



Overview & Investment Thesis:

- Wells Fargo & Company is a community based, relationship-oriented diversified financial services company with \$1.3 trillion in assets and distribution channels in all 50 U.S. states and in other countries. It has a combined workforce of approximately 264,000 employees (the U.S.' 12th largest private employer) serving over 70 million customers of which 19.8 million are active online customers and 5.5 million are online small business customers.
- Wells Fargo's capital ratios remain among the strongest in its peer group.

The successful merger with Wachovia has brought together Wachovia's east coast presence with Wells Fargo's west/midwest banking store presence with over 60% of U.S. population growth in its combined footprint. It now counts one of every three U.S. households as a customer. The integration is on track to be completed this year.

- The combined company has over \$920 billion in deposits, \$770 billion in loans, 12,196 ATMs and over 9,000 stores of which there are 6,239 banking stores, making it the largest branch network, second largest deposit base in the U.S. and third largest branded bank ATM owner.
- We believe this Group occupies a 'sweet spot' between universal banks that have more regulatory risk to their business models and smaller retail banks that have the overhang of U.S. Government funding and less longer term 'franchise appeal' than Wells Fargo.
- Its significant retail deposit base helps drive the higher net interest margin among its U.S. large peers.

- Community Banking Group** offers a complete line of diversified products and services for consumers and small businesses with annual sales generally up to \$20 million in which the owner generally is the financial decision maker.
- Services include investment, insurance and trust services in 39 states and Washington DC and mortgage and home equity loans in all 50 states and Washington DC.
- #1 retail mortgage originator in the U.S with a 30% marketshare.
- #2 mortgage servicer in U.S., serving 1 of every 6 mortgage holders totalling \$1.8 trillion nationwide.
- #2 debt card issuer in U.S.
- #1 national small business lender in both units and dollar volume.
- #1 used car lender (5.4% market share).
- Community Banking also offers investment management and other services to retail customers and high net worth individuals.

- Wholesale Banking Group** serves some 40,000 businesses across the U.S. with annual sales generally in excess of \$20 million. Wholesale banking provides a complete line of commercial, corporate and real estate banking products and services.
- #1 financial services provider to middle market businesses across the U.S. states in which Wells Fargo is represented. Also serves clients global needs via 36 offices in 34 countries.
- #1 agricultural lender.
- #2 asset-based arranger by volume and number of transactions.
- U.S. investment banking market share year to date of 5.1%, up from 4.2% for full year 2010. (source: Deologic).

- Wealth, Brokerage and Retirement Group** provides a full range of financial advisory services to clients. **Wealth Management** serves affluent and high net worth clients; **Family Wealth** (to be rebranded as Abbot Downing) meets the unique needs of ultra high net worth customers.
- Wachovia Securities rebranded as Wells Fargo Advisors - fourth largest full-service wealth management provider in the U.S. with 15,236 financial advisors, serving 6 million households via 1,300 offices. It holds \$1.1 trillion retail brokerage client assets.
- Ranked by Barons as the nations 3rd largest wealth manager.
- Managed account assets are approximately \$254 billion.
- Institutional retirement plan assets of approximately \$236 billion.
- IRA assets of \$268 billion.

- Wells Fargo is also the world's fourth-largest insurance brokerage, third-largest U.S. commercial insurance brokerage and the largest bank-owned U.S. insurance brokerage.
- Wells Fargo is #1 cash management provider in U.S. market.

Business Description:

Wells Fargo & Company is a diversified financial services company. It provides retail, commercial and corporate banking services. It provides other financial services through subsidiaries engaged in various businesses, principally wholesale banking, mortgage banking, consumer finance, equipment leasing, agriculture finance, commercial finance, securities brokerage and investment banking, insurance agency and brokerage services, computer and data processing services, trust services, investment advisory services and venture capital investment. On December 31, 2008 it successfully completed its acquisition of all of Wachovia Corporation's banking operations.

Industry Growth Drivers/Trends:

- Ongoing consolidation and flight to quality in financial services sector has spawned opportunity for Wells Fargo which its management has grasped, acquired and integrated profitably with an unrelenting passion to remain customer-driven.
- Aging societies tend to consolidate their financial affairs. This may present opportunities to those able to offer the full suite of financial products like Wells Fargo.
- Demographic and secular trends may increase demands for the Group's wealth management services. Trends include growth in the size of financial markets, aging populations and intergenerational wealth transfer and outsourcing of pension assets.
- Wells Fargo's goal is satisfying customer's needs and helping them succeed financially and sees its biggest growth opportunities across: wealth management, insurance and business banking and to grow cross-selling across its eastern retail franchises. Only 9 of every 100 Wells Fargo banking households also have brokerage relations and only 6 of every 100 have their IRA's with Wells Fargo.
- The Group is targeting the 5.2 million affluent Wells Fargo households that hold \$1.7 trillion in investment assets with rival firms.

Competitive Advantages:

- Strongly positioned, thanks to shrewd, patient, conservative senior management team.
- Long and steady track record of building franchise and harnessing IT with risk management to improve efficiency.
- A strong brand and is customer focused with high cross-selling ratios. In the west (mostly legacy Wells Fargo retail bank households) the average is 6.29 products per household (6.2 in 2010 and 5.95 in 2009). In the east (mostly legacy Wachovia) the gap is narrowing but the average is 5.43 products per household (4.65 in 2009). The combined company cross-sell is 5.92 (5.29 in 2010 and 4.65 in 2009) and the target is to get to 8 in the near term (1 in 4 legacy Wells' customers have 8 or more products).
- Making expense management a competitive advantage across the Group should enable it to leverage better returns and grow market share in a consolidating market.
- Reflecting its retail/consumer bias, the Group's improved credit profile will likely lag its peers but its overall franchise and earnings power is a key differentiator.
- We believe banks like Wells Fargo, with wholesale operations, will post stronger loan growth than smaller competitors unable to operate successfully in the syndicated markets.
- In our view, Wells Fargo is well positioned to capitalize on organic investments and growth opportunities from the Wachovia acquisition in the medium term/long term; realise meaningful credit leverage in the near term and expense leverage over the medium term.

Competitors:

- Global: Citigroup, Bank of America, JPMorgan, HSBC, Barclays, Royal Bank of Scotland, Banco Santander, BBVA and BNP Paribas.
- U.S. retail: US Bancorp, Fifth Third, M&T Bank, Key Corp. and Sun Trust.

Barriers to Entry:

- Governance and regulatory compliance costs include Basel II, IT and capital.
- Extensive branch network and respected brand - prohibitively expensive to replicate.

Customers:

- U.S.-centric but global customer base.
- No single customer contributes significant amount to total revenue.
- Wachovia merger significantly diversifies loan and deposit portfolios.
- Exposure to Portugal, Ireland, Italy, Greece and Spain stated to be \$3.2 billion - mostly corporate with the sovereign portion said to be "very little".



Officers and Directors:

Leadership team: Chairman, President & CEO, John Stumpf; CFO, Tim Sloan; Senior EVP Community Banking, Carrie Tolstedt; Senior EVP Consumer Lending, Avid Modjtaba; President, Home Mortgage and EVP Wells Fargo, Michael Heid; Senior EVP Wholesale Banking, David Hoyt; Senior EVP Wealth, Brokerage & Retirement Services, David Carroll; Senior EVP Chief Information Officer, Kevin Rhein.

Board of Directors:

- **16 member board** – 15 are independent non-executives.
- Directors are from a diverse range of backgrounds including transportation, construction materials education, computer software, security, healthcare, education, retailing, communications, telecommunications, food, law, accounting and financial services.
- Chairman of the Board's Audit, Credit and Governance Committees are non-executive and independent.

Ownership:

Berkshire Hathaway 6.9%, Blackrock 4.3%, Vanguard 3.7%, Fidelity Management 3.7%, State Street 3.6%, Capital World 2.9%, Wellington Mgmt 2.8%, Davis Select 2.0%, Dodge & Cox 1.8%, JPMorgan 1.7%, T. Rowe 1.4%, Northern Trust 1.3%, Bank of New York Mellon 1.3%.

Capital Allocation/Uses:

Wells Fargo's #1 financial goal is to have a conservative financial structure as measured by asset quality, capital levels, diversity of revenue sources and dispersing risk by geography, loan size and industry. It upheld its business acumen and aversion to risk with its patient and ultimately successful acquisition of Wachovia bank, outbidding Citi by exploiting the U.S. Treasury decision to enable banks to accelerate the losses on banks they acquire against current income (previously amortized over 70 years). Wells Fargo acquired Wachovia in a stock merger for approximately \$14.4 billion and still holds a \$14 billion accretible yield benefit to its net interest income from the purchased credit impaired loans portfolio. During the crisis, significant credit reserve build lowered the Tier 1 capital ratio, and its dividend was reduced. Testimony to its unrelenting earnings power, its capital strength is now being rebuilt organically so that as at Q4 2011 its Tier 1 common equity ratio was up to 9.5% and its Tier 1 capital ratio was 11.3% (also it calculates the proposed Basel III Tier 1 common ratio to be 7.5% - so already exceeds 2013's required standard which is not fully effective until 2019). In 2011, the annual dividend rate has been increased from \$0.20 to \$0.48 and the common stock repurchase program has been reinstated with another \$5.8 billion of high-cost trust preferred shares recalled in Q4 2011 and 27 million shares bought back (i.e. 0.5% of outstanding shares) with more buy-backs expected once the U.S. Federal Reserve's capital review is completed. As capital generation and unemployment improve, the bank is expected to return to a more normalized progressive dividend based on a payout ratio of 30%. Towards that goal, management have guided, via Wachovia's integration and Project Compass "meaningful cost saves over time" and are still targeting a \$1 billion reduction to \$11 billion per quarter of non-interest expenses for 4th quarter 2012 - which suggests an annualized saving of \$0.52 earnings per share.

Key Products:

- Comprehensive range of commercial and retail banking services worldwide to personal, commercial and corporate customers.
- Core products are: checking, savings, credit cards and referrals of mortgage, insurance and brokerage. Originated \$357 billion in mortgages in 2011. (\$386 billion 2010)
- Asset Management Group's 'Wells Fargo Advantage Funds' - the U.S.'s third largest fund manager among banks and 10th largest overall 42% of Wells Fargo Advantage Funds rated 4 or 5 stars by Morningstar versus industry average of 32.5%.
- 4th largest in retirement (IRA) assets and #1 distributor of annuities.
- Households that have a Wealth, Brokerage & Retirement relationship have an average of 9.8 products (9.3 in 2009) two-thirds more than average relationships.
- #1 US small businesses lender and US Small Business Administration's 2011 Large Lender of the Year.
- Voted "Best Trade Bank" in the US by *Trade Finance*.

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Portfolio Composition:

Business Mix	2008	2009	2010	2011
Community Banking (ex Insurance)	42%	62%	46%	49%
Insurance	15%	5%	5%	3%
Wholesale Banking	37%	29%	42%	41%
Wealth, Brokerage & Retirement	6%	4%	7%	7%

Loans & Advances to Customers	2007	2008	2009	2010
Consumer				
Real Estate - family first mortgage	18.7%	28.7%	29.3%	27.5%
Real Estate - family junior lien mortgage	19.8%	12.8%	13.2%	13.4%
Total Home Mortgages	38.5%	41.5%	42.5%	40.9%
Credit Cards	4.9%	2.7%	3.1%	3.1%
Other Credit and Installments	14.7%	10.8%	11.4%	12.1%
Commercial and Real Estate				
Commercial	23.7%	23.4%	20.2%	21.0%
Other Real Estate Mortgage	9.6%	11.9%	13.4%	13.5%
Real Estate Construction	4.9%	4.0%	3.8%	3.2%
Lease Financing	1.8%	1.8%	1.8%	1.8%
Foreign	1.9%	3.9%	3.8%	4.4%
Total	100%	100%	100%	100%

Interest Earning Assets	2008	2009	2010	2011
Treasury	4%	4%	7%	4%
Loans to Banks/Federal Agencies	9%	2%	2%	2%
Loans to Customers	76%	70%	66%	64%
Financial Investments	11%	24%	25%	30%
Customer Loans / Deposits	111%	95%	87%	82%

Financial Statement Summary: (\$MM, years ended December 31)

Income Statement	2008	2009	2010	2011
Net Interest Income	25,143	46,324	44,757	42,763
Other Income	16,754	42,362	40,453	38,185
Provisions for Credit Losses	(15,979)	(21,668)	(15,753)	(7,899)
Non-Interest Expenses	(22,958)	(49,020)	(50,456)	(49,393)
Taxes	(602)	(5,331)	(6,338)	(7,445)
Net Income	2,369	7,990	11,632	15,025
EPS	0.70	1.76	2.23	2.85
Diluted EPS	0.70	1.75	2.21	2.82
Dividend per Share	1.30	0.49	0.20	0.48
Balance Sheet				
Common Equity	67,752	103,301	117,719	128,810
Book Value per Share	16.02	19.95	22.49	24.64

Key Profitability Ratios and Figures:

Y/E December 31	2008	2009	2010	2011
Tier 1 Common Equity	3.13%	6.46%	8.30%	9.46%
Tier 1 Capital Ratio	7.84%	9.25%	11.16%	11.33%
Total Capital Ratio	11.83%	13.26%	15.01%	14.77%
Efficiency Ratio (Costs/Income)	54.0%	55.3%	59.2%	61.0%
PCLs % of Average Loans	1.98%	2.96%	2.08%	1.03%
Loan Loss Reserve of Loans	2.69%	3.42%	3.10%	2.56%
Loan Loss Reserve Impaired Assets	241%	91%	75%	76%
Return on Average Equity	3.60%	11.6%	10.4%	11.9%
S&P Senior Rating of Debt	AA	AA-	AA-	AA-

Sourced from 2011 Annual Report.

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