

WELLS FARGO & COMPANY/MN
Form 10-Q
May 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

Commission file number 001-2979

WELLS FARGO & COMPANY

(Exact name of registrant as specified in its charter)

Delaware

No. 41-0449260

No.) (State of incorporation) (I.R.S. Employer Identification

420 Montgomery Street, San Francisco, California 94163

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **1-866-249-3302**

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting	<input type="checkbox"/>
company	(Do not check if a smaller reporting company)		

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Shares Outstanding

April 30, 2014

Common stock, \$1-2/3 par value
5,267,069,638

FORM 10-Q**CROSS-REFERENCE INDEX**

PART			
I	Financial Information		
Item			
1.	Financial Statements		
	Consolidated Statement of Income.....		
	Consolidated Statement of Comprehensive Income.....		
	Consolidated Balance Sheet.....		
	Consolidated Statement of Changes in Equity.....		
	Consolidated Statement of Cash Flows.....		
	Notes to Financial Statements		
	1 -	Summary of Significant Accounting Policies.....	
	2 -	Business Combinations.....	
	3 -	Federal Funds Sold, Securities Purchased under Resale Agreements and Other	
		Short-Term Investments.....	
	4 -	Investment Securities.....	
	5 -	Loans and Allowance for Credit Losses.....	
	6 -	Other Assets.....	
	7 -	Securitizations and Variable Interest Entities.....	
	8 -	Mortgage Banking Activities.....	
	9 -	Intangible Assets.....	
	10 -		

		Guarantees, Pledged Assets and Collateral.....
	11 -	Legal Actions.....
	12 -	Derivatives.....
	13 -	Fair Values of Assets and Liabilities.....
	14 -	Preferred Stock.....
	15 -	Employee Benefits.....
	16 -	Earnings Per Common Share.....
	17 -	Other Comprehensive Income.....
	18 -	Operating Segments.....
	19 -	Regulatory and Agency Capital Requirements.....
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations (Financial Review)	
	Summary Financial Data.....	
	Overview.....	
	Earnings Performance.....	
	Balance Sheet Analysis.....	
	Off-Balance Sheet Arrangements.....	
	Risk Management.....	
	Capital Management.....	
	Regulatory Reform.....	

	Critical Accounting Policies.....
	Current Accounting Developments.....
	Forward-Looking Statements.....
	Risk Factors.....
	Glossary of Acronyms.....
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.....
Item 4.	Controls and Procedures.....
PART II	Other Information
Item 1.	Legal Proceedings.....
Item 1A.	Risk Factors.....
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.....
Item 6.	Exhibits.....
Signature.....	
Exhibit Index.....	

PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW

Summary Financial Data

Summary Financial Data															
						Quarter ended						% Change			
												Mar. 31, 2014 from			
						Mar. 31,		Dec. 31,		Mar. 31,		Dec. 31,		Mar. 31,	
(\$ in millions, except per share amounts)						2014		2013		2013		2013		2013	
For the Period															
Wells Fargo net income						\$	5,893		5,610		5,171		5	%	14
Wells Fargo net income applicable to common stock							5,607		5,369		4,931		4		14
Diluted earnings per common share							1.05		1.00		0.92		5		14
Profitability ratios (annualized):															
	Wells Fargo net income to average assets (ROA) (1)						1.57	%	1.48		1.49		6		5
	Wells Fargo net income applicable to common stock to average														
		Wells Fargo common stockholders' equity (ROE)					14.35		13.81		13.59		4		6
Efficiency ratio (2)							57.9		58.5		58.3		(1)		(1)
Total revenue						\$	20,625		20,665		21,259		-		(3)
Pre-tax pre-provision profit (PTPP) (3)							8,677		8,580		8,859		1		(2)
Dividends declared per common share							0.30		0.30		0.25		-		20
Average common shares outstanding							5,262.8		5,270.3		5,279.0		-		-
Diluted average common shares outstanding							5,353.3		5,358.6		5,353.5		-		-
Average loans (1)						\$	823,790		813,318		796,662		1		3
Average assets (1)							1,525,905		1,505,766		1,402,922		1		9
Average core deposits (4)							973,801		965,828		925,866		1		5
Average retail core deposits (5)							690,643		679,355		662,913		2		4
Net interest margin (1)							3.20	%	3.27		3.49		(2)		(8)
At Period End															

Investment securities	\$	270,327		264,353		248,160		2		9
Loans (1)		826,443		822,286		798,362		1		4
Allowance for loan losses		13,695		14,502		16,711		(6)		(18)
Goodwill		25,637		25,637		25,637		-		-
Assets (1)		1,546,707		1,523,502		1,435,030		2		8
Core deposits (4)		994,185		980,063		939,934		1		6
Wells Fargo stockholders' equity		175,654		170,142		162,086		3		8
Total equity		176,469		171,008		163,395		3		8
Tier 1 capital (6)		147,549		140,735		129,071		5		14
Total capital (6)		183,559		176,177		161,551		4		14
Capital ratios:										
Total equity to assets (1)		11.41	%	11.22		11.39		2		-
Risk-based capital (6):										
Tier 1 capital		12.63		12.33		11.80		2		7
Total capital		15.71		15.43		14.76		2		6
Tier 1 leverage (6)		9.84		9.60		9.53		3		3
Common Equity Tier 1 (7)		11.36		10.82		10.39		5		9
Common shares outstanding		5,265.7		5,257.2		5,288.8		-		-
Book value per common share	\$	30.48		29.48		28.27		3		8
Common stock price:										
High		49.97		45.64		38.20		9		31
Low		44.17		40.07		34.43		10		28
Period end		49.74		45.40		36.99		10		34
Team members (active, full-time equivalent)		265,300		264,900		274,300		-		(3)
(1)	Prior period financial information has been revised to reflect our determination that certain factoring arrangements did not qualify as loans. Accordingly, we revised our commercial loan balances for year-end 2012 and each of the quarters in 2013 in order to present the Company's lending trends on a comparable basis over this period. This revision, which resulted in a reduction to total commercial loans and a corresponding decrease to other liabilities, did not impact the Company's consolidated net income or total cash flows. We reduced our commercial loans by \$3.5 billion, \$3.2 billion, \$2.1 billion, \$1.6 billion and \$1.2 billion at December 31, September 30, June 30, and March 31, 2013, and December 31, 2012, respectively, which represented less than 1% of total commercial loans and less than 0.5% of our total loan portfolio. Other affected financial information, including financial guarantees and financial ratios, has been appropriately revised to reflect this revision. See Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report for more information.									
(2)	The efficiency ratio is noninterest expense divided by total revenue (net interest income and noninterest income).									
(3)	Pre-tax pre-provision profit (PTPP) is total revenue less noninterest expense. Management believes that PTPP is a useful financial measure because it enables investors and others to assess the Company's ability to generate capital to cover credit losses through a credit cycle.									
(4)	Core deposits are noninterest-bearing deposits, interest-bearing checking, savings certificates, certain market rate and other savings, and certain foreign deposits (Eurodollar sweep balances).									
(5)										

	Retail core deposits are total core deposits excluding Wholesale Banking core deposits and retail mortgage escrow deposits.			
(6)	See Note 19 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report for additional information.			
(7)	See the "Capital Management" section in this Report for additional information.			

2

This Quarterly Report, including the Financial Review and the Financial Statements and related Notes, contains forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results may differ materially from our forward-looking statements due to several factors. Factors that could cause our actual results to differ materially from our forward-looking statements are described in this Report, including in the “Forward-Looking Statements” section, and the “Risk Factors” and “Regulation and Supervision” sections of our Annual Report on Form 10-K for the year ended December 31, 2013 (2013 Form 10-K).

When we refer to “Wells Fargo,” “the Company,” “we,” “our” or “us” in this Report, we mean Wells Fargo & Company and Subsidiaries (consolidated). When we refer to the “Parent,” we mean Wells Fargo & Company. When we refer to “legacy Wells Fargo,” we mean Wells Fargo excluding Wachovia Corporation (Wachovia). See the Glossary of Acronyms for terms used throughout this Report.

Financial Review^[1]

Overview

Wells Fargo & Company is a nationwide, diversified, community-based financial services company with \$1.5 trillion in assets. Founded in 1852 and headquartered in San Francisco, we provide banking, insurance, investments, mortgage, and consumer and commercial finance through more than 9,000 locations, 12,000 ATMs and the Internet (wellsfargo.com), and we have offices in 36 countries to support our customers who conduct business in the global economy. With more than 265,000 active, full-time equivalent team members, we serve one in three households in the United States and rank No. 25 on *Fortune*’s 2013 rankings of America’s largest corporations. We ranked fourth in assets and first in the market value of our common stock among all U.S. banks at March 31, 2014.

We use our *Vision and Values* to guide us toward growth and success. Our vision is to satisfy all our customers’ financial needs, help them succeed financially, be recognized as the premier financial services company in our markets and be one of America’s great companies. Important to our strategy to achieve this vision is to increase the number of our products our customers utilize and to offer them all of the financial products that fulfill their needs. Our cross-sell strategy, diversified business model and the breadth of our geographic reach facilitate growth in both strong and weak economic cycles. We can grow by expanding the number of products our current customers have with us, gain new customers in our extended markets, and increase market share in many businesses.

We have five primary values, which are based on our vision and provide the foundation for everything we do. First, we value and support our people as a competitive advantage and strive to attract, develop, retain and motivate the most talented people we can find. Second, we strive for the highest ethical standards with our team members, our customers, our communities and our shareholders. Third, with respect to our customers, we strive to base our decisions and actions on what is right for them in everything we do. Fourth, for team members we strive to build and sustain a diverse and inclusive culture – one where they feel valued and respected for who they are as well as for the skills and experiences they bring to our company. Fifth, we also look to each of our team members to be leaders in establishing, sharing and communicating our vision.

Financial Performance

Wells Fargo net income was a record \$5.9 billion in first quarter 2014 with record diluted earnings per share (EPS) of \$1.05, which was our 17th consecutive quarter of EPS growth and 12th consecutive quarter of record EPS. Our results demonstrated our ability to grow consistently across a variety of economic and interest-rate environments and the benefit of our diversified business model. We had strong year-over-year growth or improvement in the fundamental drivers of our business: commercial and consumer loans, deposits, cross-sell, credit, and expense management, which resulted in growth in net income, EPS and capital. While economic growth during first quarter 2014 was uneven, economic activity improved later in the quarter, including national auto sales, which reached a seven-year high in March 2014. We are optimistic about future economic growth because consumers and businesses have continued to improve their financial conditions. Households have reduced their leverage to the lowest level since 2001, and the burden of their financial obligations is lower than at any time since the mid-1980s.

Our results this quarter continued to reflect the dynamic environment we are in and the benefit of our diversity. Compared with a year ago:

- our loans increased \$28.1 billion, or 4%, even with the planned runoff in our non-strategic/liquidating portfolios, and our core loan portfolio grew by \$41.0 billion, or 6%;
- our deposit franchise continued to generate solid deposit growth, with total deposits up \$83.8 billion, or 8%;
- we deepened relationships across our company, achieving record Retail Banking cross-sell of 6.17 products per household (February 2014); Wholesale Banking increased cross-sell to 7.2 products (December 2013); and Wealth, Brokerage and Retirement cross-sell was consistent at 10.42 products (February 2014);
- our credit performance continued to improve with total net charge-offs down \$594 million, or 42%, and represented only 41 basis points of average loans;
- noninterest expense was \$11.9 billion, down \$452 million, or 4%, and we improved our efficiency ratio to 57.9%;
- we grew return on assets (ROA) by 8 basis points to 1.57%, and return on equity (ROE) by 76 basis points to 14.35%; and
- we continued to generate strong capital growth as our estimated Common Equity Tier I ratio under Basel III (Advanced Approach, fully phased-in) was 10.07%.

Balance Sheet and Liquidity

Our balance sheet continued to strengthen in first quarter 2014 with further core loan and deposit growth. We have been able to grow our loans on a year-over-year basis for 11 consecutive quarters, and for the

[1] Prior period financial information has been revised to reflect our determination that certain factoring arrangements did not qualify as loans. See Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report for more information.

past eight quarters year-over-year loan growth has been 3% or greater, despite the planned runoff from our non-strategic/liquidating portfolios. Our non-strategic/liquidating loan portfolios decreased \$2.9 billion during the quarter and our core loan portfolios increased \$7.0 billion. Our federal funds sold, securities purchased under resale agreements and other short-term investments (collectively referred to as federal funds sold and other short-term investments elsewhere in this Report) increased by \$9.0 billion during the quarter on continued strong growth in interest-earning deposits, and we grew our investment securities portfolio by \$6.0 billion.

Deposit growth remained strong with period-end deposits up \$15.4 billion from fourth quarter 2013. This increase reflected solid growth across our businesses, particularly our consumer businesses and an increase in liquidity-related term deposits. Average deposits have grown while deposit costs have declined for 14 consecutive quarters. We grew our primary consumer checking customers by a net 5.1% from a year ago (February 2014 compared with February 2013). We have steadily increased the growth rate of this higher cross-sell, more profitable customer base over the past four quarters through product enhancements and consistent focus. The growth in these relationship-based customers should benefit our future results as we remain focused on meeting more of our customers' financial needs.

Credit Quality

Credit quality was strong in first quarter 2014 as losses remained at historically low levels, nonperforming assets (NPAs) continued to decrease and we continued to originate high quality loans, reflecting our long-term risk focus and the benefit from the improved housing market. Credit losses were \$825 million, or 0.41% (annualized) of average loans, in first quarter 2014, compared with \$1.4 billion a year ago (0.72%), a 42% year-over-year decrease in losses. Net losses in our commercial portfolio were only \$5 million, or 1 basis point of average commercial loans. Net consumer losses declined to 75 basis points from 123 basis points in first quarter 2013. Our commercial real estate portfolios were in a net recovery position for the fifth consecutive quarter, reflecting our conservative risk discipline and improved market conditions. Losses on our consumer real estate portfolios declined \$516 million from a year ago, down 59%. The consumer loss levels reflected the positive momentum in the residential real estate market, with home values improving significantly in many markets, as well as lower default frequency.

Reflecting these improvements in our loan portfolios, our \$325 million provision for credit losses this quarter was \$894 million less than a year ago. This provision reflected a release of \$500 million from the allowance for credit losses, compared with a release of \$200 million a year ago. We continue to expect future allowance releases absent a significant deterioration in the economy.

In addition to lower net charge-offs and provision expense, NPAs also improved and were down \$840 million, or 4%, from the end of 2013. Nonaccrual loans declined \$1.0 billion from the prior quarter while foreclosed assets were up \$178 million.

Capital

We continued to focus on strong capital generation and strengthened our capital levels in first quarter 2014 even as we returned more capital to our shareholders, increasing total equity to \$176.5 billion at March 31, 2014, up \$5.5 billion from the prior quarter. We believe an important measure of our capital strength is the estimated Common Equity Tier 1 ratio under Basel III, using the Advanced Approach, fully phased-in, which increased to 10.07% in the first quarter.

Returning more capital to our shareholders has remained a priority for Wells Fargo. In March 2014, we received a non-objection from the Federal Reserve Board (FRB) to our 2014 Capital Plan under the Comprehensive Capital Analysis and Review (CCAR), which included a proposed 17% common stock dividend increase to \$0.35 per share in second quarter 2014 and higher planned share repurchases compared with 2013 repurchase activity. Our first quarter 2014 dividend was \$0.30 per share, and we purchased 33.5 million shares of common stock in the quarter. The Board approved an additional 350 million shares in our repurchase authority.

Our regulatory capital ratios under Basel III (General Approach) remained strong with a total risk-based capital ratio of 15.71%, Tier 1 risk-based capital ratio of 12.63% and Tier 1 leverage ratio of 9.84% at March 31, 2014, compared with 15.43%, 12.33% and 9.60%, respectively, at December 31, 2013. See the “Capital Management” section in this Report for more information regarding our capital, including the calculation of common equity for regulatory purposes.

**Earnings
Performance**

-

Wells Fargo net income for first quarter 2014 was \$5.9 billion (\$1.05 diluted earnings per common share) compared with \$5.2 billion (\$0.92) for first quarter 2013. Our first quarter 2014 earnings reflected continued execution of our business strategy and growth in many of our businesses. The key drivers of our financial performance in first quarter 2014 were balanced net interest and fee income, diversified sources of fee income, a diversified loan portfolio and strong underlying credit performance.

Revenue, the sum of net interest income and noninterest income, was \$20.6 billion in first quarter 2014 compared with \$21.3 billion in first quarter 2013. The decrease in revenue for first quarter 2014 from the same period a year ago was due to a decline in mortgage banking income and lower gains from trading activities, offset by an increase in trust and investment fees and gains from equity investments. Noninterest income represented 49% of revenue for first quarter 2014 compared with 51% for first quarter 2013. The drivers of our fee income can differ depending on the interest rate and economic environment. For example, net gains on mortgage loan origination/sales activities were 6% of our fee income in first quarter 2014, down from 23% in the same period a year ago when the refinance market was strong. Other businesses, such as equity investments, brokerage, and mortgage servicing, contributed more to fee income this quarter, demonstrating the benefit of our diversified business model.

Net Interest Income

Net interest income is the interest earned on debt securities, loans (including yield-related loan fees) and other interest-earning assets minus the interest paid on deposits, short-term borrowings and long-term debt. The net interest margin is the average yield on earning assets minus the average interest rate paid for deposits and our other sources of funding. Net interest income and the net interest margin are presented on a taxable-equivalent basis in Table 1 to consistently reflect income from taxable and tax-exempt loans and securities based on a 35% federal statutory tax rate.

While the Company believes that it has the ability to increase net interest income over time, net interest income and the net interest margin in any one period can be significantly affected by a variety of factors including the mix and overall size of our earning asset portfolio and the cost of funding those assets. In addition, some sources of interest income, such as resolutions from purchased credit-impaired (PCI) loans, loan prepayment fees and collection of interest on nonaccrual loans, can vary from period to period. Net interest income growth has been challenged during the prolonged low interest rate environment as higher yielding loans and securities runoff have been replaced with lower yielding assets. The pace of this repricing has slowed in recent periods.

Net interest income on a taxable-equivalent basis was \$10.8 billion in first quarter 2014, up from \$10.7 billion in first quarter 2013. The net interest margin was 3.20% for first quarter 2014, down from 3.49% for the same period a year ago. The increase in net interest income in first quarter 2014 compared with first quarter 2013 was largely driven by reduced funding costs due to disciplined deposit pricing and the maturing of higher yielding long-term debt. Growth in earning assets also improved net interest income as it offset the decrease in earning asset yields. The decline in net interest margin in first quarter 2014 compared with the same period a year ago was primarily driven by higher funding balances, including customer-driven deposit growth and actions we have taken in response to increased regulatory liquidity expectations which raised long-term debt and term deposits. This growth in funding increased cash and federal funds sold and other short-term investments which are dilutive to net interest margin although essentially neutral to net interest income.

Average earning assets increased \$130.9 billion in first quarter 2014 from the same period a year ago, as average short-term investments increased \$92.3 billion and average investment securities increased \$31.8 billion. In addition, an increase in commercial and industrial loans contributed to \$27.1 billion higher average loans in first quarter 2014 compared with the same period a year ago.

Core deposits are an important low-cost source of funding and affect both net interest income and the net interest margin. Core deposits include noninterest-bearing deposits, interest-bearing checking, savings certificates, market rate and other savings, and certain foreign deposits (Eurodollar sweep balances). Average core deposits rose to \$973.8 billion in first quarter 2014 compared with \$925.9 billion in first quarter 2013, and funded 118% of average loans in first quarter 2014 compared with 116% the same period a year ago. Average core deposits decreased to 71% of average earning assets in first quarter 2014 compared with 75% the same period a year ago. The cost of these deposits has continued to decline due to a sustained low interest rate environment and a shift in our deposit mix from higher cost certificates of deposit to lower yielding checking and savings products. About 96% of our average core deposits are in checking and savings deposits, one of the highest industry percentages.

Table 1: Average Balances, Yields and Rates Paid (Taxable-Equivalent Basis) (1)(2)

[illegible]

		Total held-to-maturity securities	13,680	2.45		83	-	-		-
Mortgages held for sale (4)			16,556	4.11		170	43,312	3.42		371
Loans held for sale (4)			111	6.28		2	141	8.83		3
Loans:										
Commercial:										
		Commercial and industrial	193,865	3.43		1,641	183,122	3.76		1,700
		Real estate mortgage	107,797	3.52		937	106,221	3.84		1,006
		Real estate construction	16,879	4.37		182	16,559	4.84		197
		Lease financing	11,936	6.15		183	12,424	6.78		210
		Foreign	47,876	2.21		262	39,881	2.16		213
		Total commercial	378,353	3.43		3,205	358,207	3.76		3,326
Consumer:										
		Real estate 1-4 family first mortgage	259,477	4.17		2,705	252,049	4.29		2,702
		Real estate 1-4 family junior lien mortgage	64,980	4.30		692	74,068	4.28		785
		Credit card	26,272	12.32		798	24,097	12.62		750
		Automobile	51,794	6.50		831	46,566	7.20		826
		Other revolving credit and installment	42,914	5.00		529	41,675	4.70		483
		Total consumer	445,437	5.02		5,555	438,455	5.10		5,546
		Total loans (4)	823,790	4.29		8,760	796,662	4.49		8,872
Other			4,655	5.72		66	4,255	5.19		55
		Total earning assets	\$ 1,364,311	3.49 %	\$ 11,830		1,233,420	3.87 %	\$ 11,829	
Funding sources										
Deposits:										
		Interest-bearing checking	\$ 36,799	0.07 %	\$ 6		32,165	0.06 %	\$ 5	
		Market rate and other savings	579,044	0.07	105		537,549	0.09		122
		Savings certificates	40,535	0.89	89		55,238	1.22		167
		Other time deposits	45,822	0.42	48		15,905	1.25		50
		Deposits in foreign offices	91,050	0.14	31		71,077	0.14		25
		Total interest-bearing deposits	793,250	0.14	279		711,934	0.21		369
Short-term borrowings			54,502	0.09	13		55,410	0.17		23
Long-term debt			153,793	1.62	619		127,112	2.20		697
Other liabilities			12,859	2.72	87		11,608	2.24		65
		Total interest-bearing liabilities	1,014,404	0.40	998		906,064	0.51		1,154
Portion of noninterest-bearing funding sources			349,907	-	-		327,356	-		-
		Total funding sources	\$ 1,364,311	0.29	998		1,233,420	0.38		1,154

Earnings Performance (continued)

Noninterest Income										
Table 2: Noninterest Income										
								Quarter ended Mar. 31,		%
(in millions)								2014	2013	Change
Service charges on										
	deposit accounts						\$	1,215	1,214	- %
Trust and investment fees:										
	Brokerage advisory,									
	commissions and other fees							2,241	2,050	9
	Trust and investment									
	management							844	799	6
	Investment banking							327	353	(7)
	Total trust and									
	investment fees							3,412	3,202	7
Card fees										
								784	738	6
Other fees:										
	Charges and fees on loans							367	384	(4)
	Merchant transaction									
	processing fees							172	154	12
	Cash network fees							120	117	3
	Commercial real estate									
	brokerage commissions							72	45	60
	Letters of credit fees							96	109	(12)
	All other fees							220	225	(2)
	Total other fees							1,047	1,034	1
Mortgage banking:										
	Servicing income, net							938	314	199
	Net gains on mortgage loan									
	origination/sales activities							572	2,480	(77)
	Total mortgage banking							1,510	2,794	(46)
Insurance										
								432	463	(7)
Net gains from trading activities										
								432	570	(24)
Net gains on debt securities										
								83	45	84
Net gains from equity investments										
								847	113	650
Lease income										
								133	130	2
Life insurance investment income										
								132	145	(9)
All other										
								(17)	312	NM
						Total	\$	10,010	10,760	(7)

NM - Not meaningful											

Noninterest income of \$10.0 billion represented 49% of revenue for first quarter 2014 compared with \$10.8 billion, or 51%, for first quarter 2013. The decrease in noninterest income reflected a decline in our mortgage banking business, partially offset by growth in many of our other businesses, including credit and debit cards, merchant card processing, commercial banking, corporate banking, commercial mortgage servicing, corporate trust, asset management, wealth management, brokerage and retirement. Excluding mortgage banking, noninterest income increased \$534 million in first quarter 2014, compared with the same period a year ago.

Brokerage advisory, commissions and other fees are received for providing services to full service and discount brokerage customers. Income from these brokerage-related activities include transactional commissions based on the number of transactions executed at the customer's direction, and asset based fees, which are based on the market value of the customer's assets. These fees increased to \$2.2 billion in first quarter 2014, from \$2.1 billion in first quarter 2013. The increase in brokerage income was predominantly due to higher asset-based fees as a result of higher market values and growth in assets under management, partially offset by a decrease in brokerage transaction revenue. Brokerage client assets totaled \$1.4 trillion at March 31, 2014, an increase from \$1.3 trillion at March 31, 2013.

We earn trust and investment management fees from managing and administering assets, including mutual funds, corporate trust, personal trust, employee benefit trust and agency assets. Trust and investment management fees are largely based on a tiered scale relative to the market value of the assets under management or administration. These fees increased to \$844 million in first quarter 2014 from \$799 million in first quarter 2013, primarily due to growth in assets under management reflecting higher market values. At March 31, 2014, these assets totaled \$2.4 trillion, an increase from \$2.3 trillion at March 31, 2013.

We earn investment banking fees from underwriting debt and equity securities, arranging loan syndications, and performing other related advisory services. Investment banking fees decreased to \$327 million in first quarter 2014, from \$353 million in first quarter 2013, primarily due to decreased credit originations as the overall market for these transactions declined.

Card fees were \$784 million in first quarter 2014, compared with \$738 million in first quarter 2013. Card fees increased due to account growth and increased purchase activity.

Mortgage banking income, consisting of net servicing income and net gains on loan origination/sales activities, totaled \$1.5 billion in first quarter 2014, compared with \$2.8 billion in first quarter 2013.

Net mortgage loan servicing income includes amortization of commercial mortgage servicing rights (MSRs), changes in the fair value of residential MSRs during the period, as well as changes in the value of derivatives (economic hedges) used to hedge the residential MSRs. Net servicing income of \$938 million for first quarter 2014 included a \$407 million net MSR valuation gain (\$441 million decrease in the fair value of the MSRs offset by a \$848 million hedge gain). Net servicing income of \$314 million for first quarter 2013 included a \$129 million net MSR valuation gain (\$761 million increase in the fair value of MSRs offset by a \$632 million hedge loss). Our portfolio of loans serviced for others was \$1.89 trillion at March 31, 2014 and \$1.90 trillion at December 31, 2013. At March 31, 2014, the ratio of MSRs to related loans serviced for others was 0.85%, compared with 0.88% at December 31, 2013. See the "Risk Management – Mortgage Banking Interest Rate and Market Risk" section in this Report for additional information regarding our MSRs risks and hedging approach.

Net gains on mortgage loan origination/sale activities were \$572 million in first quarter 2014, compared with \$2.5 billion in first quarter 2013. The decrease was primarily driven by lower margins and origination volumes. Mortgage loan originations were \$36 billion in first quarter 2014, of which 66% were for home purchases, compared with \$109 billion and 31%, respectively, for first quarter 2013. Mortgage applications were \$60 billion in first quarter

2014, compared with \$140 billion in first quarter 2013. The 1-4 family first mortgage unclosed pipeline was \$27 billion at March 31, 2014, compared with \$74 billion at March 31, 2013. For additional information about our mortgage banking activities and results, see the “Risk Management – Mortgage Banking Interest Rate and Market Risk” section and Note 8 (Mortgage Banking Activities) and Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.

Net gains on mortgage loan origination/sales activities include the cost of additions to the mortgage repurchase liability. Mortgage loans are repurchased from third parties based on standard representations and warranties, and early payment default clauses in mortgage sale contracts. Additions to the provision for repurchase losses in first quarter 2014 totaled \$6 million, compared with \$309 million for first quarter 2013. In September and December 2013, we announced agreements with Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA), respectively, which resolved substantially all agency repurchase liabilities for mortgage loans sold or originated prior to 2009. As a result, outstanding repurchase demands were down \$1.5 billion from first quarter 2013 and our repurchase liability declined to \$799 million. For additional information about mortgage loan repurchases, see the “Risk Management – Credit Risk Management – Liability for Mortgage Loan Repurchase Losses” section and Note 8 (Mortgage Banking Activities) to Financial Statements in this Report.

We engage in trading activities primarily to accommodate the investment activities of our customers, execute economic hedging to manage certain of our balance sheet risks and for a very limited amount of proprietary trading for our own account. Net gains (losses) from trading activities, which reflect unrealized changes in fair value of our trading positions and realized gains and losses, were \$432 million in first quarter 2014, compared with \$570 million in first quarter 2013. The year-over-year decrease was largely driven by lower trading from customer accommodation activity within our capital markets business. Net gains from trading activities do not include interest and dividend income and expense on trading securities. Those amounts are reported within interest income from trading assets and other interest expense from trading liabilities. Proprietary trading generated \$6 million and \$4 million of net gains in first quarter 2014 and 2013, respectively. Interest and fees related to proprietary trading are reported in their corresponding income statement line items. Proprietary trading activities are not significant to our client-focused business model. For additional information about proprietary and other trading, see the “Risk Management – Asset and Liability Management – Market Risk – Trading Activities” section in this Report.

Net gains on debt and equity securities totaled \$930 million for first quarter 2014 and \$158 million for first quarter 2013, after other-than-temporary impairment (OTTI) write-downs of \$135 million and \$78 million, respectively, for the same periods. Net gains from equity investments increased over the past year, reflecting our portfolio’s positive operating performance and the benefit of strong public and private equity markets.

All other income was \$(17) million for first quarter 2014 compared with \$312 million in first quarter 2013. All other income includes ineffectiveness recognized on derivatives that qualify for hedge accounting, losses on low income housing tax credits, foreign currency adjustments, and income from investments accounted for under the equity accounting method, any of which can cause other income losses. The decrease in other income from a year ago reflected lower income from equity method investments.

Earnings Performance (continued)

Noninterest Expense						
Table 3: Noninterest Expense						
		Quarter ended Mar. 31,				%
(in millions)			2014	2013		Change
Salaries	\$		3,728	3,663		2 %
Commission and incentive						
compensation			2,416	2,577		(6)
Employee benefits			1,372	1,583		(13)
Equipment			490	528		(7)
Net occupancy			742	719		3
Core deposit and other						
intangibles			341	377		(10)
FDIC and other deposit						
assessments			243	292		(17)
Outside professional services			559	535		4
Outside data processing			241	233		3
Contract services			234	207		13
Travel and entertainment			219	213		3
Operating losses			159	157		1
Postage, stationery and supplies			191	199		(4)
Advertising and promotion			118	105		12
Foreclosed assets			132	195		(32)
Telecommunications			114	123		(7)
Insurance			125	137		(9)
Operating leases			50	48		4
All other			474	509		(7)
Total	\$		11,948	12,400		(4)

Noninterest expense was \$11.9 billion in first quarter 2014, down 4% from \$12.4 billion a year ago, driven predominantly by lower personnel expenses (\$7.5 billion, down from \$7.8 billion a year ago), lower foreclosed assets expense (\$132 million, down from \$195 million a year ago) and lower Federal Deposit Insurance Corporation (FDIC) and other deposit assessments (\$243 million, down from \$292 million a year ago).

Personnel expenses, which include salaries, commissions, incentive compensation and employee benefits, were down \$307 million, or 4%, in first quarter 2014, compared with the same quarter last year, largely due to lower volume-related compensation, reduced staffing in our mortgage business, and lower deferred compensation (offset in trading income). These decreases were partially offset by annual salary increases, as well as increased staffing in our non-mortgage businesses.

FDIC and other deposit assessments were down \$49 million, or 17%, in first quarter 2014 compared with the same period in 2013, predominantly due to lower FDIC assessment rates related to improved credit performance and the Company's liquidity position.

Foreclosed assets expense was down \$63 million, or 32%, in first quarter 2014 compared with the same period a year ago, reflecting lower expenses associated with foreclosed properties, lower write-downs, and increased gains on sale, partly driven by the continued real estate market improvement.

The efficiency ratio was 57.9% in first quarter 2014, an improvement from 58.3% in first quarter 2013. The Company expects to operate within its targeted efficiency ratio range of 55 to 59% in second quarter 2014.

Income Tax Expense

Our effective tax rate was 27.9% and 31.9% for first quarter 2014 and 2013, respectively. The lower effective tax rate in first quarter 2014 included a net \$423 million discrete tax benefit primarily from a reduction in the reserve for uncertain tax positions due to the resolution of prior period matters with state taxing authorities. Absent additional discrete benefits in 2014, we expect the effective income tax rate for the full year 2014 to be higher than the effective tax rate for first quarter 2014.

Operating Segment Results

We are organized for management reporting purposes into three operating segments: Community Banking; Wholesale Banking; and Wealth, Brokerage and Retirement. These segments are defined by product type and customer segment and their results are based on our management accounting process, for which there is no comprehensive, authoritative financial accounting guidance equivalent to generally accepted accounting principles (GAAP). Table 4 and the following discussion present our results by operating segment. For a more complete description of our operating segments, including additional financial information and the underlying management accounting process, see Note 18 (Operating Segments) to Financial Statements in this Report.

Table 4: Operating Segment Results – Highlights													
							Wealth, Brokerage					Consolidated	
		Community Banking			Wholesale Banking		and Retirement		Other (1)			Company	
(in millions)		2014	2013		2014	2013		2014	2013		2014	2013	
Quarter ended March 31,													
Revenue	\$	12,593	12,899		5,580	6,086		3,468	3,197		(1,016)	(923)	20,625 21,259
Provision (reversal of provision)													
for credit losses		419	1,262		(93)	(58)		(8)	14		7	1	325 1,219
Noninterest expense		6,774	7,377		3,215	3,091		2,711	2,639		(752)	(707)	11,948 12,400
Net income		3,844	2,924		1,742	2,045		475	337		(168)	(135)	5,893 5,171
(in billions)													
Average loans		505.0	498.9		301.9	283.1		50.0	43.8		(33.1)	(29.1)	823.8 796.7
Average core deposits		626.5	619.2		259.0	224.1		156.0	149.4		(67.7)	(66.8)	973.8 925.9
(1)	Includes the elimination of items that are included in both Community Banking and Wealth, Brokerage and Retirement, largely representing services and products for wealth management customers provided in Community Banking stores.												

Community Banking offers a complete line of diversified financial products and services for consumers and small businesses. These products include investment, insurance and trust services in 39 states and D.C., and mortgage and home equity loans in all 50 states and D.C. through its Regional Banking and Wells Fargo Home Lending business

units. Cross-sell of our products is an important part of our strategy to achieve our vision to satisfy all our customers' financial needs. Our retail bank household cross-sell was 6.17 products per household in February 2014, up from 6.10 in February 2013. We believe there is more opportunity for cross-sell as we continue to earn more business from our customers. Our goal is eight products per household, which is approximately one-half of our estimate of potential demand for an average U.S. household. In February 2014, one of every four of our retail banking households had eight or more of our products.

Community Banking reported net income of \$3.8 billion, up \$920 million, or 31%, from first quarter 2013. Revenue of \$12.6 billion decreased \$306 million, or 2%, from first quarter 2013 primarily due to lower mortgage banking revenue, partially offset by higher net interest income and equity investment gains. Average core deposits increased \$7.3 billion, or 1%, from first quarter 2013. Primary consumer checking customers as of February 2014 (customers who actively use their checking account with transactions such as debit card purchases, online bill payments, and direct deposit) were up a net 5.1% from February 2013. Noninterest expense declined \$603 million, or 8%, from first quarter 2013, largely driven by lower mortgage volume-related expenses and foreclosed asset expense. The provision for credit losses was \$843 million lower than a year ago due to improved portfolio performance reflecting lower consumer real estate losses.

Wholesale Banking provides financial solutions to businesses across the United States and globally with annual sales generally in excess of \$20 million. Products and business segments include Middle Market Commercial Banking, Government and Institutional Banking, Corporate Banking, Commercial Real Estate, Treasury Management, Wells Fargo Capital Finance, Insurance, International, Real Estate Capital Markets, Commercial Mortgage Servicing, Corporate Trust, Equipment Finance, Wells Fargo Securities, Principal Investments, Asset Backed Finance, and Asset Management. Wholesale Banking cross-sell was a record 7.2 products per customer in first quarter 2014, up from 6.8 a year ago.

Wholesale Banking reported net income of \$1.7 billion, down \$303 million, or 15%, from first quarter 2013 driven by lower revenues. Revenue declined \$506 million, or 8%, from first quarter 2013 on both lower net interest income and noninterest income. Net interest income declined as strong loan and deposit growth was more than offset by lower PCI resolution income. Noninterest income declined on lower market sensitive revenues driven by lower customer accommodation trading. Average loans of \$301.9 billion increased \$18.8 billion, or 7%, from first quarter 2013, driven by broad based growth across most customer segments. Average core deposits of \$259.0 billion increased \$34.9 billion, or 16%, from first quarter 2013 reflecting continued customer liquidity. Noninterest expense increased \$124 million, or 4%, from first quarter 2013 due to higher personnel expenses and support costs related to business growth. The provision for credit losses decreased \$35 million from first quarter 2013 due to a reduction in credit losses which was partially offset by a lower level of allowance release. The first quarter 2014 provision included a \$34 million allowance release, compared with a \$50 million allowance release a year ago.

Wealth, Brokerage and Retirement provides a full range of financial advisory services to clients using a planning approach to meet each client's financial needs. Wealth Management provides affluent and high net worth clients with a complete range of wealth management solutions, including financial planning, private banking, credit, investment management and fiduciary services. Abbot Downing, a Wells Fargo business, provides comprehensive wealth management services to ultra-high net worth families and individuals as well as endowments and foundations. Brokerage serves customers' advisory, brokerage and financial needs as part of one of the largest full-service brokerage firms in the United States. Retirement is a national leader in providing institutional retirement and trust services (including 401(k) and pension plan record keeping) for businesses, retail retirement solutions for individuals, and reinsurance services for the life insurance industry. Wealth, Brokerage and Retirement cross-sell was 10.42

Earnings Performance (continued)

products per household in February 2014, up from 10.33 in February 2013.

Wealth, Brokerage and Retirement reported net income of \$475 million in first quarter 2014, up 41% from first quarter 2013 driven by increased net interest income and noninterest income. Revenue of \$3.5 billion in first quarter 2014 was up 8% from first quarter 2013 primarily driven by strong growth in asset-based fees and higher net interest income, partially offset by a decrease in brokerage transaction revenue. Average core deposits of \$156.0 billion grew 4% from first quarter 2013. Noninterest expense increased 3% from first quarter 2013 primarily due to higher brokerage commissions. Total provision for credit losses decreased \$22 million from first quarter 2013 on lower net charge-offs.

**Balance Sheet
Analysis**

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At March 31, 2014, our assets totaled \$1.5 trillion, up \$23.2 billion from December 31, 2013. The predominant areas of asset growth were in federal funds sold and other short-term investments, which increased \$9.0 billion, investment securities, which increased \$6.0 billion, and loans, which increased \$4.2 billion. Deposit growth of \$15.4 billion, total equity growth of \$5.5 billion and an increase in short-term borrowings of \$3.2 billion from December 31, 2013, were the predominant sources that funded our asset growth for first quarter 2014. Equity growth benefited from \$4.0 billion in earnings net of dividends paid. The strength of our business model produced record earnings and continued internal capital generation as reflected in our capital ratios, all of which improved from December 31, 2013. Tier 1 capital as a percentage of total risk-weighted assets increased to 12.63%, total capital increased to 15.71%, Tier 1 leverage increased to 9.84%, and Common Equity Tier 1 (General Approach) increased to 11.36% at March 31, 2014, compared with 12.33%, 15.43%, 9.60%, and 10.82%, respectively, at December 31, 2013.

The following discussion provides additional information about the major components of our balance sheet. Information regarding our capital and changes in our asset mix is included in the “Earnings Performance – Net Interest Income” and “Capital Management” sections and Note 19 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report.

Investment Securities											
Table 5: Investment Securities – Summary											
					March 31, 2014				December 31, 2013		
					Net				Net		
					unrealized		Fair		unrealized		Fair

(in millions)					Cost	gain (loss)	value		Cost	gain (loss)	value
Available-for-sale securities:											
	Debt securities			\$	244,459	4,745	249,204		246,048	2,574	248,622
	Marketable equity securities				1,935	1,526	3,461		2,039	1,346	3,385
		Total available-for-sale securities			246,394	6,271	252,665		248,087	3,920	252,007
Held-to-maturity debt securities					17,662	(41)	17,621		12,346	(99)	12,247
			Total investment securities (1)	\$	264,056	6,230	270,286		260,433	3,821	264,254
(1)	Available-for-sale securities are carried on the balance sheet at fair value. Held-to-maturity securities are carried on the balance sheet at amortized cost.										

Table 5 presents a summary of our investment securities portfolio, which increased \$6.0 billion from December 31, 2013, primarily due to purchases of U.S. Treasury securities for our held-to-maturity portfolio. The total net unrealized gains on available-for-sale securities were \$6.3 billion at March 31, 2014, up from net unrealized gains of \$3.9 billion at December 31, 2013, due primarily to a decrease in long-term interest rates.

The size and composition of the investment securities portfolio is largely dependent upon the Company's liquidity and interest rate risk management objectives. Our business generates assets and liabilities, such as loans, deposits and long-term debt, which have different maturities, yields, re-pricing, prepayment characteristics and other provisions that expose us to interest rate and liquidity risk. The available-for-sale securities portfolio consists primarily of liquid, high quality U.S. Treasury and federal agency debt, agency MBS, privately issued residential and commercial MBS, securities issued by U.S. states and political subdivisions, corporate debt securities, and highly rated collateralized loan obligations. Due to its highly liquid nature, the available-for-sale portfolio can be used to meet funding needs that arise in the normal course of business or due to market stress. Changes in our interest rate risk profile may occur due to changes in overall economic or market conditions, which could influence loan origination demand, prepayment speeds, or deposit balances and mix. In response, the available-for-sale securities portfolio can be rebalanced to meet the Company's interest rate risk management objectives. In addition to meeting liquidity and interest rate risk management objectives, the available-for-sale securities portfolio may provide yield enhancement over other short-term assets. See the "Risk Management – Asset/Liability Management" section in this Report for more information on liquidity and interest rate risk. The held-to-maturity securities portfolio consists of high quality U.S. Treasury debt, agency MBS and ABS primarily collateralized by auto loans and leases, where our intent is to hold these securities to maturity and collect the contractual cash flows. The held-to-maturity portfolio may also provide yield enhancement over short-term assets.

We analyze securities for OTTI quarterly or more often if a potential loss-triggering event occurs. Of the \$135 million in OTTI write-downs recognized in earnings in first quarter 2014, \$7 million related to debt securities and \$2 million related to marketable equity securities, which are each included in available-for-sale securities. Another \$126 million in OTTI write-downs was related to nonmarketable equity investments, which are included in other assets. For a discussion of our OTTI accounting policies and underlying considerations and analysis see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2013 Form 10-K and Note 4 (Investment Securities) to Financial Statements in this Report.

At March 31, 2014, investment securities included \$44.1 billion of municipal bonds, of which 86% were rated “A-” or better based predominantly on external and, in some cases, internal ratings. Additionally, some of the securities in our total municipal bond portfolio are guaranteed against loss by bond insurers. These guaranteed bonds are predominantly investment grade and were generally underwritten in accordance with our own investment standards prior to the determination to purchase, without relying on the bond insurer’s guarantee in making the investment decision. Our municipal bond holdings are monitored as part of our ongoing impairment analysis.

The weighted-average expected maturity of debt securities available-for-sale was 7.3 years at March 31, 2014. Because 60% of this portfolio is MBS, the expected remaining maturity is shorter than the remaining contractual maturity because borrowers generally have the right to prepay obligations before the underlying mortgages mature. The estimated effects of a 200 basis point increase or decrease in interest rates on the fair value and the expected remaining maturity of the MBS available-for-sale portfolio are shown in Table 6.

Table 6: Mortgage-Backed Securities						
					Net	Expected
				Fair	unrealized	remaining
(in billions)				value	gain (loss)	maturity
At March 31, 2014						(in years)
	Actual	\$	148.4		1.9	6.2
	Assuming a 200 basis point:					
	Increase in interest rates		133.6		(12.9)	7.4
	Decrease in interest rates		157.1		10.6	3.2

See Note 4 (Investment Securities) to Financial Statements in this Report for a summary of investment securities by security type.

Balance Sheet Analysis (continued)**Loan Portfolio**

Total loans were \$826.4 billion at March 31, 2014, up \$4.2 billion from December 31, 2013. Table 7 provides a summary of total outstanding loans by non-strategic/liquidating and core loan portfolios. The runoff in the non-strategic/liquidating portfolios was \$2.9 billion, while loans in the core portfolio grew \$7.0 billion from December 31, 2013. Our core loan growth in first quarter 2014 included:

- a \$4.3 billion increase in the commercial segment largely due to growth in commercial and industrial loans; and
- a \$2.7 billion increase in consumer loans, predominantly from growth in the nonconforming mortgage and automobile portfolios offset by lower home equity and seasonally lower credit card portfolios.

Additional information on the non-strategic and liquidating loan portfolios is included in Table 12 in the “Risk Management – Credit Risk Management” section in this Report.

Table 7: Loan Portfolios											
				March 31, 2014				December 31, 2013			
(in millions)				Core	Liquidating	Total		Core	Liquidating	Total	
Commercial				\$ 379,561	1,720	381,281		375,230	2,013	377,243	
Consumer				368,888	76,274	445,162		366,190	78,853	445,043	
Total loans				\$ 748,449	77,994	826,443		741,420	80,866	822,286	

A discussion of average loan balances and a comparative detail of average loan balances is included in Table 1 under “Earnings Performance – Net Interest Income” earlier in this Report. Additional information on total loans outstanding by portfolio segment and class of financing receivable is included in the “Risk Management – Credit Risk Management” section in this Report. Period-end balances and other loan related information are in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Table 8 shows contractual loan maturities for loan categories normally not subject to regular periodic principal reduction and sensitivities of those loans to changes in interest rates.

Table 8: Maturities for Selected Commercial Loan Categories											
				March 31, 2014				December 31, 2013			
				After				After			
				Within	one year	After		Within	one year	After	
				one	through	five		one	through	five	

(in millions)			year	five years	years	Total		year	five years	years	Total	
Selected loan maturities:												
	Commercial and industrial	\$	40,048		136,396	20,324	196,768		41,402	131,745	20,664	193,811