help from rates and capital deployment

WFC ($B, ex. per share)	2013(A)	2014(E)	2015(E)	Normalized w/o capital outright reduced	Normalized w/ 9.0% Basel III Tier 1 Common*
Earning Assets	$1,284	$1,385	$1,430	$1,484	$1,484
NIM	3.39%	3.18%	3.19%	3.50%	3.50%
Net Interest Income	43.6	44.1	45.7	51.9	51.9
Fees	41.0	39.6	42.0	47.6	47.6
Total Revenues	$84.6	$83.7	$87.7	$99.5	$99.5
Noninterest Expense	(48.8)	(47.4)	(48.7)	(52.3)	(52.3)
Pre-Provision Net Revs.	$35.8	$36.3	$39.1	$47.2	$47.2
EPS	**$3.89**	**$4.05**	**$4.20**	**$4.80**	**$5.35**
Memorandum:					
Net Charge-off Ratio	0.56%	0.40%	0.40%	0.75%	0.75%
Provision / Loans	0.29%	0.23%	0.39%	0.80%	0.80%
ROAA	1.5%	1.5%	1.5%	1.5%	1.5%
Efficiency Ratio	58%	57%	55%	53%	53%
ROE	**14%**	**13%**	**13%**	**13%**	**15%**
ROTE	**18%**	**17%**	**16%**	**15%**	**19%**
Basel III Tier 1 Common	9.8%	10.4%	10.8%	11.1%	9.0%

*Assumes excess capital above the 9.0% target is used to repurchase shares at a $60 share price.
Source: Jefferies, company reports.

NIM should benefit from higher rates

We estimate that a 200bp gradual upward shift in interest rates from '15-'17 could drive about 30bp of NIM expansion.

We believe that management could use the Investor Day forum to help us better understand interest rate sensitivity. Bank-by-bank comparisons are inherently difficult due to different regulatory disclosures, but WFC's rate sensitivity disclosure is quite a bit different than peers. This has raised questions about WFC's level of relative rate sensitivity. We estimate that if rates increase by 200bp (on average) by '17, WFC could see roughly 30bp of NIM expansion vs. '14. We note that the average large/mid-cap bank under coverage is expected to see about 25bp of expansion. We use a bottoms-up approach to arrive at our Wells Fargo NIM estimate, which uses conservative assumptions including:

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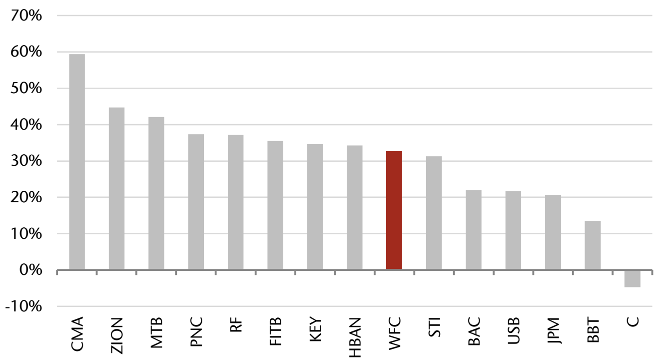
- A 40% deposit beta (% of each 25bp hike given back to depositors) once short-term rates start to rise (which we estimate will be in the back half of '15) with deposit beta increasing closer to 70% by '17.
- Noninterest-bearing deposit run-off of 10% in '16 and an additional '15% in '17 as the opportunity cost of deposits increases (from depositors' perspective).
- Incremental spread compression on commercial loans from '15-'17, assuming that competition continues to weigh on pricing.

WFC's commanding deposit market share and deep customer relationships should be a differentiator when rates start to rise.

We expect that WFC's asset-sensitivity in a rising rate environment will be driven more by the liability side of the balance sheet than the asset side. WFC has a higher proportion of consumer loans at 54% (vs. peers closer to 42%), which tend to be more fixed-rate in nature, so the asset side of the balance sheet could re-price slower than some peers.

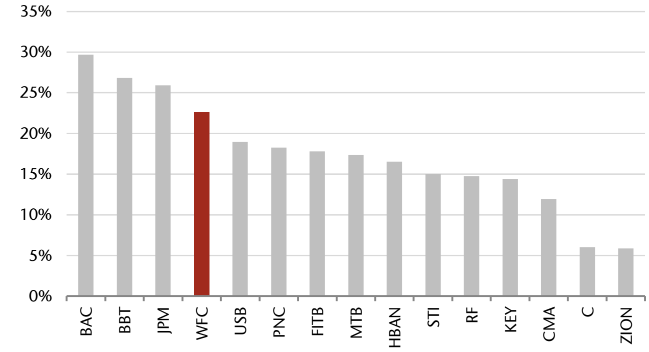
WFC's advantage is likely to come from its low-cost, sticky deposit base. Today, this funding advantage is evident, with WFC's interest-bearing deposit costs at 14bp in 1Q14 vs. the peer group at 25bp. WFC also has $350B of zero-cost deposits (25% of earning assets today) as a further support. We believe WFC's commanding market share and deep customer relationships (due to high levels of cross-sell) should lead to better pricing power and better deposit retention in a rising rate environment.

Exhibit 4: WFC's gap ratio is inline with the peer group...



Note: The one-year gap ratio measures the amount of assets that re-price within a year minus the amount of liabilities as a percentage of assets. Source: Jefferies, SNL Financial, company reports.

Exhibit 5: ...but weighted-average market share is better, which should lead to better pricing power and retention



Note: Weighted-average market share by bank is based on total MSAs per SNL. Source: Jefferies, SNL Financial, company reports.

Staying committed to its 55%-59% efficiency ratio target

We expect that WFC will reiterate its commitment to a 55%-59% efficiency ratio. In 1Q14, the efficiency ratio was 58% and we see a path toward improvement throughout the rest of '14 driven largely by lower expenses. We expect the FY14 efficiency ratio to be approximately 57% and model a downward trajectory into '15 and beyond assuming the revenue backdrop improves and interest rates start to rise in the back half of '15. In our normalized EPS analysis above, we note that if everything went the right way, it is conceivable for the ratio to go below the low-end of the range (while staying in the ROA/ROE ranges).

Revenue growth will be tough in '14 (we estimate core revenues down 1% in '14) largely due to lower mortgage banking revenues, but we believe WFC will drive positive operating leverage through cost reductions (expenses expected to be down 3% Y-Y). Expense reductions are likely to be driven by lower benefits expense, outside professional services/contract services, and environmental costs (namely operating losses and foreclosed asset expense).

WFC has continued to invest in the franchise despite the difficult revenue backdrop over the past several years.

We expect any discussion about efficiency ratio improvement opportunities to focus on revenue growth rather than expense reductions. Despite the tough revenue environment, WFC has been reluctant to cut deeply into the expense base over the past few years. To be

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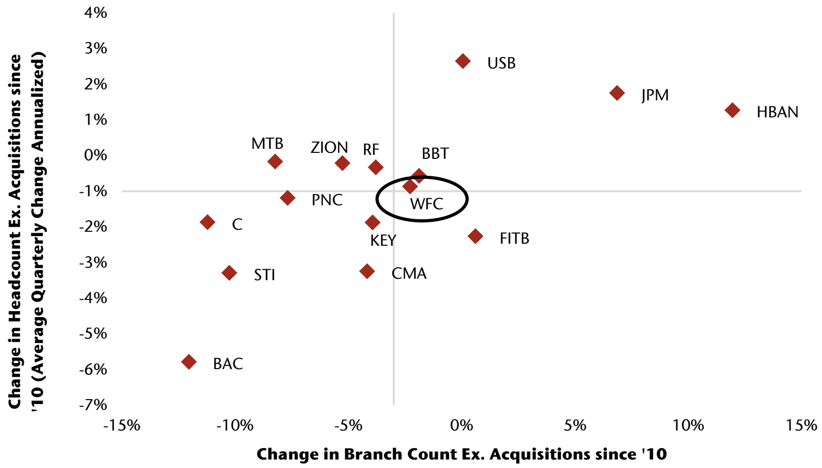
fair, WFC has always been a leaner, more efficient bank and has less obvious low-hanging fruit opportunities. That said, mgmt. remains focused on the longer-term and has been unwilling to pull investments or cut costs that could sacrifice longer-term growth potential.

Exhibit 6: WFC has not cut people or branches as aggressively as some others



Source: Jefferies, SNL Financial, company reports.

WFC has still been able to post 17 consecutive quarters of sequential EPS growth even as core mortgage production revenues have declined to 3% of total revenues in 1Q14 from 14% in '12. This has come without drastically cutting expenses through large-scale headcount reductions or branch closures. Should the low rate, low growth environment persist for longer-than-expected, WFC could still take a closer look at costs to find efficiencies, in our view. Alternatively, if the revenue backdrop meaningfully improves, the consistent investments made throughout the past several years should help lead to better revenue and earnings growth.

Capital return could run above the 50%-65% longer-term target

Mgmt. has previously indicated that its longer-term payout ratio (common dividends and buybacks) would run in the 50%-65% range. This payout range leaves ample room for general balance sheet growth while maintaining a 9.0% Basel III Tier 1 common ratio. However, with a Basel III Tier 1 common ratio of 10.1% today, we believe this target range could be increased (or at least widened at the high end). It is important to keep in mind that this capital payout target does not include shares issued for employee-related purposes, so the actual "net" payout ratio is likely to be lower than the surface target level.

Exhibit 7: CCAR buyback math

WFC Buyback Math ($B):	
DFAST Stressed T1C	8.2%
CCAR '15 T1C (w/ Capital Actions)	6.1%
Delta	2.1%
CCAR RWAs	$1,162
Implied Deployment in CCAR Plan	$24.4
Incremental Common Dividend	2.3
Excess for Buyback (4Q13-4Q15)	$22.1
JEF Model	$20.2

"T1C" stands for Tier 1 common. Source: Jefferies, Federal Reserve, company reports.

Using recent stress test disclosures, we can back into the implied buyback in WFC's submission (see Exhibit 7). We estimate that WFC had approximately $22B of share repurchase from 4Q13-4Q15 in its CCAR submission. In our model, we build-in $20B of share repurchase from 4Q13-4Q15, with $9B coming over the next four quarters (2Q14-1Q15). All in, we expect a total payout ratio of 75%-80% from 2Q14-1Q15, above the existing 50%-65% range. Recall that WFC does not explicitly disclose the dollar amount of its allowed buyback, so investors can only check progress each quarter going ahead.

The delta between share repurchase and share issuance for employee purposes should continue to widen.

Despite meaningful capital deployment going towards share repurchase, the share count is expected to move just modestly lower. This is because WFC tends to issue shares for employee purposes that partially offset share repurchases. For example, we estimate that WFC repurchased approximately 124mm shares in '13, but issued an estimated 115mm shares. Going forward, issuance for employee purposes is expected to slow, while share buybacks should accelerate. This should put downward pressure on the share count.

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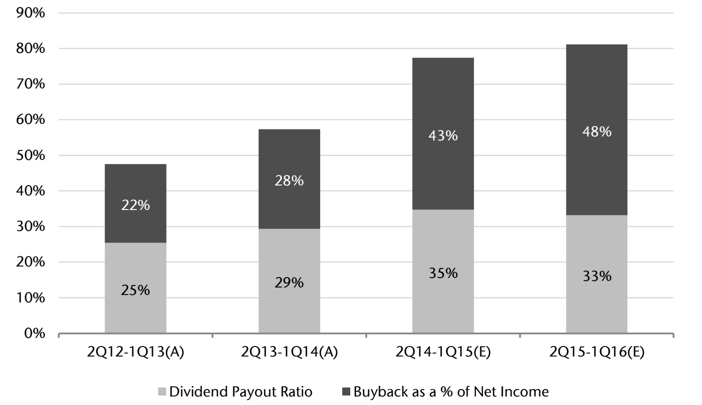
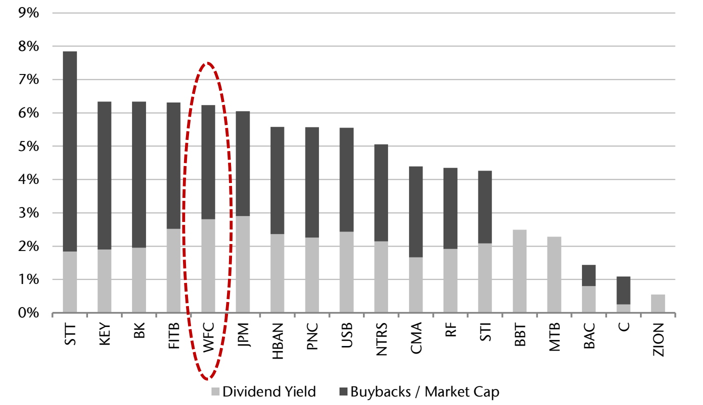
Exhibit 8: We expect total capital return of 75%-85% of earnings over the next two years



Buybacks are shown on a gross basis. Source: Jefferies, company reports.

Exhibit 9: Total capital return (as a % of market cap.) should compare favorably to most peers – 2Q14-1Q15



Buybacks are shown on a gross basis. Source: Jefferies, FactSet, company reports.

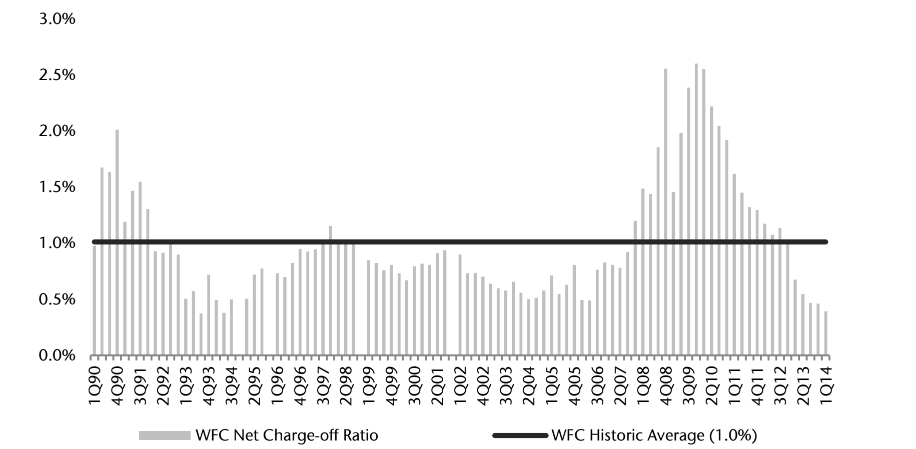
WFC is not likely to change its 100bp "through-the-cycle" loss target, but it will like run decently below that level for some time.

Charge-offs should run well-below "thru-the-cycle" levels for some time

The net charge-off ratio was 41bp in 1Q14, well-below WFC's longer-term "through-the-cycle" target of 100bp. Going forward, we believe there is still room for modest improvement, as home equity losses remain elevated (120bp in 1Q14) and should continue to trend lower as the economy and housing prices further improve. We currently expect the total charge-off ratio to bottom in the 35bp-40bp range near the end of '14.

Given how good credit quality has been, we believe there is some potential that mgmt. could revisit its longer-term loss target. However, due the conservative nature of the company, our best guess is for a reiteration of 100bp of "thru-the-cycle" losses, but with a caveat that it could be quite some time before the loss ratio returns anywhere close to it.

Exhibit 10: WFC historic net charge-off levels



Source: Jefferies, SNL Financial, company reports.

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Exhibit 11: WFC earnings model (2012A-2015E) – page 1 of 2

	2013(A)				2014(E)				Full Year				Y-Y Growth (%)			
($ millions; except per share data)	1Q(A)	2Q(A)	3Q(A)	4Q(A)	1Q(A)	2Q(E)	3Q(E)	4Q(E)	2012(A)	2013(A)	2014(E)	2015(E)	12(A)	13(A)	14(E)	15(E)
	$0.92	$0.98	$0.99	$1.00	$1.05	$0.99	$1.00	$1.01	$3.36	$3.89	$4.05	$4.20	19	16	4	4
Income Statement																
Average Earning Assets	1,234,832	1,265,903	1,289,183	1,347,535	1,364,311	1,377,578	1,391,251	1,407,871	1,169,323	1,284,363	1,385,253	1,430,245	6	10	8	3
Net Interest Margin (FTE)	3.49%	3.47%	3.39%	3.27%	3.20%	3.18%	3.17%	3.16%	3.76%	3.39%	3.18%	3.19%	-19bp	-36bp	-21bp	1bp
Net Interest Income (FTE)	10,675	10,946	10,949	11,022	10,832	10,922	11,116	11,214	43,932	43,592	44,084	45,672	1	(1)	1	4
Loan Loss Provision	1,219	652	75	363	325	450	525	601	7,217	2,309	1,900	3,394	(9)	(68)	(18)	79
NII After LLP	9,456	10,294	10,874	10,659	10,507	10,472	10,592	10,613	36,715	41,283	42,183	42,278	3	12	2	0
Noninterest Income																
Service Charges On Deposit Accounts	1,214	1,248	1,278	1,283	1,215	1,275	1,335	1,340	4,683	5,023	5,165	5,435	9	7	3	5
Trust And Investment Fees	3,202	3,494	3,276	3,458	3,412	3,587	3,537	3,737	11,890	13,430	14,273	15,498	5	13	6	9
Card Fees	738	813	813	827	784	869	904	924	2,838	3,191	3,481	3,781	(22)	12	9	9
Other Fees	1,034	1,089	1,098	1,119	1,047	1,097	1,122	1,172	4,519	4,340	4,438	4,708	8	(4)	2	6
Mortgage Banking Revenue	2,794	2,802	1,608	1,570	1,510	1,409	1,502	1,430	11,638	8,774	5,851	6,209	49	(25)	(33)	6
Insurance	463	485	413	453	432	467	397	432	1,850	1,814	1,728	1,823	(6)	(2)	(5)	5
Net Gains From Trading Activities	570	331	397	325	432	357	307	282	1,707	1,623	1,378	1,528	68	(5)	(15)	11
Operating Leases	130	225	160	148	133	180	180	180	567	663	673	720	8	17	2	7
Other	457	(8)	191	39	115	150	150	150	1,807	679	565	740	4	(62)	(17)	31
Securities Gains	45	(54)	(6)	(14)	83	-	-	-	(128)	(29)	83	-	na	na	na	na
Equity Investment Gains	113	203	502	654	847	400	400	400	1,485	1,472	2,047	1,600	na	na	na	na
Nonrecurring Income	-	-	-	-	-	-	-	-	-	-	-	-	na	na	na	na
Total Noninterest Income	10,760	10,628	9,730	9,862	10,010	9,791	9,834	10,047	42,856	40,980	39,682	42,042	12	(4)	(3)	6
Operating Noninterest Income	10,715	10,682	9,736	9,876	9,927	9,791	9,834	10,047	42,984	41,009	39,599	42,042	13	(5)	(3)	6
Total Operating Revenue	21,390	21,628	20,685	20,898	20,759	20,712	20,951	21,260	86,916	84,601	83,682	87,714	7	(3)	(1)	5
Noninterest Expense																
Salaries	3,663	3,768	3,910	3,811	3,728	3,848	3,877	3,906	14,689	15,152	15,359	15,733	2	3	1	2
Commission and Incentive Compensation	2,577	2,626	2,401	2,347	2,416	2,446	2,446	2,446	9,504	9,951	9,754	10,359	7	5	(2)	6
Employee Benefits	1,583	1,118	1,172	1,160	1,372	922	947	967	4,611	5,033	4,208	4,463	6	9	(16)	6
Equipment	528	418	471	567	490	410	460	550	2,068	1,984	1,910	1,930	(9)	(4)	(4)	1
Net Occupancy	719	716	728	732	742	742	742	742	2,857	2,895	2,968	3,043	(5)	1	3	3
Core Deposit and Other Intangibles	377	377	375	375	341	339	338	336	1,674	1,504	1,354	1,227	(11)	(10)	(10)	(9)
FDIC and Other Deposit Assessments	292	259	214	196	243	240	238	236	1,356	961	957	955	7	(29)	(0)	(0)
Other	2,661	2,973	2,831	2,897	2,616	2,716	2,716	2,816	12,995	11,362	10,864	10,944	(2)	(13)	(4)	1
Extraordinary Expenses	-	-	-	-	-	-	-	-	644	-	-	-	na	na	na	na
Total Noninterest Expense	12,400	12,255	12,102	12,085	11,948	11,664	11,763	11,999	50,398	48,842	47,374	48,653	2	(3)	(3)	3
Operating Noninterest Expense	12,400	12,255	12,102	12,085	11,948	11,664	11,763	11,999	49,754	48,842	47,374	48,653	1	(2)	(3)	3
Pretax, Preprovision Operating Income (JEF)	8,990	9,373	8,583	8,813	8,811	9,049	9,187	9,262	37,162	35,759	36,308	39,060	16	(4)	2	8
Pretax Income (FTE)	7,816	8,667	8,502	8,436	8,569	8,599	8,663	8,660	29,173	33,421	34,491	35,667	20	15	3	3
FTE Adjustment	176	196	201	219	217	219	223	225	702	792	883	915	1	13	12	4
Pretax Income	7,640	8,471	8,301	8,217	8,352	8,380	8,440	8,436	28,471	32,629	33,608	34,752	20	15	3	3
Tax Rate (FTE)	34%	36%	34%	33%	30%	35%	35%	35%	34%	34%	33%	35%				
Effective Tax Rate	32%	34%	32%	30%	27%	32%	32%	32%	32%	32%	31%	32%				
Provision For Taxes (Reported)	2,420	2,863	2,618	2,504	2,277	2,682	2,701	2,699	9,103	10,405	10,359	11,121	22	14	(0)	7
Minority Interest	49	89	105	103	182	100	100	100	471	346	482	400	38	(27)	39	(17)
Net Income	**5,171**	**5,519**	**5,578**	**5,610**	**5,893**	**5,598**	**5,639**	**5,636**	**18,897**	**21,878**	**22,767**	**23,231**	**19**	**16**	**4**	**2**
Operating Net Income	5,171	5,519	5,578	5,610	5,893	5,598	5,639	5,636	19,335	21,878	22,767	23,231	23	13	4	2
Net Income Per Share	**$0.92**	**$0.98**	**$0.99**	**$1.00**	**$1.05**	**$0.99**	**$1.00**	**$1.01**	**$3.36**	**$3.89**	**$4.05**	**$4.20**	**19**	**16**	**4**	**4**
Operating EPS	$0.92	$0.98	$0.99	$1.00	$1.05	$0.99	$1.00	$1.01	$3.45	$3.89	$4.05	$4.20	23	13	4	4
Cash EPS	$0.97	$1.03	$1.04	$1.05	$1.09	$1.04	$1.05	$1.05	$3.58	$4.08	$4.23	$4.36	17	14	4	3
Book Value Per Share	$28.27	$28.26	$28.98	$29.47	$30.10	$30.70	$31.30	$31.90	$27.64	$29.47	$31.90	$34.34	12	7	8	8
Tangible Book Value Per Share	$22.12	$22.19	$22.96	$23.50	$24.20	$24.85	$25.49	$26.14	$21.40	$23.50	$26.14	$28.71	18	10	11	10
Memorandum																
Shares (Repurchased) Issued	23	13	(29)	(17)	9	(16)	(20)	(19)	4	(9)	(47)	(96)				
Avg Shares Outs - Diluted	5,354	5,385	5,382	5,359	5,353	5,346	5,328	5,308	5,351	5,370	5,334	5,253	0	0	(1)	(2)
Period-End Shares	5,289	5,302	5,274	5,257	5,266	5,250	5,230	5,211	5,266	5,257	5,211	5,115	0	(0)	(1)	(2)
Pref Stock Div Paid	240	247	261	241	286	286	286	286	898	989	1,144	1,144	6	10	16	0
Common Stock Div.	1,322	1,591	1,582	1,577	1,580	1,837	1,830	1,824	4,649	6,072	7,071	7,522	83	31	16	6
Common Stock Repurchased	583	1,032	2,091	1,305	1,608	2,250	2,250	2,250	3,854	5,011	8,358	10,500	70	30	67	26
Common Div Paid Per Shr	$0.25	$0.30	$0.30	$0.30	$0.30	$0.35	$0.35	$0.35	$0.88	$1.15	$1.35	$1.46	83	31	17	8
Effective Payout	27%	31%	30%	30%	29%	35%	35%	35%	26%	30%	33%	35%				
Effective Payout w/ Repurchase	39%	50%	69%	54%	57%	77%	76%	76%	47%	53%	71%	82%				
Efficiency Ratio	58%	57%	59%	58%	58%	56%	56%	56%	57%	58%	57%	55%				
Compensation / Total Expenses	63%	61%	62%	61%	63%	62%	62%	61%	58%	62%	62%	63%				
Compensation / Total Revenues	37%	35%	36%	35%	36%	35%	35%	34%	33%	36%	35%	35%				
Fee Revenue / Total Revenue	50%	49%	47%	47%	48%	47%	47%	47%	49%	48%	47%	48%				
Pre-tax Margin	37%	40%	41%	40%	41%	42%	41%	41%	34%	40%	41%	41%				
After Tax Margin	24%	26%	27%	27%	28%	27%	27%	27%	22%	26%	27%	26%				
Return on Assets	1.49%	1.55%	1.53%	1.47%	1.57%	1.46%	1.44%	1.42%	1.41%	1.51%	1.47%	1.45%				
Return on Common Equity	13.6%	14.1%	13.9%	13.8%	14.5%	13.3%	13.1%	12.9%	13.0%	13.9%	13.4%	12.9%				
Return on Tangible Common Equity	17.4%	18.0%	17.7%	17.4%	18.1%	16.5%	16.1%	15.8%	17.2%	17.6%	16.6%	15.6%				

Source: Jefferies, company reports.

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Exhibit 12: WFC earnings model (2012A-2015E) – page 2 of 2

	2013(A)				2014(E)				Full Year				Y-Y Growth (%)			
($ millions; except per share data)	1Q(A)	2Q(A)	3Q(A)	4Q(A)	1Q(A)	2Q(E)	3Q(E)	4Q(E)	2012(A)	2013(A)	2014(E)	2015(E)	12(A)	13(A)	14(E)	15(E)
	$0.92	$0.98	$0.99	$1.00	$1.05	$0.99	$1.00	$1.01	$3.36	$3.89	$4.05	$4.20	19	16	4	4
Average Balance Sheet																
Assets	1,404,334	1,429,005	1,449,610	1,509,117	1,525,905	1,540,743	1,556,036	1,574,624	1,341,475	1,448,017	1,549,327	1,599,648	6	8	7	3
Earning Assets	1,234,832	1,265,903	1,289,183	1,347,535	1,364,311	1,377,578	1,391,251	1,407,871	1,169,323	1,284,363	1,385,253	1,430,245	6	10	8	3
Loans	798,074	800,241	804,779	816,669	823,790	830,423	838,666	848,684	775,187	802,626	835,391	871,143	2	4	4	4
Deposits	986,155	1,009,800	1,025,600	1,060,400	1,014,404	1,026,681	1,037,958	1,049,348	940,390	1,020,489	1,032,098	1,063,061	8	9	1	3
Other Earning Assets	436,758	465,662	484,404	530,866	540,521	547,155	552,586	559,187	394,136	481,738	549,862	559,102	14	22	14	2
Common Equity	147,536	149,657	151,334	153,893	156,709	159,822	162,429	164,965	138,356	150,605	160,981	170,811	11	9	7	6
Intangibles	32,715	32,337	31,960	31,584	31,225	30,884	30,546	30,209	33,507	32,149	30,716	29,420	(3)	(4)	(4)	(4)
Tangible Common Equity	114,821	117,320	119,374	122,309	125,484	128,938	131,883	134,756	104,849	118,456	130,265	141,391	16	13	10	9
Tangible Assets	1,371,619	1,396,668	1,417,650	1,477,534	1,494,681	1,509,859	1,525,490	1,544,415	1,307,968	1,415,868	1,518,611	1,570,228	6	8	7	3
Avg. Earn. Assets/Assets	87.9%	88.6%	88.9%	89.3%	89.4%	89.4%	89.4%	89.4%	87.2%	88.7%	89.4%	89.4%				
Avg. Loans/ Avg. Earn Assets	64.6%	63.2%	62.4%	60.6%	60.4%	60.3%	60.3%	60.3%	66.3%	62.5%	60.3%	60.9%				
Tang Common Equity/Assets	8.4%	8.4%	8.4%	8.3%	8.4%	8.5%	8.6%	8.7%	8.0%	8.4%	8.6%	9.0%				
Period-End Balance Sheet																
Assets	1,436,634	1,440,563	1,488,055	1,527,015	1,546,707	1,561,748	1,577,249	1,596,090	1,422,968	1,527,015	1,596,090	1,640,952	8	7	5	3
Loans	798,362	799,867	809,135	822,286	826,443	834,403	842,928	854,440	799,574	822,286	854,440	893,773	4	3	4	5
Deposits	1,010,733	1,021,585	1,041,871	1,079,177	1,094,576	1,105,522	1,116,577	1,127,743	1,002,835	1,079,177	1,127,743	1,173,534	9	8	5	4
Loans/Deposits	79.0%	78.3%	77.7%	76.2%	75.5%	75.5%	75.5%	75.8%	79.7%	76.2%	75.8%	76.2%				
Common Equity	149,489	149,824	152,843	154,942	158,475	161,169	163,690	166,240	145,582	154,942	166,240	175,658	12	6	7	6
Preferred Equity	12,597	12,597	14,322	16,267	17,179	17,179	17,179	17,179	11,972	16,267	17,179	17,179	13	36	6	0
Total Intangibles (Ex MSR)	32,526	32,148	31,772	31,395	31,054	30,715	30,377	30,041	32,904	31,395	30,041	28,814	(3)	(5)	(4)	(4)
Tangible Common Equity	116,963	117,676	121,071	123,547	127,421	130,454	133,313	136,199	112,678	123,547	136,199	146,844	18	10	10	8
Tang. Common Equity/Assets	8.3%	8.4%	8.3%	8.3%	8.4%	8.5%	8.6%	8.7%	8.1%	8.3%	8.7%	9.1%				
Loans/Assets Ratio	55.6%	55.5%	54.4%	53.8%	53.4%	53.4%	53.4%	53.5%	56.2%	53.8%	53.5%	54.5%				
Tier 1 Common (Basel I)	113,600	117,500	120,300	123,500	132,700	135,394	137,915	140,465	109,100	123,500	140,465	149,883	15	13	14	7
Tier 1 Common (Basel III)	na	na	123,700	126,200	132,100	134,794	137,315	139,865	na	126,200	139,865	149,283			11	7
Tier 1 Capital	129,071	133,000	137,500	140,700	147,600	150,294	152,815	155,365	126,607	140,700	155,365	164,783	11	11	10	6
Total Capital	161,551	165,000	171,300	176,200	179,733	182,427	184,948	187,498	157,588	176,200	187,498	196,916	6	12	6	5
Risk-Weighted Assets (Basel I)	1,094,251	1,097,400	1,135,100	1,141,514	1,168,400	1,176,360	1,184,885	1,196,397	1,077,100	1,141,514	1,196,397	1,235,730	7	6	5	3
Risk-Weighted Assets (Basel III)	na	na	1,297,400	1,293,400	1,311,900	1,319,860	1,328,385	1,339,897	na	1,293,400	1,339,897	1,379,230			4	3
Tier 1 Common Ratio (Basel I)	10.4%	10.7%	10.6%	10.8%	11.4%	11.5%	11.6%	11.7%	10.1%	10.8%	11.7%	12.1%				
Tier 1 Common Ratio (Basel III)	na	na	9.5%	9.8%	10.1%	10.2%	10.3%	10.4%	na	9.8%	10.4%	10.8%				
Tier 1 Capital Ratio	11.8%	12.1%	12.1%	12.3%	12.6%	12.8%	12.9%	13.0%	11.8%	12.3%	13.0%	13.3%				
Total Risk-Based Ratio	14.8%	15.0%	15.1%	15.4%	15.4%	15.5%	15.6%	15.7%	14.6%	15.4%	15.7%	15.9%				
Leverage Ratio	9.4%	9.5%	9.7%	9.5%	9.9%	10.0%	10.0%	10.1%	9.7%	9.9%	10.2%	10.5%				
Credit Quality Data																
Loan Loss Reserve	16,711	16,144	15,159	14,502	13,695	13,295	12,995	12,795	17,060	14,502	12,795	12,695	(12)	(15)	(12)	(1)
LLR as % Of Total Loans	2.09%	2.02%	1.87%	1.76%	1.66%	1.59%	1.54%	1.50%	2.13%	1.76%	1.50%	1.42%				
LLR as % Of NPLs	86%	90%	90%	93%	93%	94%	93%	94%	83%	93%	94%	95%				
LLR as % Of NPAs	73%	77%	73%	74%	73%	73%	74%	74%	70%	74%	74%	76%				
LLR as % Of NCOs	294%	350%	389%	376%	415%	391%	394%	399%	189%	322%	388%	363%				
Loan Loss Provision	1,219	652	75	363	325	450	525	601	7,217	2,309	1,900	3,394	(9)	(68)	(18)	79
Over (Under) Provision	(200)	(500)	(900)	(600)	(500)	(400)	(300)	(200)	(1,817)	(2,200)	(1,400)	(100)				
Provision/Avg Loans	0.62%	0.33%	0.04%	0.18%	0.16%	0.22%	0.25%	0.28%	0.93%	0.29%	0.23%	0.39%				
Provision/NCOs	86%	57%	8%	38%	39%	53%	64%	75%	80%	51%	58%	97%				
Net Charge-Offs	1,419	1,152	975	963	825	850	825	801	9,034	4,509	3,300	3,494	(20)	(50)	(27)	6
% of Loans	0.72%	0.58%	0.48%	0.47%	0.41%	0.41%	0.39%	0.37%	1.17%	0.56%	0.40%	0.40%				
Nonperforming Loans	19,526	17,915	16,893	15,668	14,650	14,211	13,926	13,648	20,486	15,668	13,648	13,376	(4)	(24)	(13)	(2)
% Of Total Loans	2.45%	2.24%	2.09%	1.91%	1.77%	1.70%	1.65%	1.60%	2.56%	1.91%	1.60%	1.50%				
OREO	3,350	3,140	3,802	3,937	4,115	3,909	3,753	3,603	4,023	3,937	3,603	3,357	(14)	(2)	(8)	(7)
Nonperforming Assets	22,876	21,055	20,695	19,605	18,765	18,120	17,679	17,251	24,509	19,605	17,251	16,733	(6)	(20)	(12)	(3)
NPAs / Total Loans + OREO	2.85%	2.62%	2.55%	2.37%	2.26%	2.16%	2.09%	2.01%	3.05%	2.37%	2.01%	1.87%				
% Change in NPLs	-5%	-8%	-6%	-7%	-7%	-3%	-2%	-2%	-4%	-24%	-13%	-2%				
% Chg in OREO	-17%	-6%	21%	4%	5%	-5%	-4%	-4%	-14%	-2%	-8%	-7%				
% Chg In NPAs	-7%	-8%	-2%	-5%	-4%	-3%	-2%	-2%	-6%	-20%	-12%	-3%				

Source: Jefferies, company reports.

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Company Description

The second largest U.S. bank by deposits, Wells Fargo is known for its strong sales culture and emphasis on cross-sell. Along with its strong deposit franchise, the bank also has significant market share in mortgage banking, retail brokerage, and insurance.

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Risk which may impede the achievement of our Price Target

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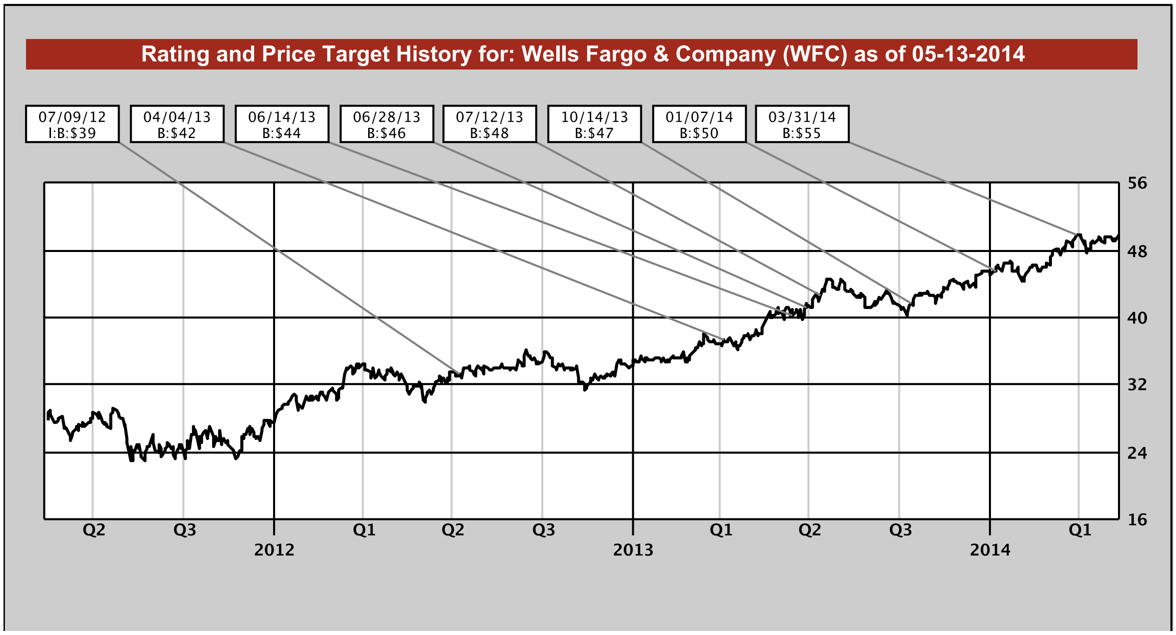
Other Companies Mentioned in This Report

- Bank of America Corp. (BAC: $14.84, BUY)
- Citigroup Inc. (C: $47.12, HOLD)
- JPMorgan Chase & Co. (JPM: $54.36, BUY)
- The PNC Financial Services Group, Inc. (PNC: $83.29, BUY)
- U.S. Bancorp (USB: $40.36, HOLD)
- Wells Fargo & Company (WFC: $49.29, BUY)



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	910	49.70%	247	27.14%
HOLD	774	42.27%	133	17.18%
UNDERPERFORM	147	8.03%	5	3.40%

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