WELLS FARGO

Wells Fargo Update:

Federal Reserve Consent Order

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Together we'll go far

John Campbell

Good afternoon. Thank you for joining our call today where our CEO and President, Tim Sloan, and our CFO, John Shrewsberry, will discuss the Federal Reserve's consent order and answer your questions. This call is being recorded.

Our news release and presentation are available on our website at Wells Fargo dot com and I'd like to caution you that we may make forward-looking statements during today's call that are subject to risks and uncertainties.   Factors that may cause actual results to differ materially from expectations are detailed in our SEC filings, including the Form 8-K filed today containing our news release and presentation and the Form 10-K for the year ended December 31, 2016. Information about any non-GAAP financial measures referenced, including a reconciliation of those measures to GAAP measures, can also be found in our SEC filings available on our website.

I will now turn the call over to our CEO and President Tim Sloan.

Slide 1: Federal Reserve Consent Order Summary

Thank you, John. I want to thank all of you for joining us.

We thought it was important to have this call for several reasons:

- to discuss the Consent Order that we entered into with the Federal Reserve Board of Governors today, which I would like to make clear is not related to any new matters,
- to highlight the strong progress we've already made to enhance our risk management program,
- to emphasize our commitment to satisfy the requirements of the Consent Order as quickly as possible while we continue to serve our customers' financial needs, and
- to explain why we believe the asset limitations we will operate under until we've completed this work are manageable.

On page 1 of our presentation, we summarize the Federal Reserve Consent Order relating to our governance oversight, and compliance and operational risk management program, which relates to prior issues including our sales practices announcement on September 8, 2016. While we did not know what the response from the Federal Reserve would be, Chair Yellen commented in her quarterly news conference in September of last year that they may take actions to make sure the right set of controls were in place at Wells Fargo. It's important to note that in the Consent Order the Federal Reserve acknowledges the efforts that we've taken over the past 17 months to improve corporate governance and risk management. However, they believe there is more work that needs to be done, and we agree.

Within 60 days we will submit plans to the Federal Reserve that leverage existing plans and efforts already underway to further enhance the Board's effectiveness in carrying out its oversight and governance of the Company and further improve the firm wide compliance and operational risk management program. After the Federal Reserve approves our plans, we will engage independent third parties to conduct a review to confirm the adoption and implementation of the plans, to be completed no later than September 30, 2018.

Until this third party review is completed to the satisfaction of the Federal Reserve, we are required to hold our total consolidated assets at December 31, 2017 levels.

While operating under this constraint, we are open for business and we will continue to serve our customers' financial needs including saving, borrowing, and investing. I want to repeat, we are open for business.

Slide 2: Relevant risk management enhancements already underway

Turning to page 2, since the sales practice settlements, we've taken significant actions to further enhance the governance and risk management programs referenced in the Consent Order and much of the foundational work has been completed.

We've strengthened Board governance and oversight, centralized control functions, improved leadership and expertise in critical areas of risk management, and increased our investment spending and resources to address compliance and operating risk deficiencies.

I'm confident in our ability to successfully address the issues cited in the Consent Order because we've been successful in resolving regulatory concerns in the past. For example, we took feedback from our 2015 Resolution Plan submission very seriously and took meaningful steps to strengthen our resolution planning capabilities, including committing significant additional resources and working deliberately to address regulatory concerns. Our revised submission adequately remediated the remaining deficiencies and we ended up with better resolution planning capabilities. We will be just as relentless in satisfying the requirements of the Consent Order we signed today.

Slide 3: Board actions to enhance board structure and oversight

On page 3, we highlight the actions taken by the Board including significant changes to its leadership, composition and governance practices.

For example, last year the board conducted a thoughtful and deliberate self-evaluation of its own effectiveness which was facilitated by Mary Jo White, former chair of the SEC.

The board has named six new independent directors, 3 joined in 2017 and 3 joined our Board this year. As we shared with the Fed, we had plans to refresh an additional four directors in 2018, with the retirement of three of those directors occurring by the time of our annual meeting this year.

Slide 4: Actions to strengthen Risk Management organization

In addition to the actions taken by the board, we have been working to strengthen compliance and operational risk management. Last year we spent $3.9 billion on risk. We centralized all risk management functions and are now implementing a fully integrated operating model for risk management across all business and staff groups.

We've hired over 2,000 external team members to risk roles during the past 2 years to strengthen our capabilities including a new Chief Operational Risk Officer and a new Chief Compliance Officer who have extensive industry experience. And just this week we announced a new Head of Regulatory Relations who will join Wells Fargo next month. She is a 25-year veteran of the Federal Reserve Bank of New York and will be instrumental in leading our efforts to have a sustained, proactive dialogue around risk, controls and compliance and will work across Wells Fargo to ensure we meet our regulatory commitments.

Additionally, we have established dedicated groups led by internal leaders with strong track records in areas like credit risk, resolution planning and cyber defense. These groups are focused on key risk control areas including a Conduct Management Office, an Enterprise Data management function and a comprehensive Customer Remediation Group.

Slide 5: Balance Sheet flexibility should minimize customer impact of the asset cap

As highlighted on page 5, our balance sheet provides us with a lot of flexibility to minimize the impact to our customers of the asset cap.

Starting in the second quarter, we will be required to hold Wells Fargo's total consolidated assets at approximately $2 trillion, the level as of year-end 2017. This limitation will be measured on a two quarter daily average, which provides some flexibility to manage temporary asset fluctuations.

Having a $2 trillion balance sheet provides us with the ability to serve our customers' financial needs, including saving, borrowing and investing, as well as the ability to deliver a competitive ROE for shareholders.

On our balance sheet there are certain portfolios that have benefited net interest income and ROE, but are dilutive to ROA due to their generally low risk and large asset scale characteristics. By temporarily limiting some of these activities, we can reduce the balance sheet in a relatively short period of time. These actions would impact a modest percentage of our total balance sheet and reduce only a portion of the impacted portfolios while creating headroom to continue to serve our customers and grow other asset categories including traditional loans and deposits without growing the overall balance sheet.

Slide 6: Examples of balance sheet flexibility

On page 6 we highlight just some of the levers we could use to optimize the balance sheet.

As you can see, while the balances in these portfolios are meaningful, the temporary actions under consideration would reduce only a portion of the balances and would likely reflect a mix of actions. For example, at year-end we had approximately $200 billion of non-operational deposits. These are commercial deposits and are not related to retail customers. Reducing these deposits would result in a modest reduction to net interest income, a manageable liquidity coverage ratio impact, and since these are higher cost deposits, average deposit costs and deposit betas would be reduced.

It is still very early and we will continue to evaluate our options, but based on our preliminary analysis of one set of assumptions for prospective balance sheet optimization activities to manage within the asset cap, we estimate 2018 net income would be reduced by approximately $300 to $400 million after tax. The analysis assumed we would primarily limit certain trading assets, short-term investments and certain deposits that have less liquidity value by $50 to $75 billion on average to accommodate assumed growth in lending, deposit taking and other asset and liability categories, as well as to provide an internal buffer that we expect to maintain to ensure that we remain below the asset cap. The average assumed NIM on the asset and liability categories reduced for this analysis was in the range of 70 to 75 basis points. The actual actions taken and the resulting financial impact will be dependent on underlying business trends and strategies that will be determined over time, but the takeaway here is that we have meaningful levers we can pull to manage within the cap and still grow loans and deposits, with a relatively modest bottom line impact.

Slide 7: Key questions

On page 7 we summarize a number of key questions related to the Consent Order. I've addressed many of these already, so let me just highlight a few.

We understand the urgency to comply with the Consent Order so that our risk management program can become best-in-class and the limit on our asset growth can be removed. After the Federal Reserve approves the plans we will engage independent third parties to conduct a review to be completed no later than September 30, 2018. The asset cap will remain in effect until the third party review has been completed to the satisfaction of the Federal Reserve.

On our earnings call last month, we provided additional details on our targeted $4 billion of expense reductions and stated that we expected full year 2018 total expenses to be in the range of $53.5 to $54.5 billion. We had already contemplated ongoing additional investments in risk management this year and remain committed to achieving our targeted expense reductions and still believe our 2018 expenses will be in the range we provided.

We have also highlighted that returning more capital to shareholders is a priority. With 190 basis points of capital above our internal Common Equity Tier 1 target of 10% as of year-end, we remain committed to returning more capital to shareholders.

Slide 8: Key takeaways

On page 8, we summarize the key takeaways from the Consent Order we signed today.

Over the past 17 months, we have been focused on many of the same issues cited by the Federal Reserve and we believe the Consent Order provides the framework needed for resolving these issues with the Fed.

I am confident:

- that we will meet the Consent Order requirements while continuing to serve our customers' financial needs,
- that we will maintain our strong liquidity and capital levels, and
- that the financial impacts will be manageable.

I want to assure our customers, our team members, our communities, and our shareholders that Wells Fargo is open for business. We take the Consent Order very seriously and we will work diligently to fix the issues identified and as a result we will be a better, stronger and more customer-focused company than ever before.

We're committed to being transparent and will provide updates as they occur, including at our Investor Day in May.

John Shrewsberry and I will now take your questions.