NOMURA

Wells Fargo & Company

WFC.N WFC US

EQUITY: AMERICAS BANKS

Initiating with Buy Rating and $60 TP

The Shrewd Titan

Global Markets Research

13 May 2014

Rating Starts at	**Buy**
Target price Starts at	USD 60.00
Closing price 9 May 2014	USD 49.08
Potential upside	+22.2%

Research analysts

Americas Banks

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WFC is Our Top Pick Because It Gives Us Multiple Ways to Win

We are initiating coverage of WFC with a Buy rating and $60 target price. If the economic recovery remains muted and loan growth modest, we would expect outperformance to come from a combination of fee income and expense control, supplemented by capital return. If the recovery accelerates and loan growth improves, WFC's spread income should gap out as yields rise and margins expand on its large, low-cost, sticky deposit base.

We View the Upcoming Investor Day as a Positive Catalyst

WFC is accreting capital faster than it can lend or pay it out. We expect WFC to take its payout ratio above the high end of its current 50-65% target range at its May 20 investor day. By our math, WFC would need to increase its payout ratio above 100% for its CET1 ratio to fall below its 9.0% target. We estimate that each 500bp increase in the payout ratio increases EPS by 1%.

Net Interest Income Should Gap Out if Macro Improves

With $223bn of excess liquidity at the Fed at 1Q14, WFC's net interest income would likely gap out in a higher loan growth environment, as it deploys some of that low-cost liquidity into higher yielding loans. By our math, 2014 will be another year of core NIM compression and relatively stagnant NII, as the addition of liquid securities pressures margins but remains P&L neutral. By 2015, we expect a modestly higher fed funds rate to drive WFC's core NIM back to 2013 levels. If we are right, NII should gap out to the highest levels WFC has ever achieved.

Sustainable Fee Income Stream Offers Protection

In an environment of lackluster loan growth and uncertainty over when interest rates will rise, we are tactically overweight fee income and expense control. WFC offers an attractive level of exposure to both. Even excluding mortgage, WFC is over-indexed to fee income relative to peers and enjoys a well above industry average fee income growth outlook. The ability of faster-growth business lines to kick in as others slow has been a hallmark of WFC's diverse business model and gives us confidence in its sustainability (e.g., mortgage originations were 6% of WFC's fee income in 1Q14, down from 23% last year, but other businesses such as equity investments, brokerage, and mortgage servicing are now picking up the slack and contributing more to fee income).

December Year End	2013				2014E				2015E			
(Currency US$)	Cons.		NMR		Cons.		NMR		Cons.		NMR	
F1Q EPS	NA	A	$0.92	A	NA	A	$1.05	A	$1.00	E	$1.06	E
F2Q EPS	NA	A	$0.98	A	$1.01	E	$1.01	E	$1.08	E	$1.13	E
F3Q EPS	NA	A	$0.99	A	$1.02	E	$1.02	E	$1.10	E	$1.15	E
F4Q EPS	NA	A	$1.00	A	$1.04	E	$1.04	E	$1.13	E	$1.17	E
EPS	NA	A	$3.89	A	$4.11	E	$4.11	E	$4.30	E	$4.50	E

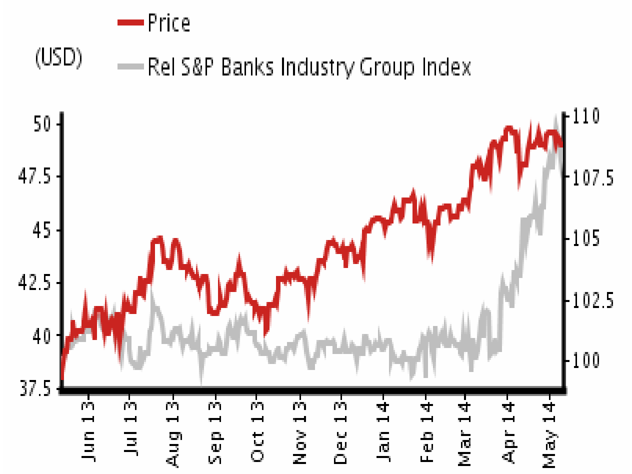
Source: Company data, FactSet, Nomura estimates
Key company data: See page 2 for company data and detailed price/index chart

Key data on Wells Fargo & Company

Rating

Stock	Buy
Sector	Neutral

Relative performance chart



Source: Thomson Reuters, Nomura research

Performance

(%)	1M	3M	12M
Absolute	0.0	8.2	29.5
Relative to S&P Banks Industry Group Index	4.3	7.5	9.9

Market data

Current stock price (USD)	49.08
Market cap (USD - mn)	258,507.8
52-week low (USD)	37.83
52-week high (USD)	50.48
Shares outstanding (mn)	5,267.07

Source: Thomson Reuters, Nomura research

WELLS FARGO & COMPANY - SUMMARY OF KEY ITEMS

in millions, except per share amounts	2012	2013	2014E	2015E
Income Statement				
Net Interest Income	$43,230	$42,800	$43,771	$47,467
Noninterest Income	42,856	40,980	40,127	42,183
Net Revenue	86,086	83,780	83,897	89,649
Noninterest Expenses	50,398	48,842	48,011	49,296
Pre-Provision Net Revenue	35,688	34,938	35,887	40,353
Provision for Credit Losses	7,217	2,309	1,878	3,348
Pretax Earnings	28,471	32,629	34,009	37,005
Net Income	18,897	21,878	23,040	24,763
Net Income Attributable to Common	17,999	20,889	21,896	23,619
YoY Revenue Growth	6.3%	(2.7%)	0.1%	6.9%
YoY PPNR Growth	13.1%	(2.1%)	2.7%	12.4%
Diluted EPS	$3.36	$3.89	$4.11	$4.50
YoY % Growth	19.2%	15.7%	5.6%	9.6%
Key Performance & Operating Metrics				
Period-End Loans	799,574	822,286	847,708	884,195
YoY % Growth	3.9%	2.8%	3.1%	4.3%
Net Interest Margin	3.76%	3.39%	3.23%	3.36%
Efficiency Ratio	58.5%	58.3%	57.2%	55.0%
Net Charge-Off Rate	1.17%	0.56%	0.39%	0.43%
ROA	1.41%	1.51%	1.47%	1.50%
ROTE	17.33%	17.81%	16.39%	16.63%
Capital and Other Metrics				
Book Value Per Share	$27.64	$29.48	$31.47	$33.68
Tangible Book Value Per Share	$21.22	$23.64	$26.54	$28.67
Total Payout Ratio	47.1%	54.6%	63.2%	63.5%
Reserve Rate	2.19%	1.82%	1.59%	1.49%
CET1 Ratio (Basel III)	8.2%	9.8%	10.0%	10.3%

Source: Company data, Nomura estimates

We would like to acknowledge Yuman Lui's work, which was instrumental in the publication of this report.

Investment Case

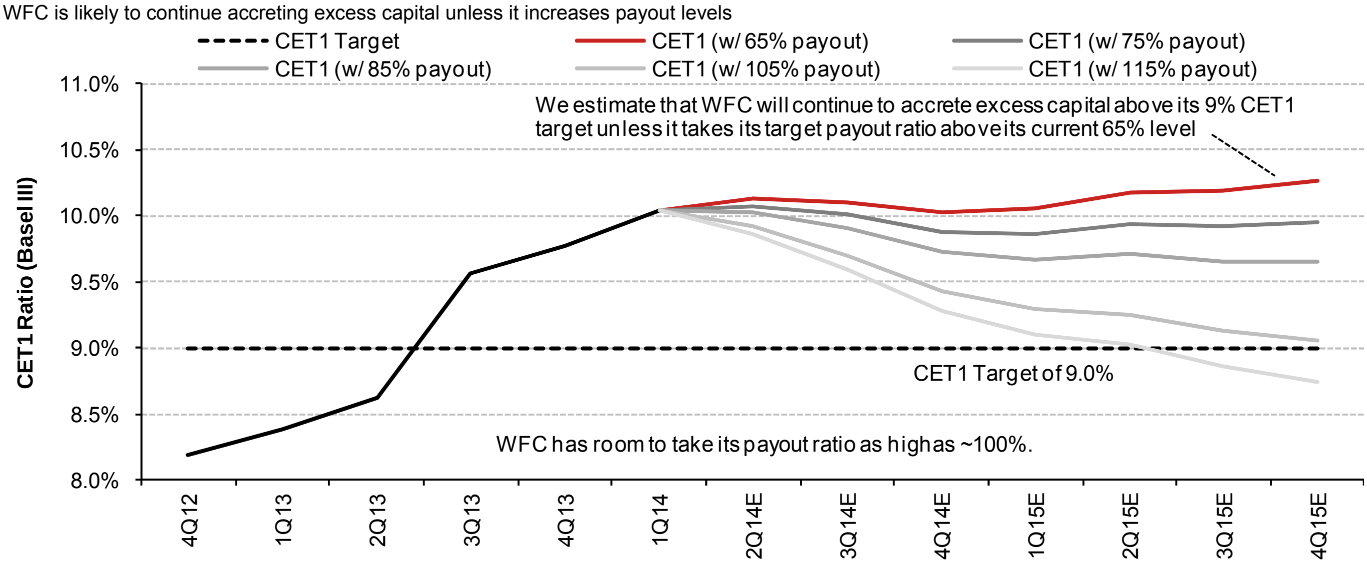
Shrewd risk management and a philosophy of being willing to step aside and slow growth when markets get frothy helped place WFC in a position of strength going into the height of the Great Recession, when it outmaneuvered competitors to complete the acquisition of Wachovia and become a national banking powerhouse. Despite the challenging revenue environment we find ourselves in today, we believe WFC's diversified business model will continue to generate returns well above the company's cost of equity. If the economic recovery remains muted and loan growth modest, we would expect outperformance to come from a combination of fee income and expense control, supplemented by capital return. If the recovery accelerates and loan growth improves, WFC's spread income should gap out as yields rise and margins expand on its large, low-cost, sticky deposit base. Overall, we see room for further share price appreciation and are initiating coverage of WFC with a Buy rating and a $60 price target.

Target Payout Ratio Likely to Increase at Investor Day

We view WFC's upcoming May 20 investor day as a positive catalyst and would be accumulating shares into it based on our view that the company will take its current payout well above the upper end of its current 50-65% target. While investors are expecting a higher payout ratio, we believe they may be positively surprised by the magnitude of the increase. WFC is accreting capital faster than it can lend it or pay it out. By our math, WFC's highly capital generative business model will continue to drive the company's B3 CET1 ratio well above the company's 9% target, which currently exceeds 10% and is unlikely to fall so long as WFC's payout ratio remains at the upper end of its current target range. Fig. 1 shows how WFC's CET1 ratio would decrease as its payout ratio increases. Notably, WFC would need to increase its payout to 115% to lower its CET1 ratio below its 9% target.

Fig. 1: WFC Basel III CET1 Ratio Over Time: Expect Upper End of Payout Ratio Target Range to Increase at Investor Day[1]

WFC is likely to continue accreting excess capital unless it increases payout levels



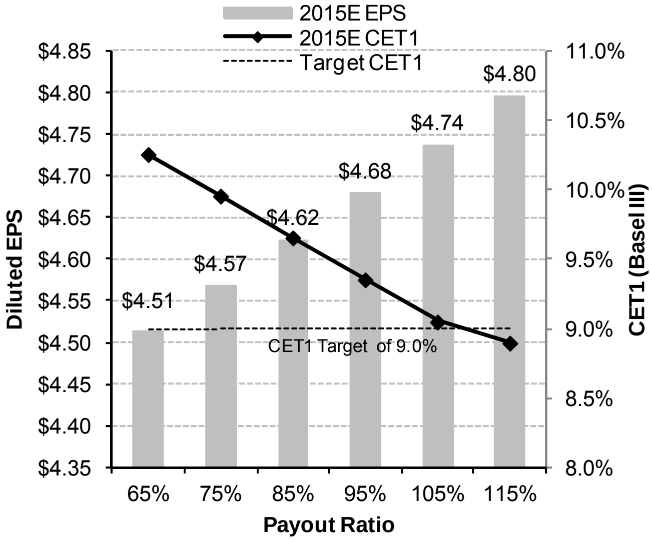
[1]Assumes an equal payout ratio in 2014 and 2015 and an equal payout dollar amount each quarter.

Source: Company data, Nomura estimates

After 2014 CCAR results were released, WFC said it would increase its buyback above the $6bn it repurchased last year but did not provide a specific dollar amount. While it is unclear exactly where WFC's payout ratio will end up, Fig. 2 shows the impact on 2015 EPS of different payout ratio assumptions, ranging from 65-115%. We estimate that each 500bp increase in the payout ratio increases EPS by 1%; the payout ratio would have to exceed 110% for WFC's CET1 ratio to fall below the company's 9.0% target. Fig. 3 shows how WFC's payout ratio would fare relative to other banks.

Fig. 2: 2015 EPS and CET1 Estimates at Different Payouts[1]

We estimate EPS increases by 1% for each 500bp increase in payout

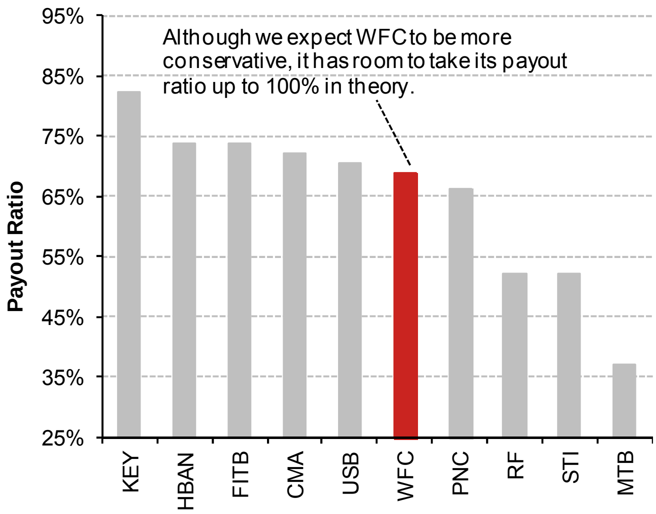


[1]Assumes equal payout ratio and quarterly payout dollar amounts in 2014 and 2015.

Source: Nomura estimates

Fig. 3: Expected Payout Ratios in 2Q14-1Q15[1]

We estimate a 69% payout ratio for WFC with room to move higher



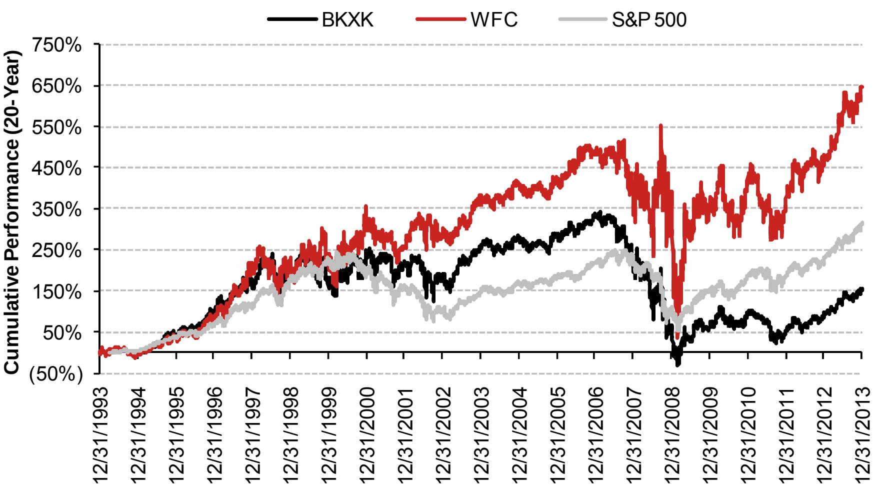
[1]Payout ratios based on consensus estimates for 2Q14-1Q15 as of May 9, 2014. WFC has not disclosed the share repurchase amount included in its capital plan. We assume that it will repurchase $7.7bn of shares from 2Q14-1Q15.

Source: Company data, FactSet, Nomura estimates

Capital return remains an important element of shareholder value creation in the current environment, and we believe it will contribute to WFC's ability to continue to generate industry-leading returns, which should ultimately drive further share price appreciation. Fig. 4 and Fig. 5 highlight WFC's through-the-cycle outperformance over the past 20 years relative to the S&P 500 and BKX. We believe this outperformance is likely to persist as we look ahead.

Fig. 4: 20-Year Share Price Performance: WFC vs. BKX and S&P 500[1]

WFC shares have outperformed the BKX by 500% over the past 20 years



[1]Based on share prices through market close on December 31, 2013.

Source: FactSet, Nomura research

Fig. 5: WFC vs. BKX Performance[1,2]

WFC outperforms broader bank universe

Time Horizon	WFC	Outperform / (Underperform) relative to BKX
20-Year	645.0%	491.0%
15-Year	127.4%	141.3%
10-Year	54.2%	83.1%
5-Year	54.0%	(2.3%)
1-Year	29.5%	13.0%
YTD	8.1%	10.0%

[1]20-year, 15year, 10-year, 5-year performance based on share prices at market close on December 31, 2013.

[2]1-year performance based on share prices for trailing 12 months, ending May 9, 2014.

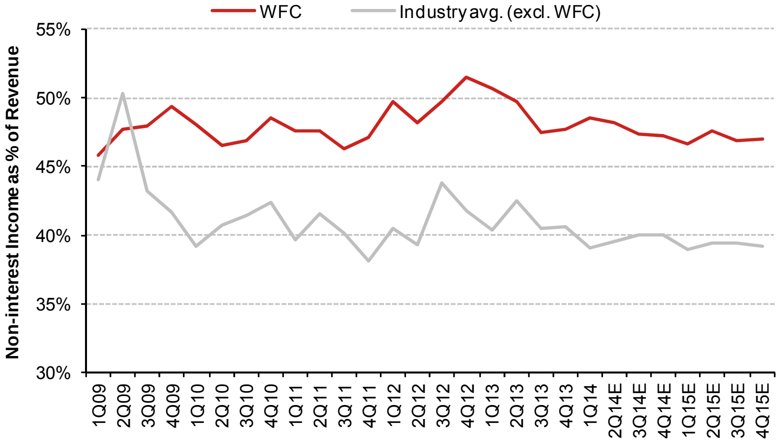
Source: FactSet, Nomura research

High Fee Income Exposure Offers Protection

In an environment of lackluster loan growth and uncertainty over when interest rates will increase, we are tactically overweight fee income and expense control. WFC offers an attractive level of exposure to both. Fig. 6 and Fig. 7 show that WFC generates the highest percentage of revenues from fee income relative to peers.

Fig. 6: Fee Income as a % of Revenue Over Time[1]

WFC's fee income has skewed well above the industry average

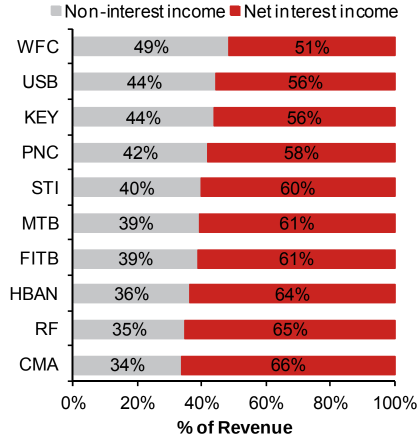


[1]Industry average comprises CMA, FITB, HBAN, KEY, MTB, PNC, RF, STI, and USB.

Source: Company data, Nomura estimates

Fig. 7: Fee Income as % of Revs, 1Q14

Fee income accounted for 49% of WFC's revs

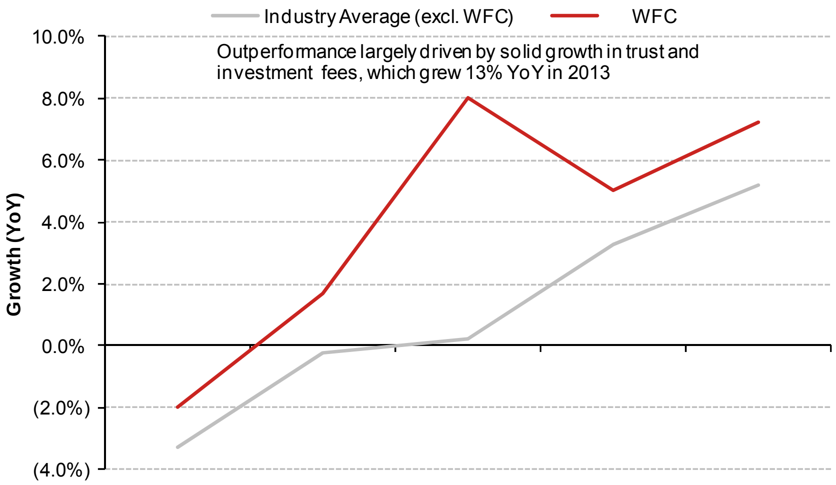


Source: Company data, Nomura research

In addition to being over-indexed to fee income relative to peers, WFC also enjoys above industry average fee income growth. Although the company benefitted handsomely by riding the mortgage wave during the refinancing boom, investors have expressed concern over WFC's ability to continue to grow fee income now that the boom has passed. Fig. 8 and Fig. 9 show that WFC's fee income businesses, excluding mortgage, also deliver well above industry average growth. The ability of faster-growth business lines to kick in as others slow has been a hallmark of WFC's diverse business model and gives us confidence in its sustainability (e.g., mortgage originations were 6% of WFC's fee income this quarter, down from 23% last year, but other businesses such as equity investments, brokerage, and mortgage servicing contributed more to fee income in 1Q14).

Fig. 8: Fee Income Growth Over Time[1,2]

We expect WFC's fee income growth to continue to outpace the industry



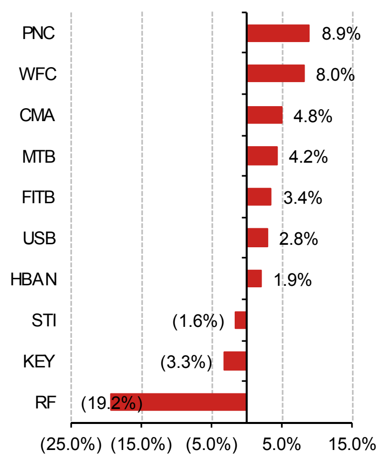
[1]Fee income adjusted to exclude mortgage banking fees, securities gains/losses, and other non-interest income.

[2]Industry average comprises CMA, FITB, HBAN, KEY, MTB, PNC, RF, STI, and USB. PNC and MTB data adjusted for the acquisition of RBC Bank and Wilmington, respectively.

Source: Company data, Nomura estimates

Fig. 9: Fee Income Growth, 2013[1]

Non-mortgage fee businesses are driving growth



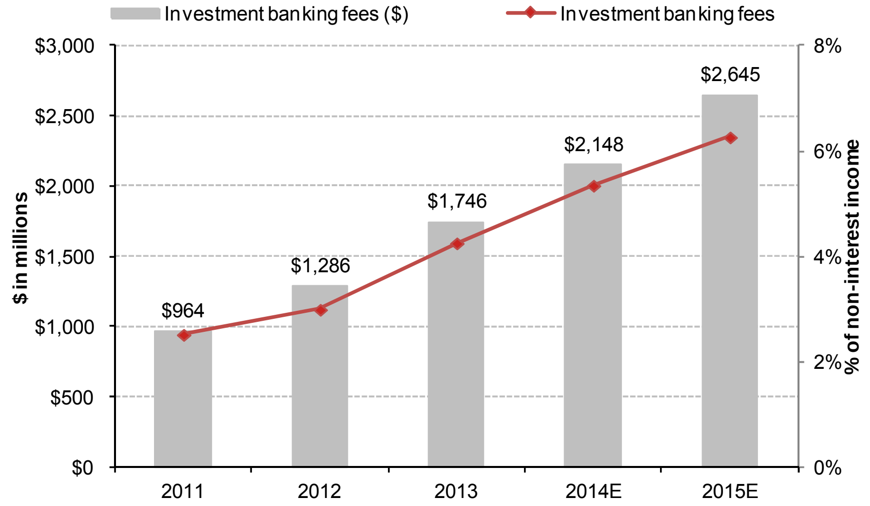
[1]Non-interest income adjusted to exclude mortgage banking fees, gains / losses on securities, and other non-interest income.

Source: Company data, Nomura research

Within Fee Income, WFC's Trust and Investment Fees line item includes Brokerage Advisory, Commissions and other Fees; Trust and Investment Management Fees; and Investment Banking Fees. While all have enjoyed attractive growth, we see WFC's investment banking business as a significant driver of incremental fee income growth as we look to the future. Fig. 10 shows the growing contribution of investment banking fees to non-interest income. More broadly, Fig. 11 shows the growing contribution of trust and investment fees to non-interest income. We expect this topic to receive lots of attention at the upcoming May 20 investor day.

Fig. 10: Investment Banking Fee Contribution to Non-Interest Income

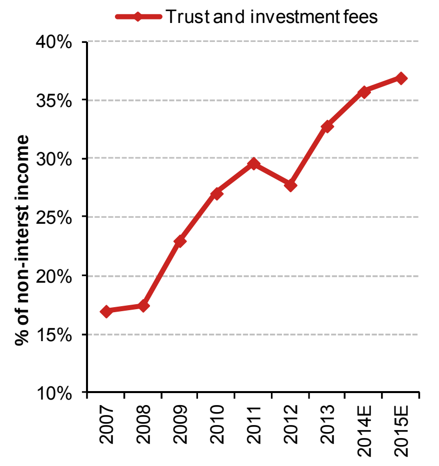
We expect investment banking fee contribution to total fee income to become >6% by 2015



Source: Company data, Nomura estimates

Fig. 11: Trust and Investment Fees

Contribution to fee income has grown since 2007



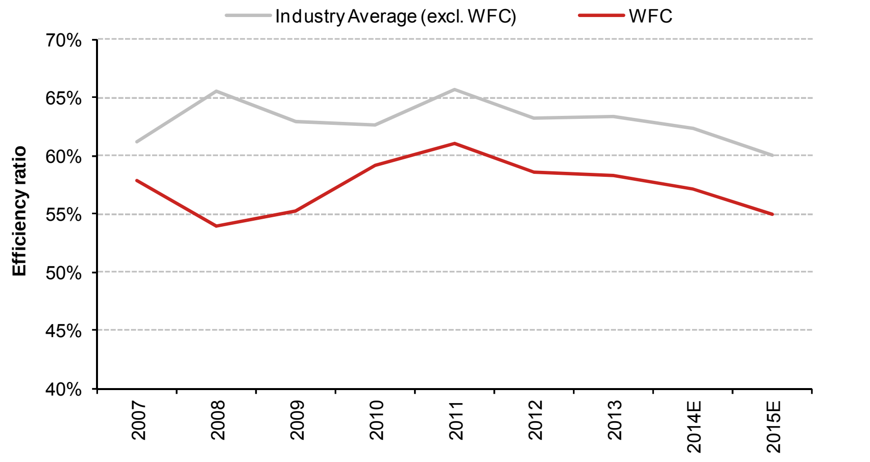
Source: Company data, Nomura estimates

Operates One of the Most Efficient Models in Banking

In addition to fee income, expense control is one of the key pillars to our investment thesis in the current environment. Fig. 12 and Fig. 13 show that WFC consistently leads the industry with an efficiency ratio well below the peer average. Only USB, which enjoys the benefit of a high operating leverage payments business, had a lower efficiency ratio at 1Q14.

Fig. 12: Efficiency Ratio Over Time, WFC vs. Industry[1,2]

We expect further improvement in efficiency and continued outperformance through 2015



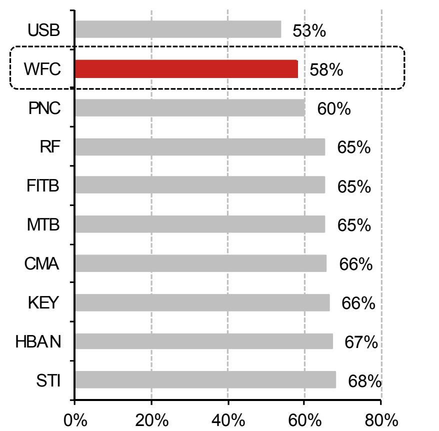
[1]Industry average comprises CMA, FITB, HBAN, KEY, MTB, PNC, RF, STI, and USB.

[2]HBAN / RF adjusted to exclude a $2.6bn / $6.0bn goodwill impairment charge in 2009 / 2008.

Source: Company data, Nomura estimates

Fig. 13: Efficiency Ratio, 1Q14

WFC ranks second in operating efficiency

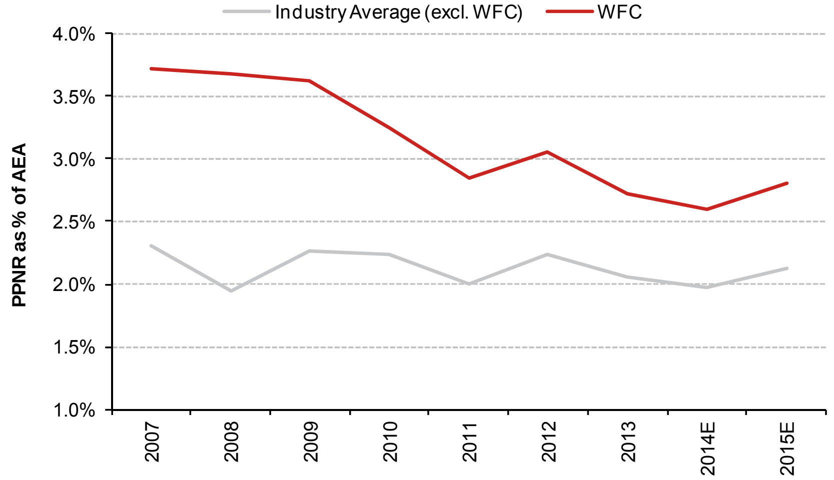


Source: Company data, Nomura research

In addition to being highly efficient, WFC also operates one of the most productive business models in banking. The combination of strong fee income and expense control enables WFC to generate industry-leading Pre-Provision Net Revenue (PPNR) as a percentage of average earning assets (AEA).

Fig. 14: Pre-Provision Net Revenue as a % of Average Earning Assets[1,2]

We expect WFC to maintain a ~70bp lead over the industry through 2015

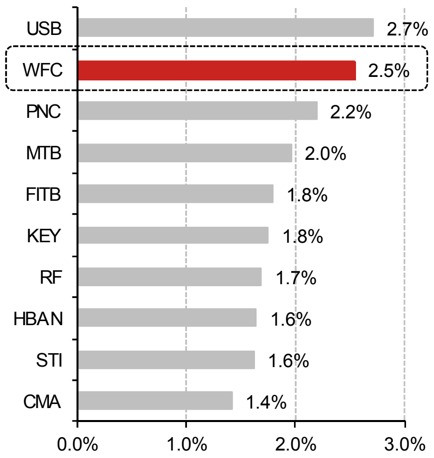


[1]Industry average comprises CMA, FITB, HBAN, KEY, MTB, PNC, RF, STI, and USB.
[2]HBAN / RF adjusted to exclude a $2.6bn / $6.0bn goodwill impairment charge in 2009 / 2008.

Source: Company data, Nomura estimates

Fig. 15: PPNR as % of AEA, 1Q14

WFC ranks second, just 20bps below USB



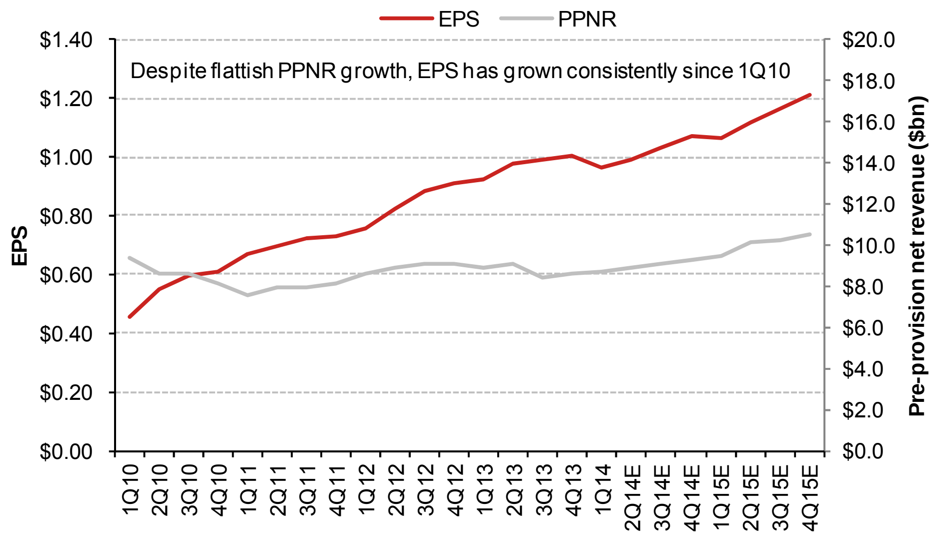
Source: Company data, Nomura research

Net Interest Income Set to Gap Out if Macro Improves

We are not sitting around waiting for better loan growth and higher interest rates and feel quite comfortable owning WFC if the economic environment remains lackluster, particularly given its leverage to fee income and expense control. By the end of 2015, we expect WFC will have tripled its EPS growth from 2010 levels despite flattish pre-provision net revenues (see Fig. 16).

Fig. 16: EPS vs. PPNR Growth

We expect WFC to continue delivering EPS growth despite the challenging operating environment

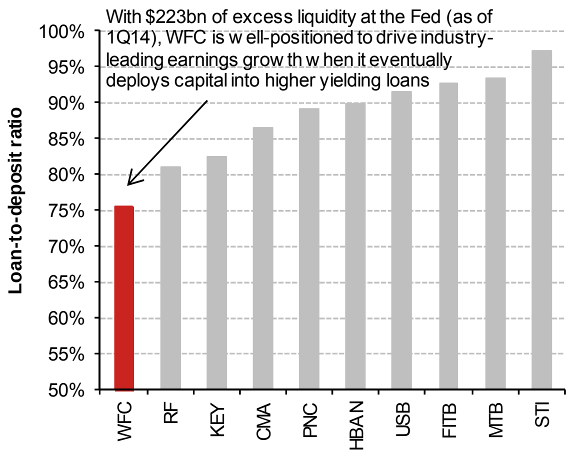


Source: Company data, Nomura estimates

Although our estimates currently call for flattish PPNR through 2015, the meaningful incremental upside that WFC offers to the extent the macro outlook for banks ever improves is not lost on us. Fig. 17 shows that WFC has the lowest loan-to-deposit ratio in the industry, and Fig. 18 shows that it also enjoys the lowest cost on interest-bearing deposits. With $223bn of excess liquidity at the Fed at 1Q14, WFC's net interest income would likely gap out in a higher loan growth environment, as it deploys some of that low-cost liquidity into higher yielding loans.

Fig. 17: Comparing Loan-to-Deposit Ratios, 1Q14

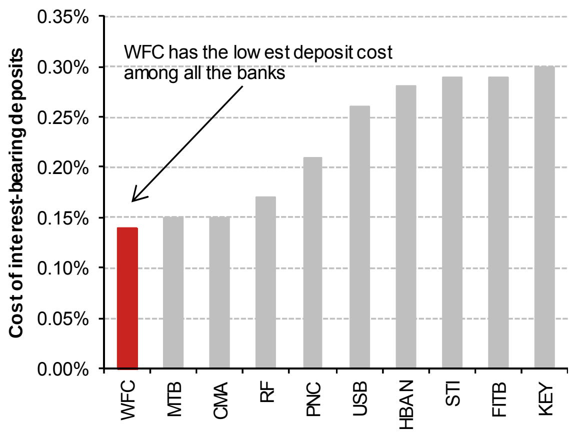
WFC has significant liquidity available to deploy into higher yielding assets



Source: SNL Financial, Company data, Nomura research

Fig. 18: Comparing Costs of Interest-Bearing Deposits, 1Q14

WFC has the lowest interest-bearing deposit cost among the banks

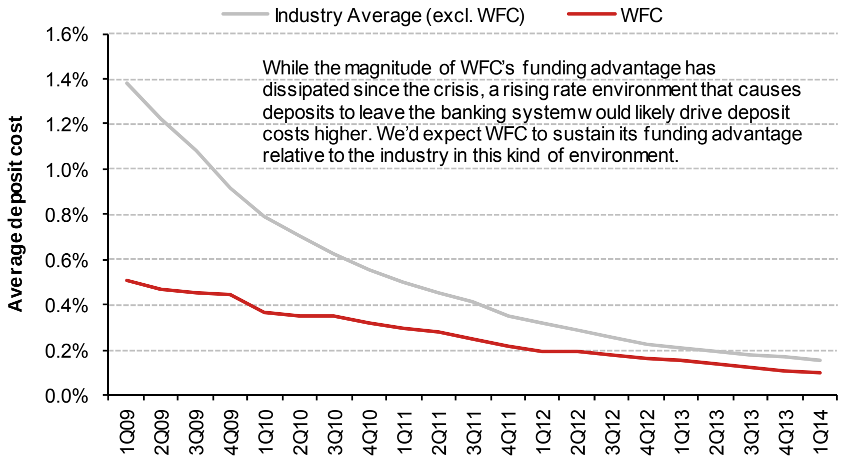


Source: SNL Financial, Company data, Nomura research

Fig. 19 shows that the size of WFC's funding advantage relative to the industry has dissipated since the Great Recession, as competitors have taken advantage of the low rate environment to replace high cost consumer funding raised during the crisis. Looking ahead, we would not be surprised to see WFC's funding advantage once again grow as rates eventually increase and deposits leave the banking system. We view WFC's deposit base as stickier relative to the overall industry, with convenience and service acting as key drivers in the company's ability to keep deposit costs relatively low. Fig. 20 gets at one of the core reasons why WFC is able to keep its deposit costs so low; at 1Q14, WFC's retail banks cross sold 6.16 products per household, up from 5.5 in 2009.

Fig. 19: Average Deposit Cost Over Time[1]

WFC has consistently enjoyed lower funding costs relative to peers

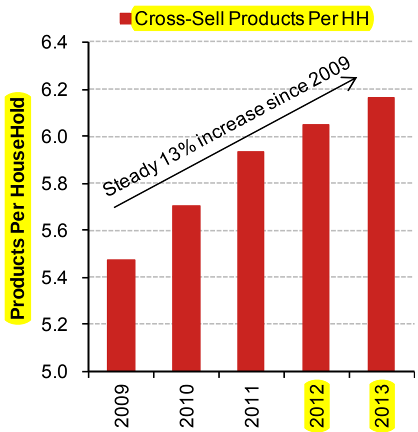


[1]Industry average comprises CMA, FITB, HBAN, KEY, PNC, RF, STI, and USB.

Source: Company data, Nomura research

Fig. 20: WFC Products Per Household

WFC moving towards target of 8 products per HH

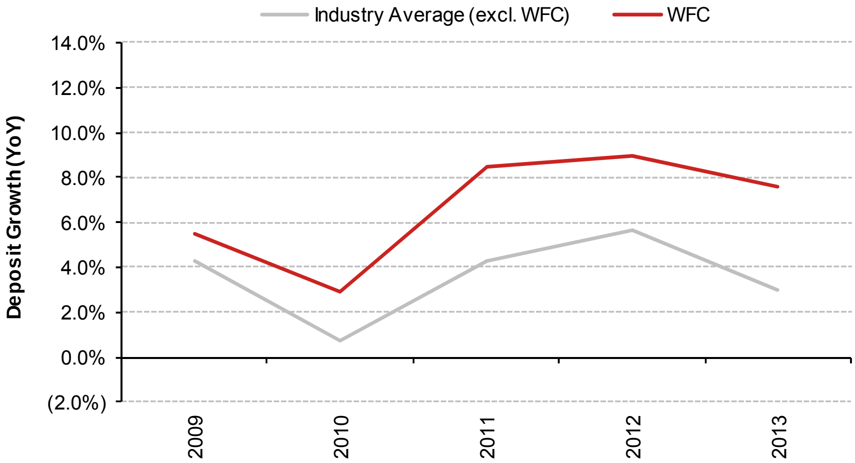


Source: Company data, Nomura research

Fig. 21 shows that WFC deposit growth has outpaced the industry average since 2009 when customers fled to WFC and other quality banks for safety. Fig. 22 shows that WFC maintained its industry-leading growth rate in 1Q14.

Fig. 21: Deposit Growth Rates Over Time[1,2]

WFC deposits have grown faster than the industry average since 2009



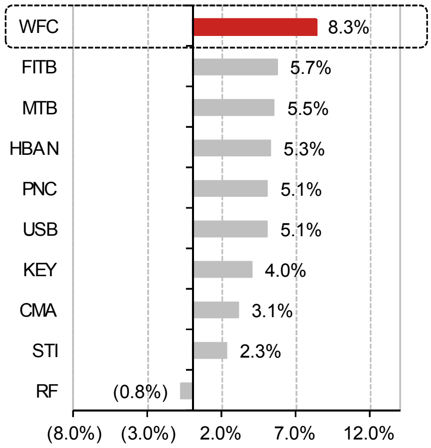
[1]Industry average comprises CMA, FITB, HBAN, KEY, PNC, RF, STI, and USB.

[2]Growth rate based on period-end deposits, adjusted for mergers and acquisitions for comparability. Where applicable, period-end deposits prior to an acquisition have been adjusted to include the period-end deposits of the target.

Source: Company data, Nomura research

Fig. 22: Deposit Growth Rate, 1Q14

WFC deposits grew at an impressive 8.3%



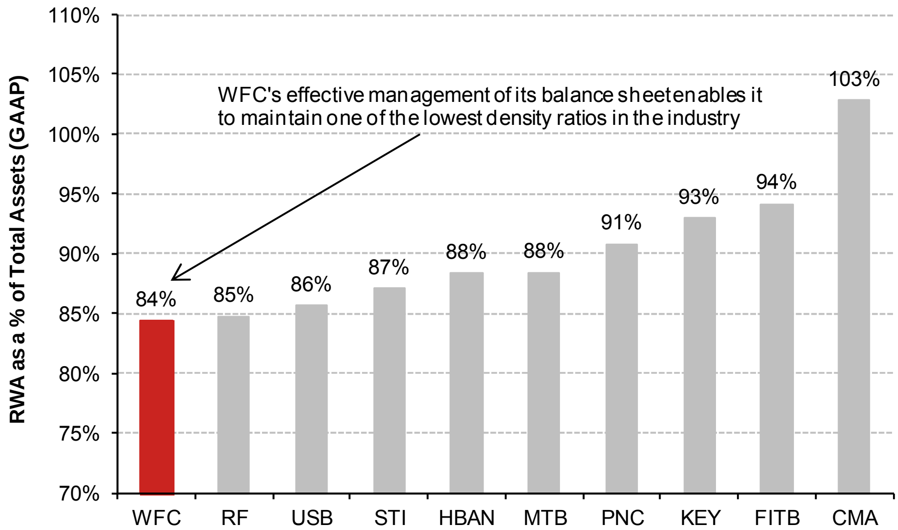
Source: Company data, Nomura research

Effective Balance Sheet Risk Management Provides an Edge

WFC continues to effectively manage the level of risk underlying its portfolio, as evidenced by the reduction in its RWA density ratio (Basel III risk-weighted assets divided by GAAP assets fell from 98% in 4Q12 to 84% in 4Q13). Fig. 23 shows that WFC has the lowest RWA density ratio in the industry.

Fig. 23: Comparing Basel III RWA Density Ratios Across the Industry[1]

Effective balance sheet management has allowed WFC to maintain the lowest density ratio among peers



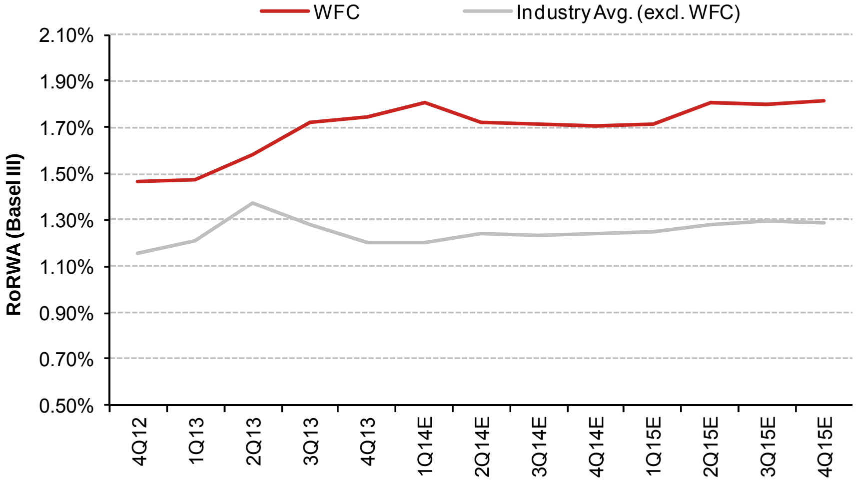
[1]Density ratios based on risk-weighted assets and GAAP total assets as of 4Q13

Source: Company data, Nomura research

Effective RWA optimization goes hand in hand with the ability to generate attractive returns on risk-weighted assets. Fig. 24 shows that WFC generates returns on its risk-weighted assets well above the industry average.

Fig. 24: WFC Returns on Risk-Weighted Assets (Basel III) vs. the Industry[1]

Basel III capital requirements don't change the superior return story

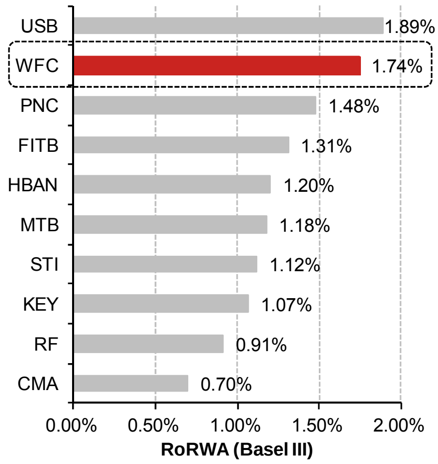


[1]Industry average comprises CMA, FITB, HBAN, KEY, MTB, PNC, RF, STI, and USB.

Source: Company data, Nomura estimates

Fig. 25: RoRWA (Basel III), 4Q13

WFC outperformed all, except USB

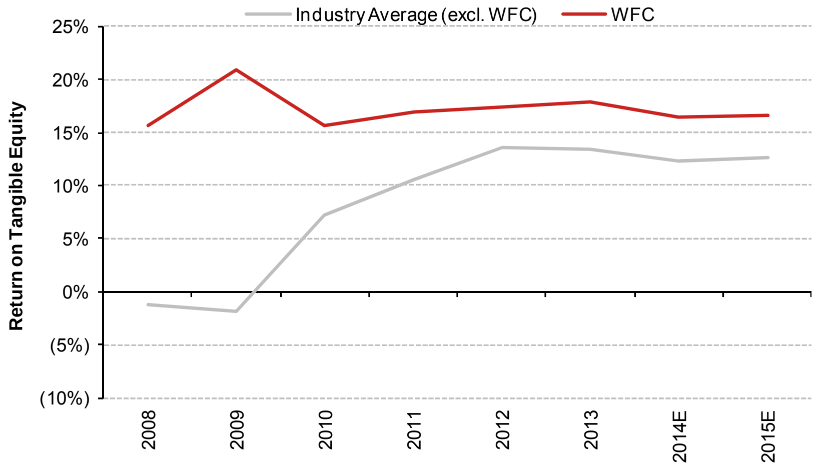


Source: Company data, Nomura research

The story remains unchanged on a GAAP basis. Fig. 26 and Fig. 27 show that WFC's returns on tangible common equity remain industry leading. With competitors that were taken down by the Great Recession now back up off the mat, it is no surprise that excess returns have dissipated as competition has intensified.

Fig. 26: Returns on Tangible Equity Over Time[1]

WFC consistently generates industry-leading returns

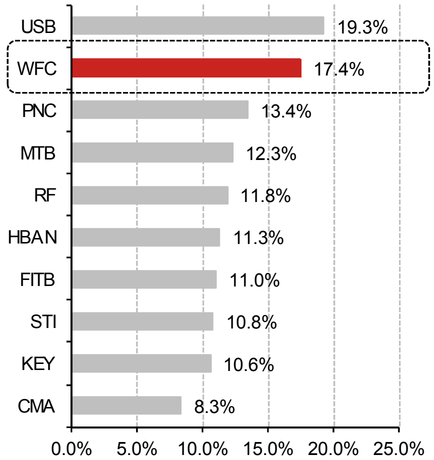


[1]Industry average comprises CMA, FITB, HBAN, KEY, MTB, PNC, RF, STI, and USB.

Source: Company data, Nomura estimates

Fig. 27: Return on Tangible Equity, 1Q14

WFC's ROTE is second to just USB



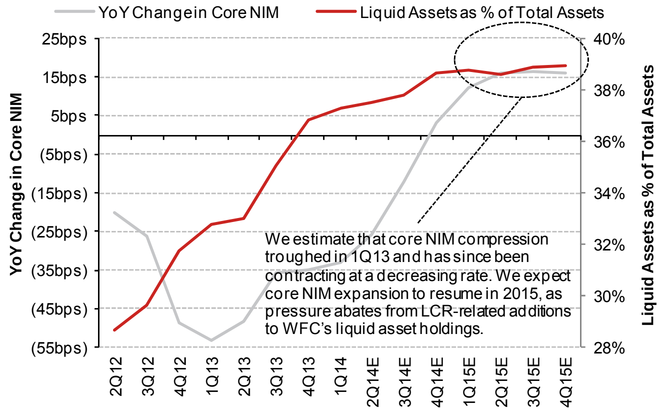
Source: Company data, Nomura research

LCR-Driven NIM Compression Appears to Have Bottomed

The gray line in Fig. 28 shows that WFC's core NIM, which excludes the impact of purchase accounting accretion, has been compressing since 2012. We believe YoY core NIM compression peaked just shy of 55bps in 1Q13 when the company's liquid assets represented ~32% of its total assets (red line). NIM compression has continued at a decreasing rate as the company has slowed the growth in its liquid asset holdings in an effort to become compliant with LCR rules, which are set to kick into effect at the beginning of 2015. By our math, 2014 will be another year of core NIM compression and relatively stagnant NII, as the addition of liquid securities pressures margins but remains P&L neutral. By 2015, we expect a modestly higher fed funds rate to drive WFC's core NIM back to 2013 levels. If we are right, NII should gap out to the highest levels WFC has ever achieved (see Fig. 29).

Fig. 28: NIM Compression Should Abate by Year-End 2014

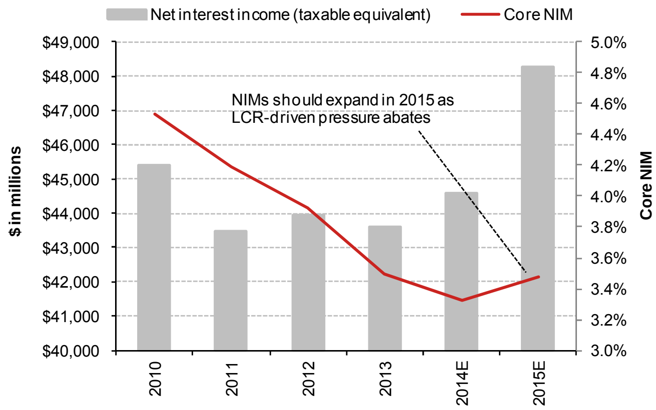
NIM compression likely to abate after reaching target liquidity levels



Source: Company data, Nomura estimates

Fig. 29: NIM Expansion Expected in 2015

We expect NIM expansion in 2015 to drive meaningful NII growth



Source: Company data, Nomura estimates

Valuation and Key Risks

We are initiating coverage of WFC with a Buy rating and a $60 price target, which implies 2.1x our estimate of 2015 TBVPS of $28.67 and ~13.3x our estimate of 2015 EPS of $4.50. Fig. 30 highlights our assessment of the potential upside / downside associated with the owning the banks under our coverage.

Fig. 30: Initiating coverage of WFC with Buy Rating and $60 Price Target, Based on Our Implied Price of $59.58[1,2]

FY 2015E	CMA	FITB	HBAN	KEY	MTB	PNC	RF	STI	USB	WFC
Return on tangible equity	8.4%	13.2%	11.7%	10.4%	16.0%	13.2%	10.6%	10.9%	20.7%	16.6%
÷ Cost of equity	8.5%	8.5%	8.5%	8.5%	7.0%	8.0%	8.5%	8.5%	7.0%	8.0%
Justified P/TBV Multiple	1.0x	1.6x	1.4x	1.2x	2.3x	1.6x	1.2x	1.3x	3.0x	2.1x
x Tangible BVPS	$40.48	$15.01	$7.05	$11.38	$64.03	$63.92	$8.92	$31.49	$17.20	$28.67
Implied share price	$40.17	$23.28	$9.72	$13.86	$146.36	$105.41	$11.13	$40.51	$50.95	$59.58
Current share price	$47.76	$20.55	$9.24	$13.60	$121.37	$84.18	$10.26	$38.00	$40.32	$49.08
Upside / (downside)	(15.9%)	13.3%	5.2%	1.9%	20.6%	25.2%	8.5%	6.6%	26.4%	21.4%
Rating	Reduce	Neutral	Neutral	Neutral	Buy	Buy	Neutral	Neutral	Buy	Buy

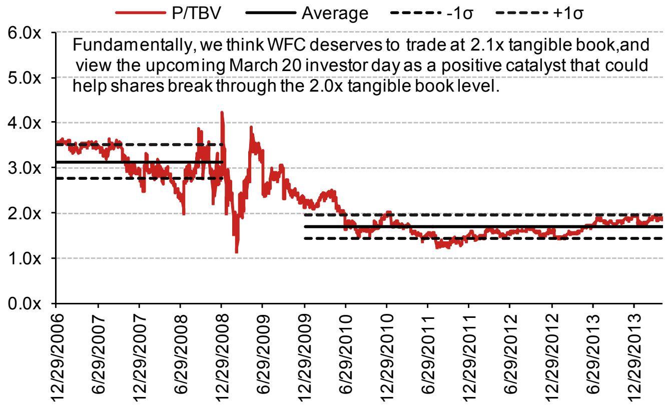
We see value in WFC shares and are initiating coverage with a Buy rating and a $60 target price

[1]MTB's ROTE is based on our view that the company can maintain a long-term 16% return post-acquisition of HCBK.
[2]Upside / downside based on share prices at market close on May 9, 2014.
Source: Company data, Nomura estimates

Fig. 31 and Fig. 32 highlight WFC's historical trading levels on a P/TBV and P/E basis. Overall, we view the 2.1x tangible book multiple inherent in our valuation as reasonable. Although WFC shares have not broken past a 2.0x P/TBV multiple since the Great Recession, we believe that fundamentally shares deserve to trade at 2.1x tangible book, and we expect them to rerate as the company continues to generate superior returns over the coming quarters. We see the May 20 investor day as a near-term catalyst that could drive WFC to break above the 2.0x tangible book mark.

Fig. 31: WFC Historical P/TBV Multiples[1]

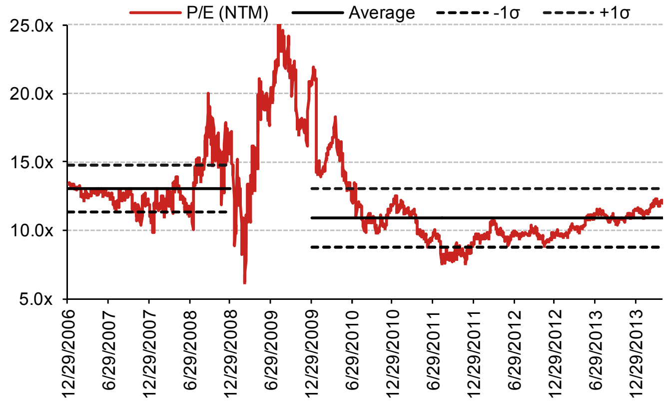
Since 2010, WFC has traded at an average of 1.7x tangible book value



[1]Based on consensus estimates and share prices through May 9, 2014 market close.
Source: FactSet, Company data, Nomura research

Fig. 32: WFC Historical P/E (NTM) Multiples[1]

Since 2010, WFC has traded at an average of 10.9x NTM EPS

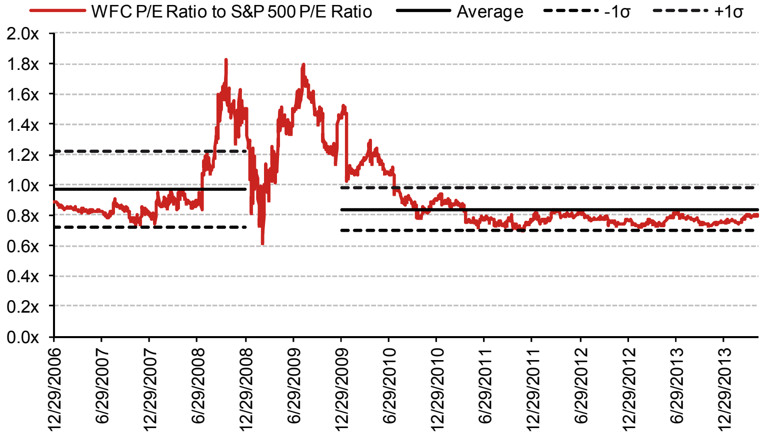


[1]Based on consensus estimates and share prices through May 9, 2014 market close.
Source: FactSet, Company data, Nomura research

Prior to the Great Recession, Fig. 33 shows that WFC traded at a premium to the S&P 500. Since 2010, WFC has tended to trade at a discount to the broader market at a multiple of ~0.8x on average. A 2.1x P/TBV multiple implies a valuation of ~0.9x the S&P 500 multiple at current levels.

Fig. 33: WFC Trades at a Lower P/E (NTM) Multiple Relative to the S&P 500[1]

On average, WFC shares have traded at multiples below the S&P 500's



[1]Based on consensus estimates and share prices through May 9, 2014 market close

Source: FactSet, Nomura research

Excess Capital

In the current environment, we see little value to excess capital based on our view that (1) much of what is in the system today is trapped and (2) it represents a drag on shareholder returns. As a result, we look favorably on the fact that WFC has one of the lowest levels of excess capital in the industry (see Fig. 35). We estimate that each 100bp increase in WFC's excess capital as a percentage of its market cap would depress its ROE by ~30bps (see Fig. 34). Fig. 36 breaks our bank universe into four quadrants based on high vs. low payouts and excess capital. WFC finds itself in the most attractive quadrant.

Fig. 34: Excess Capital & ROTE

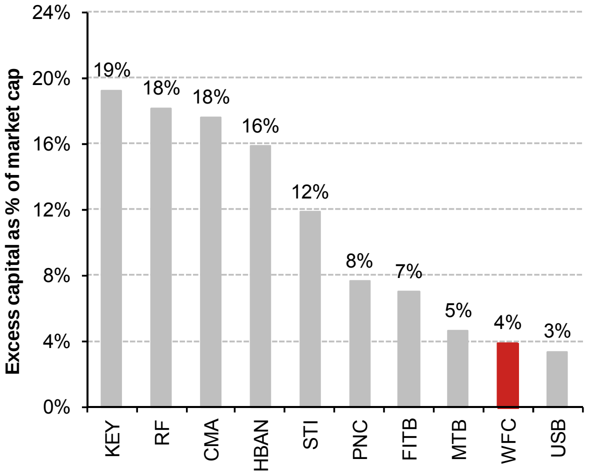
Excess Capital[1]	2015 ROTE
4.0%	16.5%
5.0%	16.2%
6.0%	15.9%
7.0%	15.7%
8.0%	15.4%
9.0%	15.1%
10.0%	14.9%

[1]Excess capital as a % of market capitalization as of May 9, 2014.

Source: Nomura estimates

Fig. 35: Excess Capital as a % of Market Capitalization[1]

WFC has one of the lowest levels of excess capital in the industry

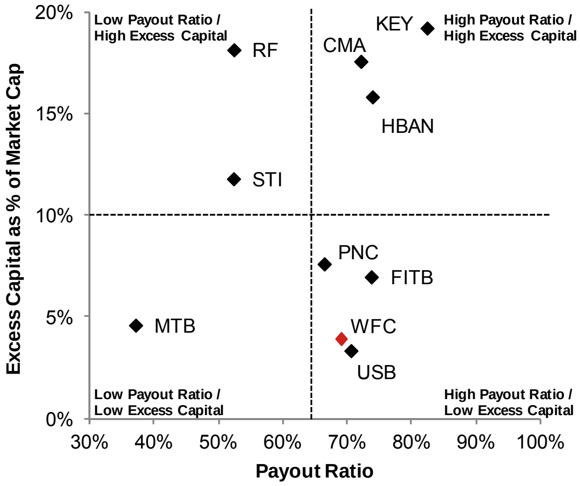


[1]Excess capital based on risk-weighted assets as of 4Q13 and a target CET1 ratio of 8% under the Basel III Standardized approach (PNC / WFC results are based on a target CET1 ratio of 8.25% / 9.0%; WFC's binding constraint is B3 Advanced Approach).). Market caps based on share prices as of May 9, 2014.

Source: Company data, Nomura estimates

Fig. 36: Payout Ratio vs. Excess Capital as % of Market Cap[1]

WFC has a high payout ratio and the low level of excess capital



[1]Payout ratio based on consensus estimates as of May 9, 2014. Excess capital based on RWA at 4Q13 and CET1 target ratio of 8% under the B3 Standardized Approach (PNC / WFC results based on a CET1 ratio of 8.25% / 9.0%; WFC's binding constraint is B3 Advanced Approach). Market caps based on share prices as of May 9, 2014.

Source: Company data, FactSet, Nomura estimates

Nomura vs. Consensus

Fig. 37 compares our estimates vs. consensus for 2014 and 2015. We see ~5% upside to the consensus EPS estimate for 2015.

Fig. 37: Nomura vs. Consensus Estimates[1]

We see ~5% upside to the consensus EPS estimate for 2015

(in millions except percentages and per share amounts)

	2014E			2015E		
	NMR	**Consensus**	***% Difference***	**NMR**	**Consensus**	***% Difference***
Net interest income	43,771	43,906	*(0.3%)*	47,467	46,221	*2.7%*
Noninterest income	40,127	39,628	*1.3%*	42,183	41,200	*2.4%*
Revenue	83,897	83,839	*0.1%*	89,649	87,808	*2.1%*
Provision for credit losses	1,878	1,819	*(3.2%)*	3,348	3,336	*(0.4%)*
Operating expense	48,011	47,616	*(0.8%)*	49,296	48,835	*(0.9%)*
Pretax income	34,009	34,003	*0.0%*	37,005	35,391	*4.6%*
Tax expense	10,487	10,500	*0.1%*	11,841	11,282	*(5.0%)*
Net income to common	21,896	22,165	*(1.2%)*	23,619	22,738	*3.9%*
Diluted EPS	**$4.11**	**$4.11**	***0.1%***	**$4.50**	**$4.30**	***4.8%***

[1]Consensus estimates as of May 9, 2014.

Source: FactSet, Nomura estimates

Risks to Our Recommendation and Target Price

Downside risks to our recommendation and target price include a deceleration in economic growth, which further intensifies lack of appetite for credit among consumers and limits commercial investment in working capital, capex, and M&A. Lack of regulator willingness to allow excess capital to leave the system could also lead to meaningful increases in capital levels, which would exert downward pressure on returns and hurt valuations. Significant amounts of deposits could also eventually leave the system as rates increase, which may lead to a larger mix of wholesale borrowings that drives funding costs higher and compresses margins.

Fig. 38: WFC Earnings Model

Income Statement	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14E	3Q14E	4Q14E	2012	2013	2014E	2015E
(in millions, except per share amounts)												
Net interest income	10,499	10,750	10,748	10,803	10,615	10,818	11,056	11,281	43,230	42,800	43,771	47,467
Provision for credit losses	1,219	652	75	363	325	388	518	648	7,217	2,309	1,878	3,348
Net interest income after provision for credit losses	9,280	10,098	10,673	10,440	10,290	10,431	10,538	10,633	36,013	40,491	41,893	44,118
Total noninterest income	10,760	10,628	9,730	9,862	10,010	10,051	9,965	10,101	42,856	40,980	40,127	42,183
Net revenue	**21,259**	**21,378**	**20,478**	**20,665**	**20,625**	**20,869**	**21,021**	**21,382**	**86,086**	**83,780**	**83,897**	**89,649**
Total noninterest expense	12,400	12,255	12,102	12,085	11,948	12,000	11,982	12,081	50,398	48,842	48,011	49,296
Pre-Provision Net Revenues	**8,859**	**9,123**	**8,376**	**8,580**	**8,677**	**8,869**	**9,039**	**9,301**	**35,688**	**34,938**	**35,887**	**40,353**
Income before income tax expense	7,640	8,471	8,301	8,217	8,352	8,482	8,521	8,653	28,471	32,629	34,009	37,005
Income tax expense	2,420	2,863	2,618	2,504	2,277	2,714	2,727	2,769	9,103	10,405	10,487	11,841
Net income before noncontrolling interests	5,220	5,608	5,683	5,713	6,075	5,768	5,795	5,884	19,368	22,224	23,522	25,163
Less - Net income from noncontrolling interests	49	89	105	103	182	100	100	100	471	346	482	400
Wells Fargo net income	5,171	5,519	5,578	5,610	5,893	5,668	5,695	5,784	18,897	21,878	23,040	24,763
Less - Preferred stock dividends and other	240	247	261	241	286	286	286	286	898	989	1,144	1,144
Wells Fargo net income applicable to common stock	**4,931**	**5,272**	**5,317**	**5,369**	**5,607**	**5,382**	**5,409**	**5,498**	**17,999**	**20,889**	**21,896**	**23,619**
Effective income tax rate	31.7%	33.8%	31.5%	30.5%	27.3%	32.0%	32.0%	32.0%	32.0%	31.9%	30.8%	32.0%
Diluted earnings per common share	**$0.92**	**$0.98**	**$0.99**	**$1.00**	**$1.05**	**$1.01**	**$1.02**	**$1.04**	**$3.36**	**$3.89**	**$4.11**	**$4.50**
Dividends declared per common share	$0.25	$0.30	$0.30	$0.30	$0.30	$0.35	$0.35	$0.35	$0.88	$1.15	$1.35	$1.40
Diluted average common shares outstanding	5,354	5,385	5,382	5,359	5,353	5,344	5,321	5,299	5,352	5,370	5,329	5,244
Key Performance and Operating Metrics	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**1Q14**	**2Q14E**	**3Q14E**	**4Q14E**	**2012**	**2013**	**2014E**	**2015E**
% of Net Revenues:												
Net interest income as % of net revenues	49.4%	50.3%	52.5%	52.3%	51.5%	51.8%	52.6%	52.8%	50.2%	51.1%	52.2%	52.9%
Noninterest income as % of net revenues	50.6%	49.7%	47.5%	47.7%	48.5%	48.2%	47.4%	47.2%	49.8%	48.9%	47.8%	47.1%
Efficiency ratio	58.3%	57.3%	59.1%	58.5%	57.9%	57.5%	57.0%	56.5%	58.5%	58.3%	57.2%	55.0%
Provision	5.7%	3.0%	0.4%	1.8%	1.6%	1.9%	2.5%	3.0%	8.4%	2.8%	2.2%	3.7%
Income Statement:												
Net interest income YoY % growth	(3.6%)	(2.6%)	0.8%	1.5%	1.1%	0.6%	2.9%	4.4%	1.1%	(1.0%)	2.3%	8.4%
Noninterest income YoY % growth	0.1%	3.7%	(7.8%)	(12.8%)	(7.0%)	(5.4%)	2.4%	2.4%	12.2%	(4.4%)	(2.1%)	5.1%
Noninterest income YoY % growth (ex mortgage banking)	1.1%	6.3%	4.9%	0.7%	6.7%	8.7%	3.1%	2.9%	2.8%	3.2%	5.3%	4.9%
Net revenue YoY % growth	(1.7%)	0.4%	(3.5%)	(5.8%)	(3.0%)	(2.4%)	2.7%	3.5%	6.3%	(2.7%)	0.1%	6.9%
Net Interest Margin (taxable equivalent basis), Reported	3.49%	3.47%	3.39%	3.27%	3.20%	3.21%	3.25%	3.28%	3.76%	3.39%	3.23%	3.36%
Noninterest expense YoY % growth	(4.6%)	(1.1%)	(0.1%)	(6.3%)	(3.6%)	(2.1%)	(1.0%)	(0.0%)	2.0%	(3.1%)	(1.7%)	2.7%
Positive (negative) operating leverage	2.8%	1.6%	(3.4%)	0.4%	0.7%	(0.3%)	3.6%	3.5%	4.3%	0.4%	1.8%	4.2%
Net income YoY % growth	22.6%	19.7%	12.7%	10.5%	13.7%	2.1%	1.7%	2.4%	19.8%	16.1%	4.8%	7.9%
Diluted EPS YoY % growth	22.2%	19.4%	12.2%	10.1%	13.7%	2.9%	2.9%	3.6%	19.2%	15.7%	5.6%	9.6%
Balance Sheet:												
Average earnings assets YoY % growth	8.6%	9.8%	9.2%	10.8%	10.6%	8.6%	7.7%	4.2%	5.7%	9.6%	7.7%	4.0%
Investment securities YoY % growth	1.5%	5.8%	10.2%	11.8%	7.6%	9.8%	6.8%	5.2%	(2.6%)	11.8%	5.2%	3.3%
Total Deposits YoY % growth	8.6%	10.0%	9.4%	7.6%	8.3%	8.0%	8.0%	7.5%	9.0%	7.6%	7.5%	5.0%
Gross Loans YoY % growth	4.2%	3.2%	3.4%	2.8%	3.5%	3.6%	3.6%	3.1%	3.9%	2.8%	3.1%	4.3%
Net Loans YoY % growth	4.5%	3.5%	3.8%	3.2%	4.0%	4.1%	4.0%	3.4%	4.3%	3.2%	3.4%	4.4%
Returns:												
Return on Assets (ROA), Reported	1.49%	1.55%	1.53%	1.48%	1.57%	1.46%	1.45%	1.45%	1.41%	1.51%	1.47%	1.50%
Return on Equity (ROE), Reported	13.59%	14.02%	14.07%	13.81%	14.35%	13.51%	13.44%	13.52%	12.95%	13.87%	13.71%	14.09%
Return on Tangible Equity (ROTE)	17.38%	18.23%	18.02%	17.60%	17.44%	16.10%	15.98%	16.05%	17.33%	17.81%	16.39%	16.63%
Credit:												
Net charge-off rate as % of average total loans	0.72%	0.58%	0.48%	0.47%	0.41%	0.38%	0.39%	0.40%	1.17%	0.56%	0.39%	0.43%
Total allowance for credit losses	17,193	16,618	15,647	14,971	14,414	14,014	13,714	13,514	17,477	14,971	13,514	13,164
Allowance for credit losses as a % of gross loans	2.15%	2.08%	1.93%	1.82%	1.74%	1.69%	1.64%	1.59%	2.19%	1.82%	1.59%	1.49%
Reserve coverage	3.0x	3.6x	4.0x	3.9x	4.4x	4.4x	4.2x	4.0x	1.9x	3.3x	4.1x	3.6x
Capital:												
Book Value Per Share (BVPS), Reported	$28.27	$28.26	$28.98	$29.48	$30.48	$30.54	$31.00	$31.47	$27.64	$29.48	$31.47	$33.68
Tangible Book Value Per Share (TBVPS), Calculated	$21.78	$21.92	$22.72	$23.64	$25.23	$25.66	$26.09	$26.54	$21.22	$23.64	$26.54	$28.67
CET1 Ratio (Basel III)	8.4%	8.6%	9.6%	9.8%	10.1%	10.1%	10.1%	10.0%	8.2%	9.8%	10.0%	10.3%
Capital Return:												
Total dividend payout ratio (%)	26.7%	30.2%	30.0%	29.4%	28.2%	34.1%	33.8%	33.1%	25.4%	29.1%	32.2%	30.5%
Total share repurchases as % of earnings (%)	7.8%	29.5%	38.4%	25.1%	18.3%	35.3%	35.1%	35.5%	21.8%	25.5%	30.9%	33.0%
Total payout ratio (%)	34.5%	59.7%	68.4%	54.5%	46.5%	69.4%	68.9%	68.5%	47.1%	54.6%	63.2%	63.5%

Source: Company data, Nomura estimates

Appendix A-1

Analyst Certification

I, Bill Carcache, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Wells Fargo & Company	WFC US	USD 49.08	09-May-2014	Buy	Neutral	A1,A2,A3

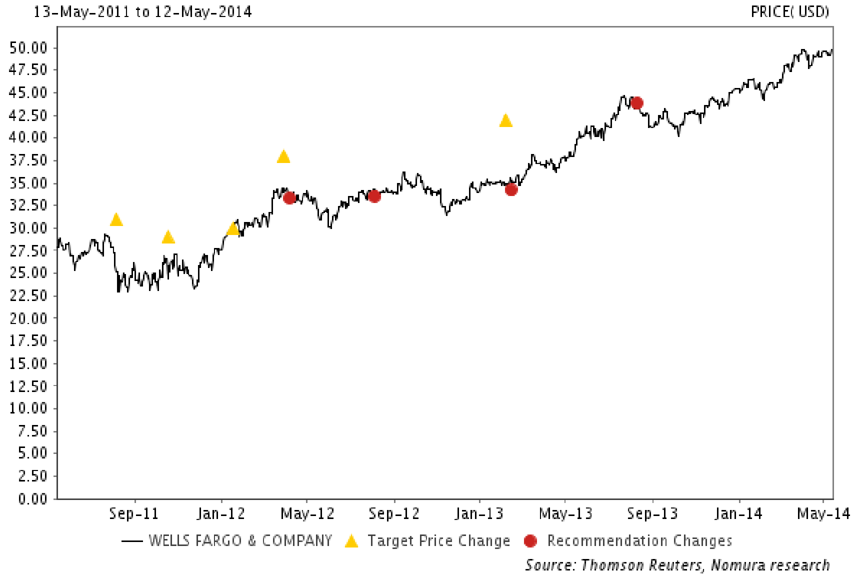
A1 The Nomura Group has received compensation for non-investment banking products or services from the issuer in the past 12 months.

A2 The Nomura Group had a non-investment banking securities related services client relationship with the issuer during the past 12 months.

A3 The Nomura Group had a non-securities related services client relationship with the issuer during the past 12 months.

Wells Fargo & Company (WFC US) **USD 49.08 (09-May-2014)** Buy (Sector rating: Neutral)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
02-Aug-13	Not Rated		44.49
05-Feb-13	Buy		34.85
05-Feb-13		42.00	34.85
27-Jul-12	Not Rated		34.19
29-Mar-12	Buy		33.94
29-Mar-12		38.00	33.94
17-Jan-12		30.00	29.81
17-Oct-11		29.00	24.42
05-Aug-11		31.00	25.21

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our $60 target price for Wells Fargo (WFC) is based on a P/TBV multiple of 2.1x on our 2015 tangible book value per share estimate of $28.67. The benchmark for this stock is the S&P Banks Industry Group Index.

Risks that may impede the achievement of the target price The key risks to our 12-month target price for Wells Fargo (WFC) include a deceleration in economic growth, which further intensifies lack of appetite for credit among consumers and limits commercial investment in working capital, capex, and M&A. Lack of regulator willingness to allow excess capital to leave the system could also lead to meaningful increases in capital levels, which would exert downward pressure on returns and hurt valuations. Significant amounts of deposits could also eventually leave the system as rates increase, which may lead to a larger mix of wholesale borrowings that drives funding costs higher and compresses margins.

Important Disclosures

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STOCKS

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STOCKS

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