

# Wholesale Banking

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**Perry Pelos**

Senior Executive Vice President

May 10, 2018

# Business Overview



# Wholesale Banking overview

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Wholesale Banking operates nine major lines of business that serve diverse market and customer segments, including business banking, middle market, large corporates, financial institutions and municipal, state and local governments.

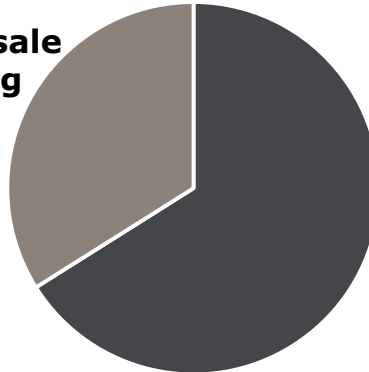
## Presence

- 28,000+ team members
- 586 domestic locations
- 34 countries and territories <sup>(1)</sup>

## 2017 Contribution to WFC

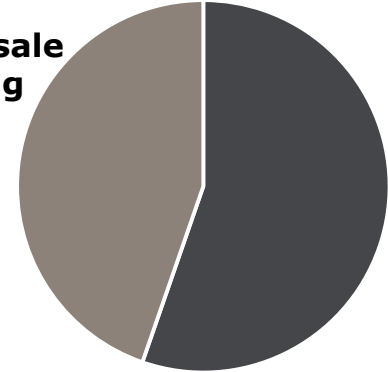
### Revenue

Wholesale  
Banking  
34%



### Net Income

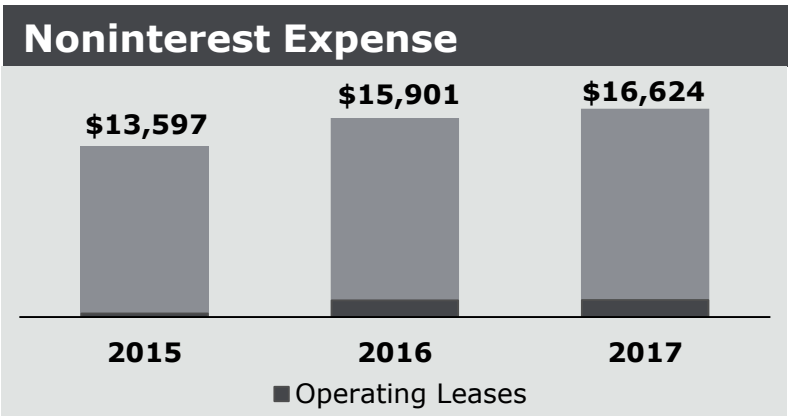
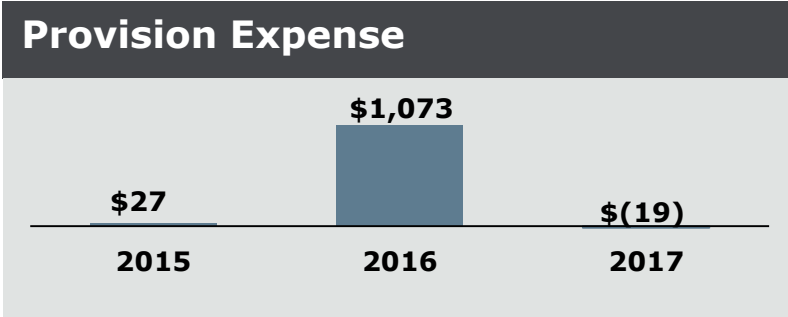
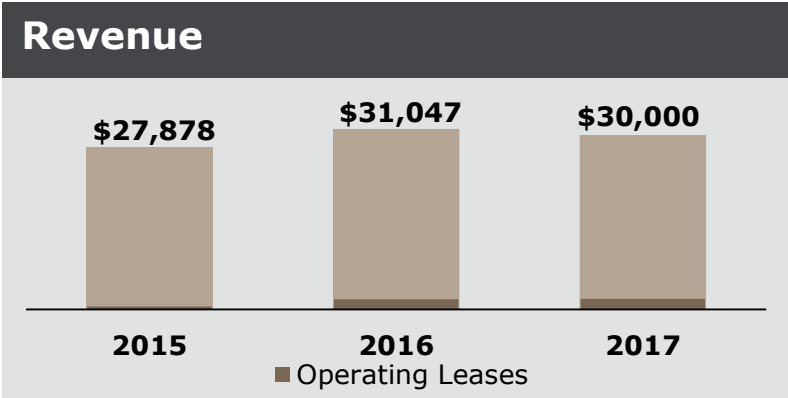
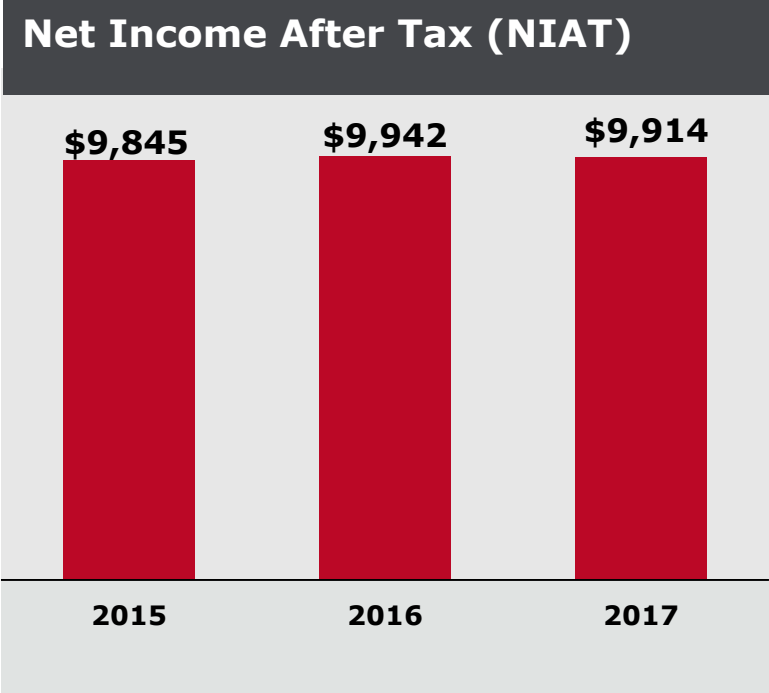
Wholesale  
Banking  
45%



*(1) By year-end 2018, subject to relevant regulatory approvals.*

# Solid and diversified financial performance

(\$ in millions)



# Operational excellence drives long-term results

Wholesale is targeting a 15% to 17% ROE <sup>(1)</sup> and an efficiency ratio <sup>(2)</sup> of < 50% through the cycle

Objectives	Key initiatives
<ul style="list-style-type: none"><li>▪ Leverage our scale and simplify the business</li></ul>	<ul style="list-style-type: none"><li>▪ Optimize Wholesale's portfolio of businesses</li><li>▪ Drive simplification, operational excellence and scale initiatives (e.g., lending transformation)</li></ul>
<ul style="list-style-type: none"><li>▪ "Reimagine" the business in service of customers</li></ul>	<ul style="list-style-type: none"><li>▪ Build on the strengths, scale and successes of our core businesses to fortify the foundations for growth</li></ul>
<ul style="list-style-type: none"><li>▪ Maintain our strong credit discipline</li></ul>	<ul style="list-style-type: none"><li>▪ Focus on the needs of our long-term customer relationships through cycles</li></ul>
<ul style="list-style-type: none"><li>▪ Complete regulatory remediation projects</li></ul>	<ul style="list-style-type: none"><li>▪ Satisfy regulatory requirements, while reducing elevated regulatory and remediation expenses to a normal run-rate/business-as-usual level</li></ul>

(1) Return on equity (ROE) measures the operating segment's net income applicable to common shareholders as a percentage of average operating segment allocated common equity.

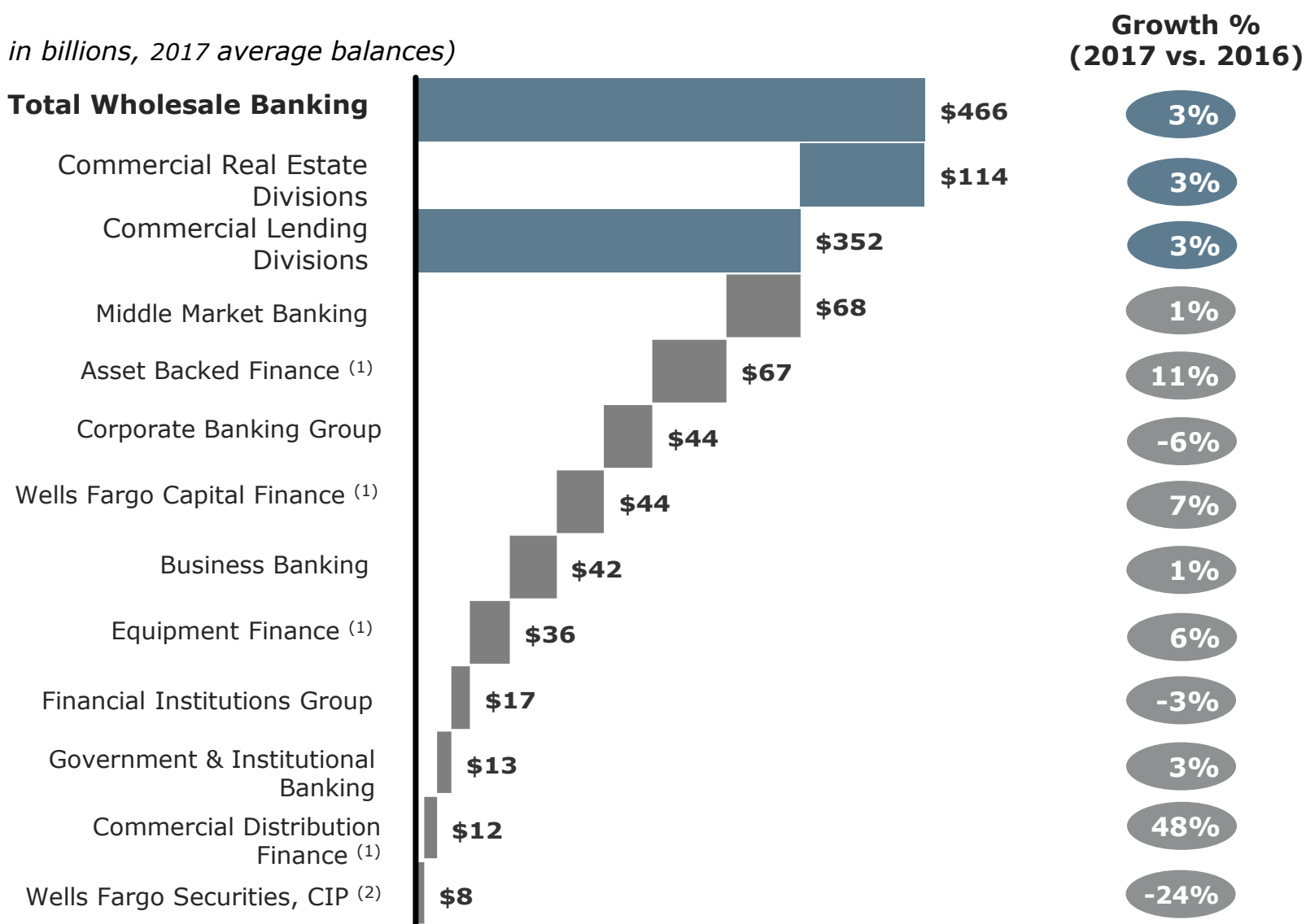
(2) The efficiency ratio is noninterest expense divided by total revenue (i.e., net interest income plus noninterest income).

# Highlighting our approach to risk management



# Loan portfolio diversification

(\$ in billions, 2017 average balances)

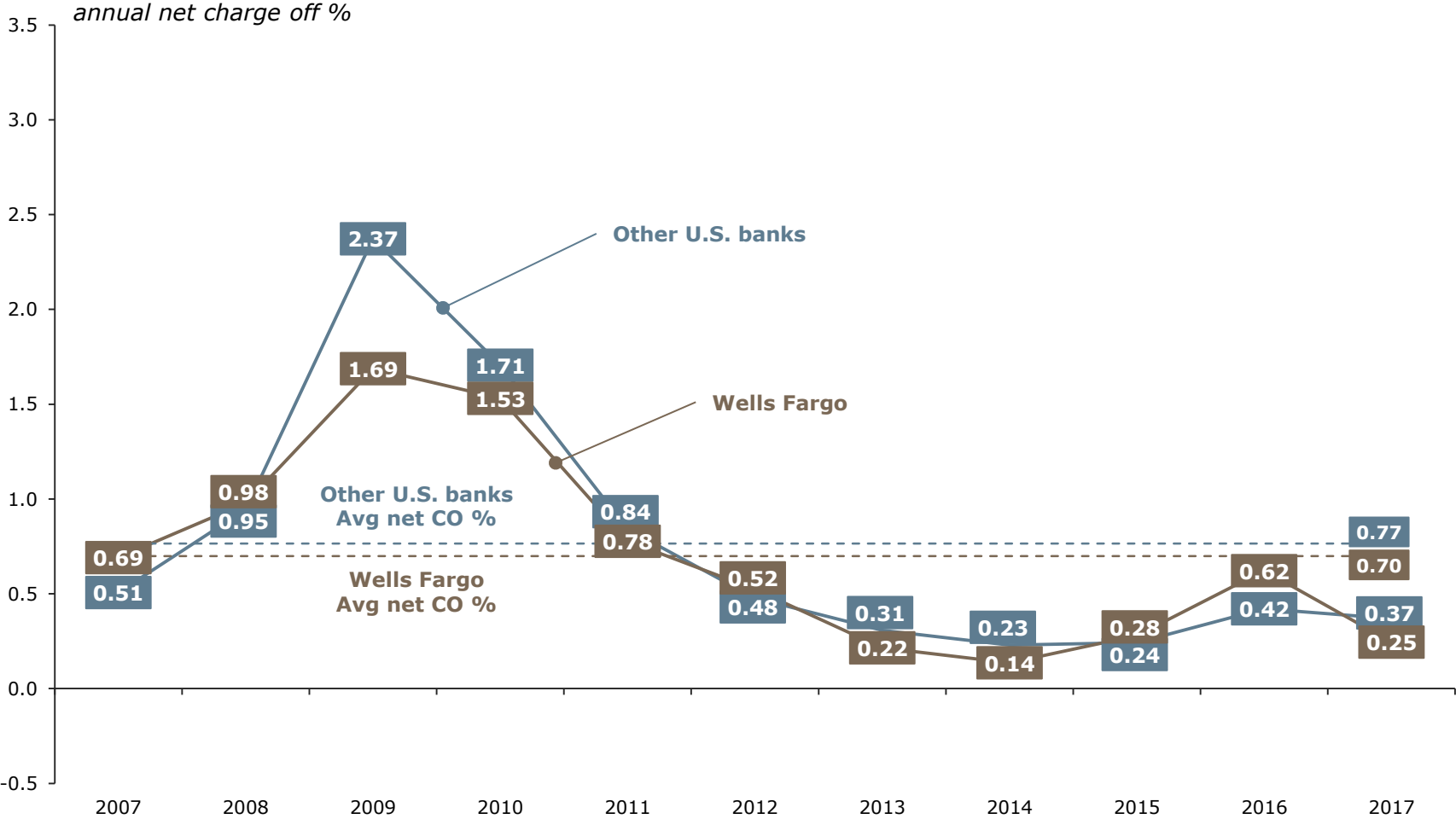


(1) Part of Wells Fargo Commercial Capital (WFCC).

(2) Credit Investment Portfolio (CIP), formerly Principal Investments.

# Wells Fargo's continued strong credit quality in the C&I market

*With our prudent and disciplined approach to credit risk, we have historically recorded lower losses in comparison to other U.S. commercial banks <sup>(1)</sup>*

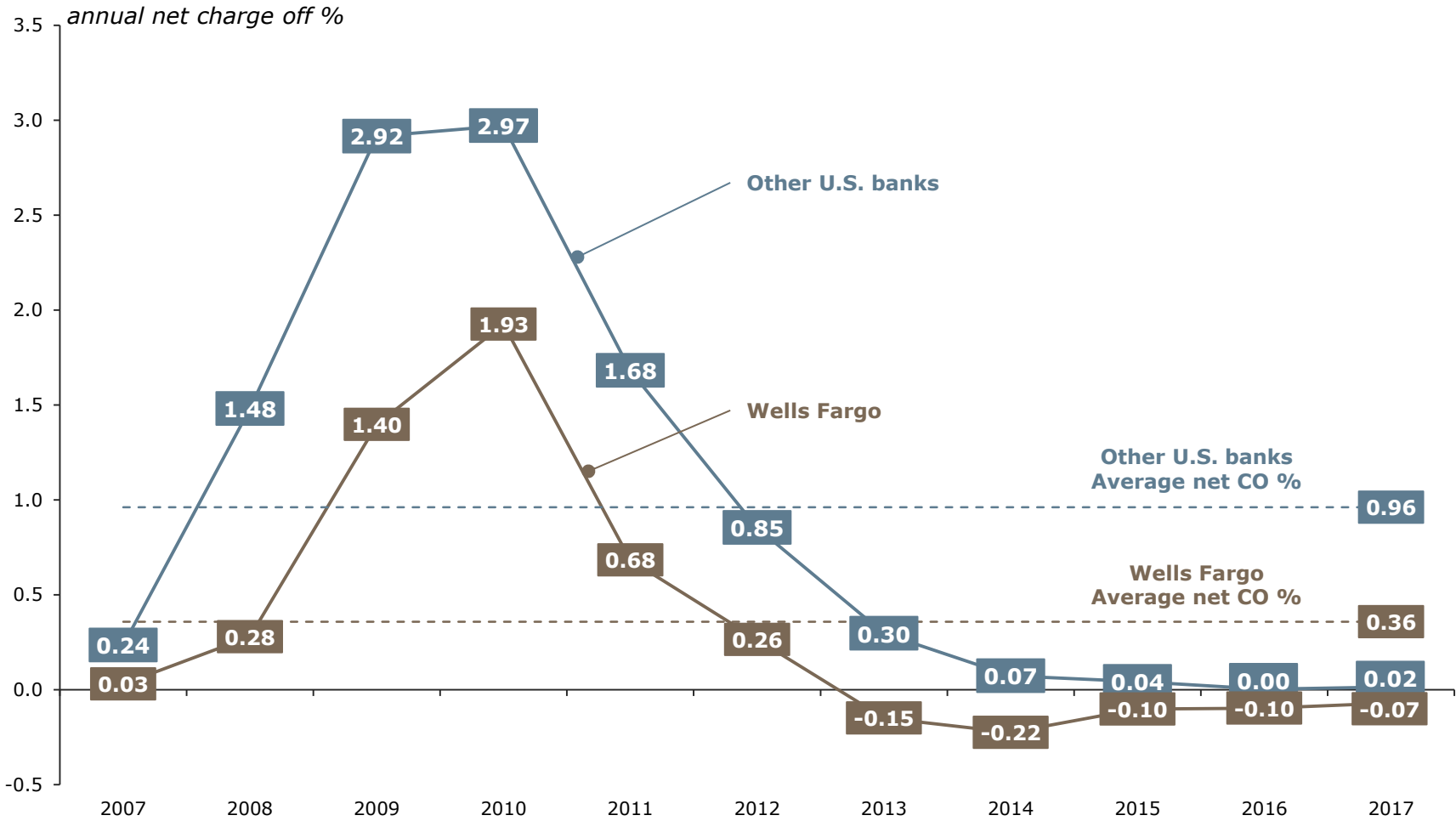


(1) Federal Reserve form FR-Y9C compiled by SNL/S&P. Data from all U.S. commercial banks. WFC data is total firm.



# Commercial Real Estate's (CRE) disciplined approach

CRE benefits from a seasoned team with deep experience and commitment through real estate cycles <sup>(1)</sup>



(1) Federal Reserve form FR-Y9C compiled by SNL/S&P. Data from all U.S. commercial banks. WFC data is total firm.

# Relationship approach to leveraged finance

*We take a relationship-based approach to addressing customers' needs in both the investment grade and leveraged markets*

## Leveraged Bookrunner

Rank	Bank	Volume	# Deals
1	Bank of America	140,935,661,578	751
2	JP Morgan	125,354,021,513	654
<b>3</b>	<b>Wells Fargo</b>	<b>95,265,757,495</b>	<b>589</b>
4	Goldman Sachs	88,100,356,448	370
5	Barclays	86,877,856,590	376
6	Credit Suisse	86,342,035,907	368
7	Citi	81,103,180,385	343
8	Deutsche Bank	76,713,358,560	336
9	Morgan Stanley	73,830,221,326	283
10	RBC Capital Markets	55,010,248,398	255
11	Jefferies	40,704,780,014	177
12	SunTrust Bank	36,188,101,235	239
13	BMO Capital Markets	28,489,440,692	268
14	PNC Bank	24,103,831,616	167
15	KKR & Co	23,895,255,897	68
16	Mitsubishi UFJ	21,965,466,977	100
17	HSBC Banking Group	20,625,493,652	112
18	UBS AG	20,138,026,373	101
19	Citizens	19,506,410,432	170
20	Macquarie Group Ltd	19,342,881,091	97

## Institutional Bookrunner

Rank	Bank	Volume	# Deals
1	Credit Suisse	78,298,638,222	331
2	Barclays	74,800,972,895	315
3	Goldman Sachs	74,069,366,119	325
4	JP Morgan	71,635,786,655	328
5	Bank of America	70,357,554,822	346
6	Morgan Stanley	65,782,231,585	246
7	Deutsche Bank	64,301,609,885	275
8	Citi	60,493,715,963	239
9	RBC Capital Markets	41,055,094,746	198
10	Jefferies	38,680,029,833	168
<b>11</b>	<b>Wells Fargo</b>	<b>27,508,661,719</b>	<b>149</b>
12	KKR & Co	23,663,491,829	69
13	SunTrust Bank	22,107,986,092	148
14	Macquarie Group Ltd	18,365,969,664	91
15	UBS AG	17,493,320,399	92
16	Antares Holdings	17,072,226,688	158
17	HSBC Banking Group	13,733,609,056	74
18	BMO Capital Markets	13,713,919,314	117
19	Nomura Holdings	10,526,279,879	50
20	BNP Paribas SA	9,948,322,372	55

## LBO Bookrunner

Rank	Bank	Volume	# Deals
1	Jefferies	12,255,377,021	56
2	Credit Suisse	9,336,329,484	54
3	Bank of America	7,310,198,226	43
4	Antares Holdings	7,253,145,833	57
5	Goldman Sachs	7,061,689,009	45
6	Barclays	6,754,113,575	40
7	RBC Capital Markets	6,397,797,469	34
8	Deutsche Bank	6,293,462,818	37
9	Morgan Stanley	6,151,210,528	28
10	Citi	4,545,158,578	25
11	Macquarie Group Ltd	4,374,958,333	19
12	JP Morgan	3,774,023,809	22
13	KKR & Co	3,770,757,576	14
14	SunTrust Bank	3,522,083,334	23
15	UBS AG	3,239,553,480	18
16	Citizens Financial Gro	2,850,875,001	26
17	Nomura Holdings	2,651,333,334	12
18	BMO Capital Markets	2,581,658,332	35
<b>19</b>	<b>Wells Fargo</b>	<b>2,210,277,075</b>	<b>15</b>
20	Golub Capital	2,111,383,334	14

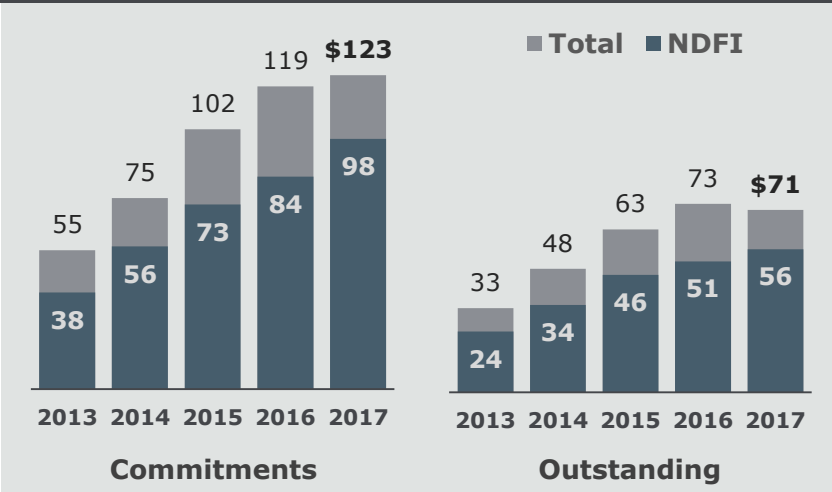
- WFC's leveraged bookrunner rank (#3) builds on its strengths in the unrated middle market, asset-based lending and non-investment grade corporate customer segments.
- By contrast, we have not been a significant player in the growing LBO market, contributing to our relative loan growth underperformance vs. peers in that segment.

Source: Thomson Reuters LPC. League tables are for full-year 2017.

# Asset-Backed Finance's origination model

*Asset-Backed Finance (ABF) group provides structured finance and securitization capabilities that bring together clients seeking capital with investors through the broad distribution network of Wells Fargo Securities*

**Period-end Loans**  
(\$ in billions)



- ABF provides financing to a variety of counterparties, including non-depository financial institutions (NDFI), which constitute approximately 80% of ABF exposure
- Lending commitments were up 4% year-over-year and up 23% CAGR over the last four years, primarily driven by growth in Subscription Finance and Corporate Debt Finance
- Minimal losses have been experienced over the last 10 years
- ABF typically lends on a secured basis at advance rates that provide significant margins of protection against expected losses, resulting in investment grade-equivalent lending positions in our collateral pools
- ABF collateral pools are segregated from other customer assets and are highly diversified, including subscription loans, middle market commercial loans, residential mortgages, auto loans and commercial leases
- Exposure to consumer sub-prime risk is less than 15% and is primarily limited to portions of our auto and residential mortgage loan collateral pools, which are well margined to mitigate risk

# Strong risk management of capital markets activities

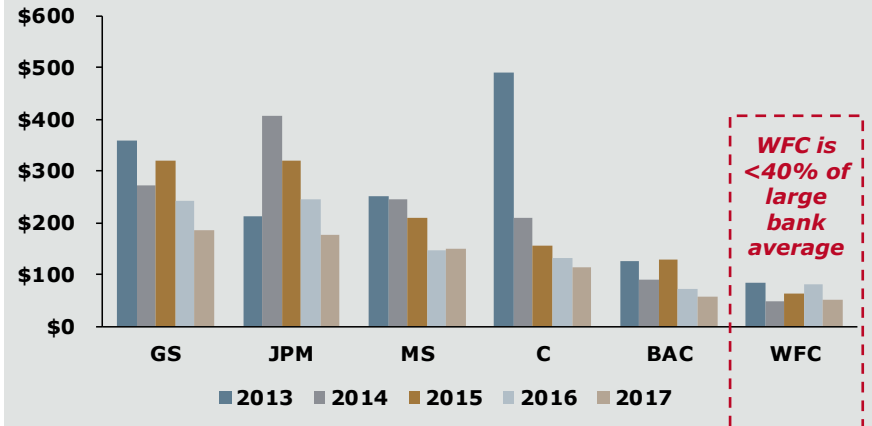
## Strong risk management competency

- **Customer-driven product set** - we trade what is necessary to serve our customers
- **Disciplined governance** - robust oversight functions performed by various Wholesale Banking teams, along with the front-line and independent risk management teams within Wholesale Risk and Corporate functions
  - Market risk, credit risk, operational risk, finance, accounting, compliance, legal, technology, operations, transaction and oversight committees
- **Independent credit decisioning** - credit decisions primarily take place in lending groups outside of Wells Fargo Securities

(1) Basel Pillar 3 Disclosure Filings (C, JPM, GS, BAC, MS); 10-K filings (WFC).  
(2) FR Y-9C filings as of 12/31/17. Period-end figures.

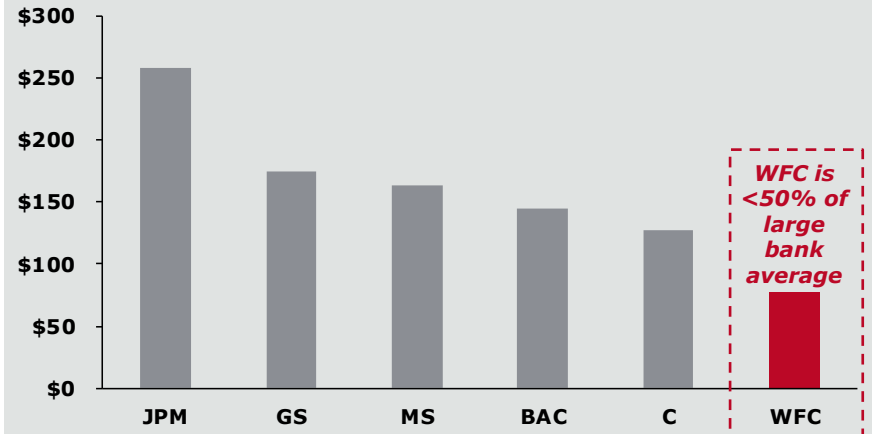
## Average Daily Regulatory Value at Risk (VaR) <sup>(1)</sup>

(\$ in millions)



## Net Trading Assets (FY 2017) <sup>(2)</sup>

(\$ in billions)



# Addressing operational risk requirements

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## **BSA/AML Consent Order**

Wells Fargo remains committed to executing an effective and sustainable financial crimes program across the enterprise

- Wells Fargo Bank entered into a Consent Order with the Office of the Comptroller of the Currency (OCC) in November 2015 to address deficiencies in Wholesale Banking's Bank Secrecy Act/Anti-Money Laundering (BSA/AML) program
- We are committed to having a strong BSA/AML program and have been working diligently to meet all of the requirements of this Consent Order

## **Foreign Exchange (FX)**

- The FX business was moved under Wells Fargo Securities (WFS) in January 2017
- A new management team was put in place in October 2017
- A full assessment of the business is being conducted with steps taken to improve business processes and controls and to align the FX activities of WFS with the principles of the FX Global Code of Conduct <sup>(1)</sup>
- A new compensation plan for FX was fully implemented for 2018 and is similar to other discretionary compensation plans in WFS and the industry

*(1) The FX Global Code of Conduct is a set of global principles of good practice in the foreign exchange market, developed to provide a common set of guidelines to promote the integrity and effective functioning of the wholesale foreign exchange market.*

Focusing on the varied needs  
of our customers



# Industry leadership and recognition

## Wells Fargo Commercial Capital

- #1 asset based bookrunner in North America (WFCF) <sup>(1)</sup>
- #1 dealer for sole/left lead mandates by offered size on third-party issued transactions from 2015-2017 <sup>(2)</sup>

## Wells Fargo Securities

- #1 Master Limited Partnerships (MLPs) <sup>(3)</sup>
- #1 Middle Market Loan Syndication <sup>(4)</sup>
- #3 Leveraged Loan Syndication <sup>(5)</sup>

## Corporate Banking Group

- Nearly 3 out of 4 Fortune 500 companies bank with Corporate Banking Group <sup>(6)</sup>

## Government & Institutional Banking

- #1 in municipal electronic trading on Bloomberg and Tradeweb Direct <sup>(7)</sup>
- #2 Variable Rate Demand Notes (VRDN)/ Commercial Paper (CP) credit and liquidity provider in the municipal market for 4Q17 <sup>(8)</sup>

## Commercial Real Estate

- #1 annual CRE lender in the U.S. since 2009 <sup>(9)</sup>
- #1 Affordable Housing Lender <sup>(10)</sup>
- #1 Primary and Master Servicer of commercial real estate loans by volume in the U.S. <sup>(11)</sup>

## Middle Market Banking

- #1 in primary bank market share in the U.S. for middle market <sup>(12)</sup>
- #1 market share in the U.S. for letter of credit outstandings <sup>(13)</sup>

## Business Banking Group

- Nation's leading SBA 7(a) lender in dollars and units <sup>(14)</sup>
- #1 in primary bank market share among peer banks <sup>(15)</sup>

## Financial Institutions Group

- #1 in institutional customer satisfaction among global financial institutions <sup>(16)</sup>
- Distinguished provider in USD global transaction banking services for six years (2013-2018) <sup>(17)</sup>

*Illustrative accolades/examples (not exhaustive) to support our leadership position across various markets. (1) Thomson Reuters League Tables - US: 2017 Asset Based Lending (ABL) Bookrunner. (2) Asset-Backed Alert, December 31, 2017. (3) U.S.-based publicly traded partnerships that typically manage oil and gas pipelines. Dealogic, December 31, 2017. (4) Thomson Reuters LPC, December 31, 2017. (5) Thomson Reuters LPC, December 31, 2017. (6) Wells Fargo internal analysis, 12 months from March 2017 – February 2018. (7) Ranking reflects Total Par & Trade Count on Bloomberg and Tradeweb Direct, through 4Q17. (8) Moody's Investor Service, February 23, 2018. (9) MBA Commercial/Multifamily Annual Origination Rankings, year-end 2017. (10) MBA Commercial/Multifamily annual origination rankings, year-end 2017. (11) MBA Commercial/ Multifamily Mortgage Servicer Rankings, as of December 31, 2017. (12) Barlow Research Middle Market Rolling 8 Quarter Data 1Q16-4Q17 of companies with \$25MM-\$500MM. (13) Ranking based on total combined Commercial LC and Gross Financial and Performance Standby LC outstandings on the Federal Financial Institutions Examination Council (FFIEC), through December 31, 2017. (14) Dun & Bradstreet, as of SBA fiscal year-end date of September 30, 2017. (15) Barlow Research Business Banking Rolling 4 Quarter Data 1Q2017-4Q2017 of companies with \$5MM-\$25MM. (16) FImetrix, 2017. (17) FImetrix press release, March 2018.*

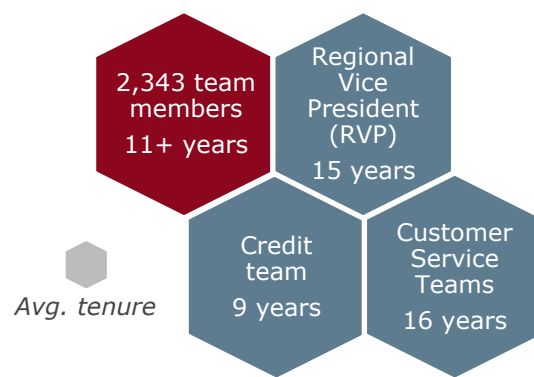
# Middle Market Banking's proven and successful model

Local presence enabling enduring relationships

Deep expertise in credit, product, industry

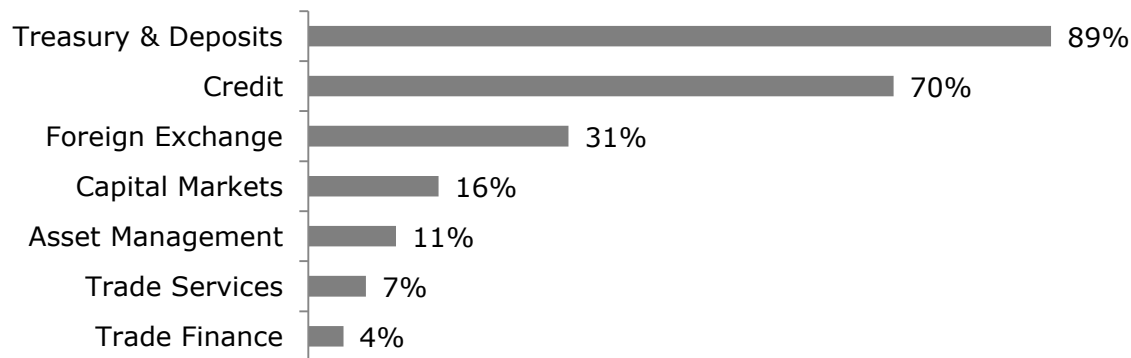
Collaboration model (Wholesale distribution) <sup>(1)</sup>

- 123 Regional Commercial Banking Offices (RCBOs) with local, tenured relationship managers
- For the 89% of Middle Market Banking's (MMB) customers with credit, WFC is the sole-bank lender (non-syndicated)
- Average customer tenure of almost 19 years



## Specialty Groups

- Beverage
- Defense and Aerospace
- Employee Stock Ownership Plan (ESOP)
- Food and Agriculture
- Global Advisors
- Heavy Equipment Dealers
- Technology, Media, Telecom
- Real Estate
- Waste and Recycling



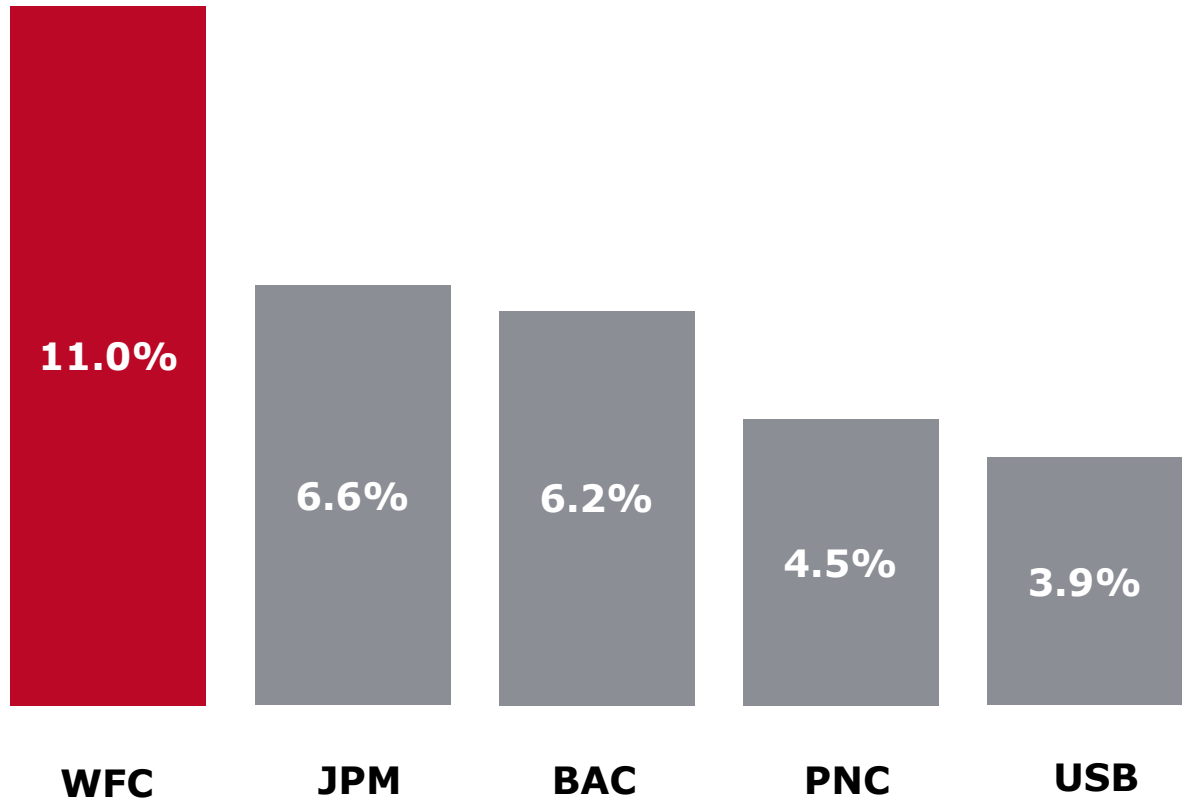
(1) MMB customers with >\$10,000 PTPP and at least six months' tenure. Pre-tax provision profit (PTPP) is total revenue less noninterest expense. Management believes that PTPP is a useful financial measure because it enables investors and others to assess a company's ability to generate capital to cover credit losses through a credit cycle. As of December 2017.



# Primary bank for U.S. middle-market companies

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*Wells Fargo is the primary bank for 11% of middle-market companies in the U.S. (1)*

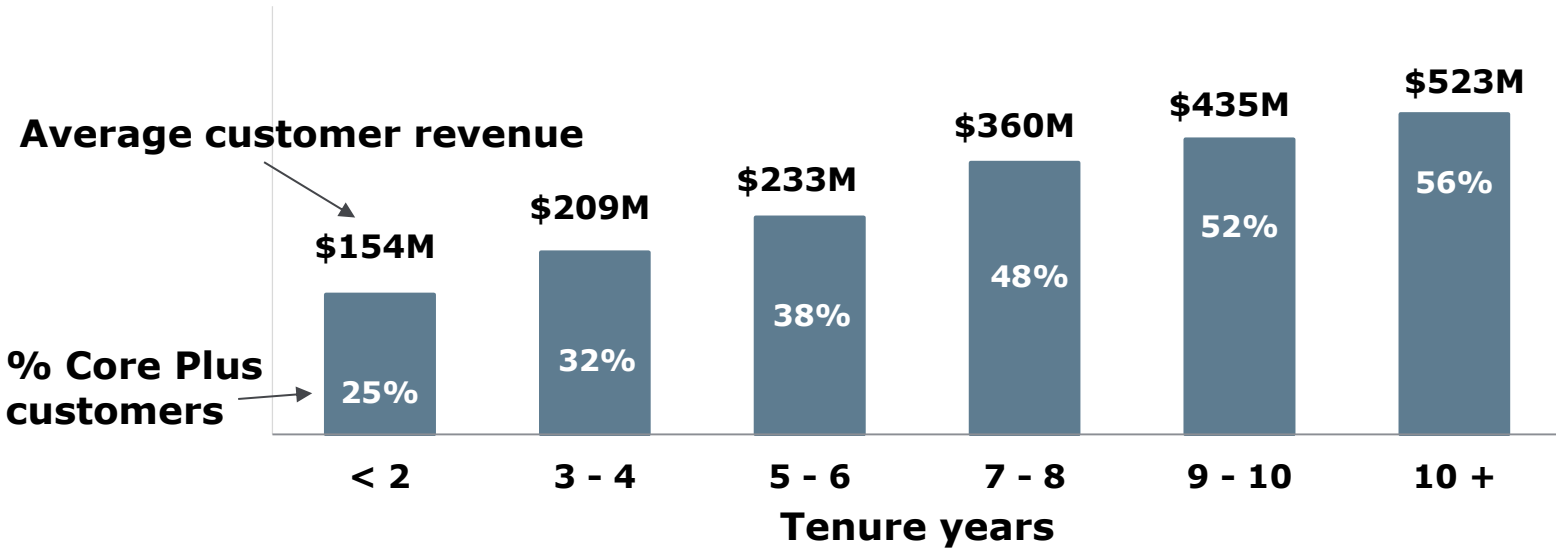


(1) Barlow data 2017 Middle Market Customer Experience Metrics. Barlow determines primary bank market share by asking survey respondents the name of their primary bank.

# MMB's long-term customer commitment

*Longer tenure drives deeper relationships and higher average customer revenue*

**% of Core Plus customers,  
by tenure and average customer revenue <sup>(1)</sup>**



(1) MMB customers with >\$10,000 PTPP and at least six months' tenure. Pre-tax 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 a company's ability to generate capital to cover credit losses through a credit cycle. Core Plus are customers with at least one Core product (credit or treasury management), plus an additional non-core product. As of December 2017.

# Commercial Real Estate's powerful franchise

*Our broad range of Commercial Real Estate (CRE) capabilities enables us to serve our customers' complex financial needs*

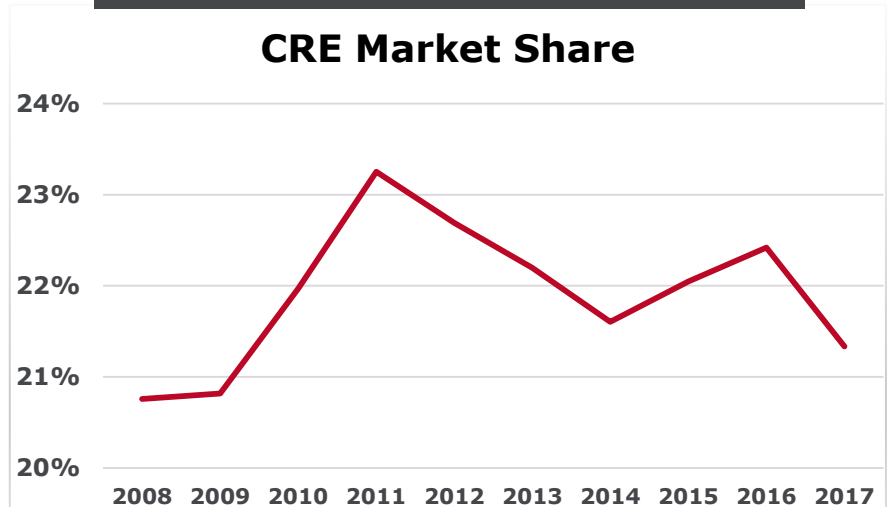
## CRE is an industry leader

- Consistent commercial real estate lending and commitment to the industry through economic and market cycles
- Prudent and disciplined approach to risk and credit underwriting
- Integrated platform that delivers comprehensive solutions to fit our customers' balance sheet and capital market needs
- Diversified revenue model with capabilities across multiple sectors
  - Balance sheet, commercial mortgage-backed securities, capital markets distribution, warehouse lending, loan servicing, agency finance and affordable housing debt and equity

## CRE Market Share – 4Q17 (1)

Rank	Company	Outstandings (\$ in millions)	% of top 20 banks
1	<b>Wells Fargo</b>	<b>\$148,771</b>	<b>21.1%</b>
2	JP Morgan	\$118,661	16.8%
3	Citi	\$78,561	11.2%
4	Bank of America	\$73,806	10.5%
5	US Bancorp	\$38,303	5.4%
6	PNC	\$36,625	5.2%

## CRE Historical Market Share (1)

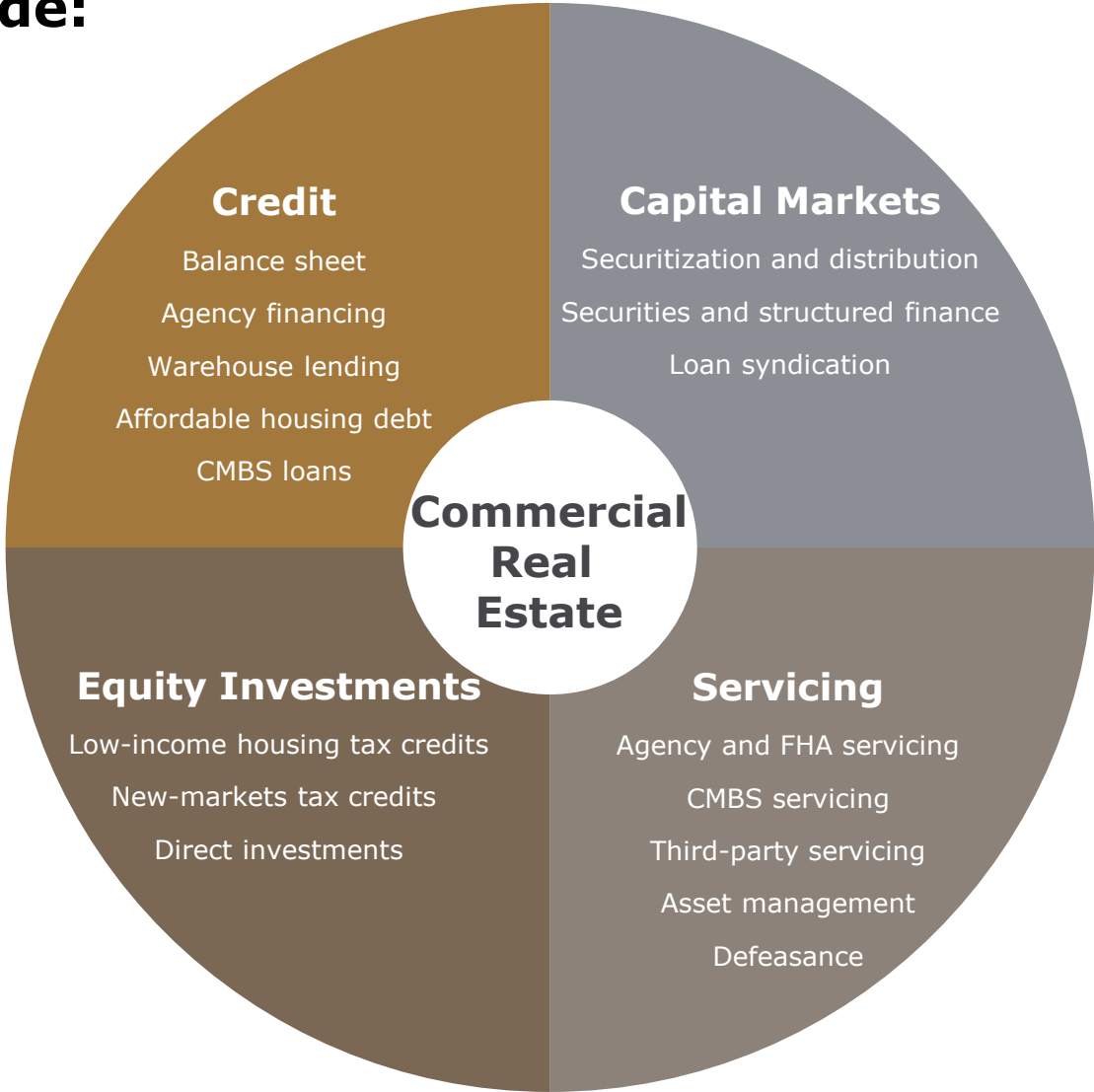


(1) Federal Reserve Form FRY-9C Filings of Major U.S. Banks; includes HFS, foreign and other loans secured by real estate, as of December 31, 2017. Market share is relative to the top 20 banks, accounting for 34% of total industry outstandings.

# Diverse set of CRE products and services

## Core strengths include:

- Trusted advisor and certainty of execution, experience and understanding of complex real estate transactions
- Experienced team who know our markets and capabilities well
- Strong balance sheet and willingness to use it for larger hold positions across all property types



# Asset-based lending market leadership

*With a #1 market position, asset-based lending is core to our strategy*

- Leading capital provider for both our middle market and large corporate platforms providing flexible, secured revolving loan structures
  - Investing in our middle market go-to-market strategy to better capitalize on Wells Fargo's position as the #1 middle market lender
  - Aligning with CIB industry verticals for large corporate customers to help better serve our customers' needs
- Integrating our asset-based lending capabilities with supply chain and channel finance to deliver a more holistic approach to financing customers' working capital assets
- Centralizing common functions and implementing process efficiencies to improve operating leverage

## Asset-Based Bookrunner (1)

Rank	Bank	Volume	# Deals
<b>1</b>	<b>Wells Fargo</b>	<b>20,115,473,386</b>	<b>160</b>
2	Bank of America	20,089,847,657	168
3	JP Morgan	11,416,696,412	88
4	PNC Bank	5,844,083,333	47
5	Citi	3,643,607,228	32
6	Barclays	3,555,239,610	32
7	Deutsche Bank	3,083,252,501	26
8	Goldman Sachs	2,333,010,509	23
9	RBC Capital Markets	2,064,841,270	13
10	BMO Capital Markets	1,864,930,556	25

- #1 asset-based lender to retailers as they adapt to changes in the consumer marketplace
- Investing in growth opportunities to finance technology companies, including software companies with recurring revenues

(1) Thomson Reuters LPC. League table is for full-year 2017.

# Deepening our Corporate and Investment Banking alignment

*CIB will deliver the full suite of corporate and investment banking products with a simplified customer engagement model that drives revenue, improves returns and increases efficiency*



## Goals

- Deepen CIB customer engagement
- Leverage industry vertical alignment and expertise to compete more effectively
- Drive more leadership and advisory roles with customers
- Optimize growth, profitability and returns for Wholesale Banking and Wells Fargo

(1) Period-end credit commitments for Corporate Banking Group (CBG) and Financial Institutions Group (FIG) as of February 28, 2018; fiscal-year 2017 revenue as of December 31, 2017.

# CIB alignment progress to date

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## Phase I - Completed

- Formalized leadership and governance structure aligned to customer priorities and financial goals
- Outlined framework to drive joint accountability for financial performance and capital returns
- Continued focus on efficiencies aligned with broader Wells Fargo objectives
  - Identified \$100+MM of expense savings

Consumer &  
Retail

Energy &  
Power

Financial  
Institutions

Healthcare

Industrials

Media &  
Telecom

Real Estate

Technology

## Phase II – In progress

- Develop joint strategic and financial plan (outlined in Phase I)
- Improve alignment in customer selection, account planning and coverage model across eight core industry segments
  - Joint accountability
  - Holistic customer relationship
  - Consistent reporting and metrics
- Drive platform efficiencies across business activities (e.g., tools, systems and real estate space consolidation)
- Continued focus on investments aligned with growth opportunities

# Long-term vision





# Wholesale Banking's strong market positioning

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## Enduring strengths

- Long-term commitment to our customers
- Diverse talent with deep bench strength and an experienced, determined leadership team
- Disciplined credit management and governance
- Broad product and solution set
- Extensive local coverage model

## Focus areas

- Streamlined organizational structure with nine lines of business collaborating across our highly experienced teams
- Centralized governance function charged with simplifying the business, driving excellence initiatives and making us more efficient
- Operational risk management and governance
- Vertical industry expertise
- Cross-business and channel customer experiences

# Innovation driving transformation

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## Investing in the future

- Digital application and onboarding for SBA Lending customers
- New real-time payment capabilities for corporate disbursements
- Application program interfaces (APIs) to help customers embed our payment services in their ecommerce platforms
- Biometric authentication options for mobile channels
- Machine learning to enhance risk analysts' payment monitoring and reviews
- Distributed ledger initiatives to simplify syndicated loan servicing
- Fintech partnership program to accelerate product development in Treasury Management

## Case Study: Lending Transformation

- Wholesale Lending Transformation (WLT) is a large-scale, multi-year initiative to create operational efficiency, reduce risk and improve data quality while modernizing our technology platforms and improving our customer and team member experiences
- The target operating model is expected to yield ~\$200MM in run-rate savings by 2020
- Our goal is to develop an end-to-end credit platform deployed across Wholesale that provides integrated customer onboarding, credit underwriting and credit workflow management
  - These systems are expected to improve team member experience through integrated tools that reduce repetitive data entry, enhance visibility and enable our relationship teams to spend more time with their customers

# Wholesale is targeting an efficiency ratio of <50%

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**Targeting run-rate expense and efficiency savings of ~\$1.5B by 2020 (1)**

## **Efficiency & Effectiveness initiatives: ~\$1B**

- Wholesale Lending Transformation: ~\$200MM (2)
- Corporate and Investment Banking integration: ~\$100MM
- Business reimaging: ~\$250MM
- Premise optimization: \$60MM
- Other identified initiatives: ~\$300MM
- Completion of GE integration over the next two years

## **Other expense reductions ~\$500MM:**

- BSA/AML Consent Order remediation
  - Peak spend in 2017 on remediation efforts was \$400MM
- Wachovia Bank deposit intangible amortization run-off

## **Other considerations:**

- Business mix, discretionary third-party spend, geographic footprint

*(1) Expected run-rate expense reduction does not contemplate additional investments that may be necessary to realize long-term savings.*

*(2) Lending Transformation is a long-term project whose upfront system infrastructure investments offset initial savings.*

# Delivering strong results

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*Wholesale Banking continues to invest in its capabilities, simplify the operating model, improve operational excellence and drive greater efficiencies in service of its customers' long-term financial success*

Financial metric	2017 results	Through-the-cycle targets
<b>Return on equity (ROE) <sup>(1)</sup></b>	<b>13%</b>	<b>15 – 17%</b>
<b>Efficiency ratio <sup>(2)</sup></b>	<b>55.4%</b>	<b>&lt; 50%</b>

(1) Return on equity (ROE) measures the operating segment's net income applicable to common shareholders as a percentage of average operating segment allocated common equity.

(2) The efficiency ratio is noninterest expense divided by total revenue (i.e., net interest income plus noninterest income).

# Biography





## Perry Pelos

### Senior EVP, Head of Wholesale Banking

- Perry Pelos runs nine major lines of business dedicated to helping small, mid-sized, and large commercial and corporate companies succeed financially. Wholesale business lines include Business Banking Group, Commercial Real Estate, Corporate Banking Group, Credit Investment Portfolio, Financial Institutions Group, Government & Institutional Banking, Middle Market Banking, Wells Fargo Commercial Capital, and Wells Fargo Securities. He serves on the Operating and Management Committees and is based in San Francisco.
- Perry began his current role in October 2016. Previously, he served as the head of Commercial Banking Services and oversaw several Wholesale lines of business, including Business Banking, Middle Market Banking, Corporate Banking, Treasury Management, and Insurance.
- From 2010 to 2015, he headed Middle Market Banking (formerly named Commercial Banking Group), responsible for more than 25 divisions nationwide. Before that, he was division manager for the Middle Market Central division. In 1998, he was appointed head of Corporate Banking, and prior to that he held several positions in Commercial and Corporate Banking. Perry joined Wells Fargo in 1987 in the company's Commercial Banking training program.
- Perry received his B.A. in economics from Northwestern University, and his M.B.A. in finance and accounting from Northwestern's Kellogg School of Management.