WELLS FARGO & CO/MN
Form 10-Q
May 09, 2008

Table of Contents

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, 2008
Commission file number 001-2979

WELLS FARGO & COMPANY
(Exact name of registrant as specified in its charter)

Delaware	No. 41-0449260
(State of incorporation)	(I.R.S. Employer Identification No.)

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

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 þ No o

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 þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Yes o No þ

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, 2008
Common stock, $1-2/3 par value	3,302,624,899

FORM 10-Q
CROSS-REFERENCE INDEX

PART I	**Financial Information**	
Item 1.	Financial Statements	Page
	Consolidated Statement of Income	35
	Consolidated Balance Sheet	36
	Consolidated Statement of Changes in Stockholders Equity and Comprehensive Income	37
	Consolidated Statement of Cash Flows	38
	Notes to Financial Statements	
	1 - Summary of Significant Accounting Policies	39
	2 - Business Combinations	41
	3 - Federal Funds Sold, Securities Purchased under Resale Agreements and Other Short-Term Investments	41
	4 - Securities Available for Sale	42
	5 - Loans and Allowance for Credit Losses	43
	6 - Other Assets	45
	7 - Variable Interest Entities	46
	8 - Mortgage Banking Activities	47
	9 - Intangible Assets	49
	10 - Goodwill	50
	11 - Guarantees	51
	12 - Derivatives	53
	13 - Fair Values of Assets and Liabilities	57
	14 - Preferred Stock	61
	15 - Employee Benefits	62
	16 - Earnings Per Common Share	63
	17 - Operating Segments	64
	18 - Condensed Consolidating Financial Statements	66
	19 - Regulatory and Agency Capital Requirements	72
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations (Financial Review)	
	Summary Financial Data	2
	Overview	3
	Critical Accounting Policies	9
	Earnings Performance	10
	Balance Sheet Analysis	16
	Off-Balance Sheet Arrangements and Aggregate Contractual Obligations	17
	Risk Management	18
	Capital Management	31
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	24
Item 4.	Controls and Procedures	34
PART II	**Other Information**	
Item 1A.	Risk Factors	32
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	73

Item 6.	Exhibits	73
Signature		73
Exhibit Index		74

EXHIBIT 12
EXHIBIT 31.(A)
EXHIBIT 31.(B)
EXHIBIT 32.(A)
EXHIBIT 32.(B)

Table of Contents

PART I FINANCIAL INFORMATION
FINANCIAL REVIEW

SUMMARY FINANCIAL DATA

		Quarter ended		% Change Mar. 31, 2008 from	
($ in millions, except per share amounts)	**Mar. 31, 2008**	Dec. 31, 2007	Mar. 31, 2007	Dec. 31, 2007	Mar. 31, 2007
For the Quarter					
Net income	**$ 1,999**	$ 1,361	$ 2,244	47%	(11)%
Diluted earnings per common share	**0.60**	0.41	0.66	46	(9)
Profitability ratios (annualized):					
Net income to average total assets (ROA)	**1.40%**	0.97%	1.89%	44	(26)
Net income to average stockholders equity (ROE)	**16.86**	11.25	19.68	50	(14)
Efficiency ratio (1)	**51.7**	57.8	58.5	(11)	(12)
Total revenue	**$ 10,563**	$ 10,205	$ 9,441	4	12
Dividends declared per common share	**0.31**	0.31	0.28		11
Average common shares outstanding	**3,302.4**	3,327.6	3,376.0	(1)	(2)
Diluted average common shares outstanding	**3,317.9**	3,352.2	3,416.1	(1)	(3)
Average loans	**$ 383,919**	$ 374,372	$ 321,429	3	19
Average assets	**574,994**	555,647	482,105	3	19
Average core deposits (2)	**317,278**	314,808	290,586	1	9
Average retail core deposits (3)	**228,448**	226,180	216,944	1	5
Net interest margin	**4.69%**	4.62%	4.95%	2	(5)
At Quarter End					
Securities available for sale	**$ 81,787**	$ 72,951	$ 45,443	12	80
Loans	**386,333**	382,195	325,487	1	19
Allowance for loan losses	**5,803**	5,307	3,772	9	54
Goodwill	**13,148**	13,106	11,275		17
Assets	**595,221**	575,442	485,901	3	22
Core deposits (2)	**327,360**	311,731	296,469	5	10
Stockholders equity	**48,159**	47,628	46,073	1	5
Tier 1 capital (4)	**39,211**	36,674	36,476	7	7
Total capital (4)	**54,522**	51,638	50,733	6	7

Capital ratios:					
Stockholders equity to assets	**8.09%**	8.28%	9.48%	(2)	(15)
Risk-based capital (4)					
Tier 1 capital	**7.92**	7.59	8.68	4	(9)
Total capital	**11.01**	10.68	12.09	3	(9)
Tier 1 leverage (4)	**7.04**	6.83	7.81	3	(10)
Book value per common share	**$ 14.58**	$ 14.45	$ 13.75	1	6
Team members (active, full-time equivalent)	**160,900**	159,800	159,600	1	1
Common Stock Price					
High	**$ 34.56**	$ 37.78	$ 36.64	(9)	(6)
Low	**24.38**	29.29	33.01	(17)	(26)
Period end	**29.10**	30.19	34.43	(4)	(15)

(1) The efficiency ratio is noninterest expense divided by total revenue (net interest income and noninterest income).

(2) Core deposits are noninterest-bearing deposits, interest-bearing checking, savings certificates, market rate and other savings, and certain foreign deposits (Eurodollar sweep balances).

(3) Retail core deposits are total core deposits excluding Wholesale Banking core deposits and retail mortgage escrow deposits. To reflect the realignment of our corporate trust business from Community Banking into Wholesale Banking

in first quarter 2008, balances for prior periods have been revised.

(4) See Note 19 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report for additional information.

Table of Contents

This Report on Form 10-Q for the quarter ended March 31, 2008, including the Financial Review and the Financial Statements and related Notes, has 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 might differ significantly from our forecasts and expectations due to several factors. Some of these factors are described in the Financial Review and in the Financial Statements and related Notes. For a discussion of other factors, refer to the Risk Factors section in this Report and to the Risk Factors and Regulation and Supervision sections of our Annual Report on Form 10-K for the year ended December 31, 2007 (2007 Form 10-K), filed with the Securities and Exchange Commission (SEC) and available on the SEC s website at www.sec.gov.

OVERVIEW

Wells Fargo & Company is a $595 billion diversified financial services company providing banking, insurance, investments, mortgage banking and consumer finance through banking stores, the internet and other distribution channels to consumers, businesses and institutions in all 50 states of the U.S. and in other countries. We ranked fifth in assets and fourth in market value of our common stock among U.S. bank holding companies at March 31, 2008. When we refer to 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.

Our first quarter 2008 results reflected a combination of solid business growth, strong operating margins and further balance sheet strengthening. Despite a $2.0 billion pre-tax provision for credit losses including an additional $500 million credit reserve build in the quarter we earned $2.0 billion (after tax), or $0.60 per share. Our ability to earn through these higher net credit losses reflected the benefit of our diversified business model, as well as the attractive growth opportunities we are realizing in this challenging environment. Our first quarter 2008 results included double-digit revenue growth (up 12% year over year) and positive operating leverage. Even with higher credit costs, our return on assets (ROA) of 1.40% and return on equity (ROE) of 16.86% remained strong and at the higher end of our peers. Our net interest margin improved 7 basis points to 4.69% on a linked-quarter basis, and was one of the highest among large U.S. bank holding companies. We increased our allowance for credit losses by providing $500 million in excess of net charge-offs in first quarter 2008 to build reserves for future credit losses inherent in our loan portfolio. Our capital ratios increased from year-end 2007 notwithstanding a 16% (annualized) linked-quarter increase in earning assets, and liquidity remained strong due largely to continued core deposit growth.

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. Our primary strategy to achieve this vision is to increase the number of products our customers buy from us and to give them all of the financial products that fulfill their needs. Our cross-sell strategy and diversified business model facilitate growth in strong and weak economic cycles, as we can grow by expanding the number of products our current customers have with us. Our average retail banking household now has a record 5.6 products with us. Our goal is eight products per customer, which is currently half of our estimate of potential demand. Our core products grew this quarter from a year ago, with average loans up 19%, average core deposits up 9% and assets under management or administration up 11%.

Table of Contents

We believe it is important to maintain a well-controlled environment as we continue to grow our businesses. We manage our credit risk by setting what we believe are sound credit policies for underwriting new business, while monitoring and reviewing the performance of our loan portfolio. We manage the interest rate and market risks inherent in our asset and liability balances within prudent ranges, while ensuring adequate liquidity and funding. We have maintained strong capital levels to provide for future growth. Our stockholder value has increased over time due to customer satisfaction, strong financial results, investment in our businesses, consistent execution of our business model and the management of our business risks.
Our financial results included the following:
Net income for first quarter 2008 was $2.00 billion ($0.60 per share), compared with $2.24 billion ($0.66 per share) for first quarter 2007. ROA was 1.40% and ROE was 16.86% for first quarter 2008, compared with 1.89% and 19.68%, respectively, for first quarter 2007.
Net interest income on a taxable-equivalent basis was $5.81 billion for first quarter 2008, up 15% from $5.04 billion for first quarter 2007, primarily driven by strong growth in both loans and interest-bearing core deposits. The net interest margin increased 7 basis points to 4.69% for first quarter 2008 from fourth quarter 2007 as the benefit of lower funding costs offset the growth in earning assets. The decline in the net interest margin from 4.95% for first quarter 2007 was largely due to the 21% growth in earning assets.
Noninterest income increased 8% to $4.80 billion for first quarter 2008 from $4.43 billion for first quarter 2007. Fee income growth largely reflected continued success in satisfying the financial needs of our customers, with cross-sell reaching a record 5.6 products in Retail Banking and a record 6.2 in Wholesale Banking. Fee income growth was particularly strong year over year in insurance (up 26%), debit and credit card fees (up 19%) and deposit service charges (up 9%), with solid growth in trust and investment fees (up 4% despite a 7% decline in the S&P500® Index). Net gains from equity investments increased $216 million from a year ago, reflecting the $334 million gain in the quarter from our ownership in Visa, which completed its initial public offering (IPO) in March 2008.
Interest rate and credit spread volatility was particularly pronounced in first quarter 2008. The more significant market-related effects included:

$(263) million	Write-down of the mortgage warehouse/pipeline, write-down of mortgage loans repurchased during the quarter, an increase in the repurchase reserve, and a decline in servicing value of loans held in the mortgage warehouse/pipeline.
$94 million	Increase in mortgage servicing income reflecting a $1.8 billion reduction in the value of mortgage servicing rights (MSRs) due to a decline in mortgage rates during the quarter, offset by a $1.9 billion gain on the financial instruments hedging the MSRs. The ratio of MSRs to related loans serviced for others was 1.08%, the lowest capitalization ratio in 11 quarters and 12 basis points below fourth quarter 2007.
$323 million	Net gain on the sale of mortgage-backed securities by Wells Fargo Home Mortgage (Home Mortgage) as part of its MSRs economic risk hedging activities.

$(63) million	Net write-down on commercial mortgages held for sale.
$(21) million	Net equity losses (other than Visa IPO gain).
$(39) million	Liability recorded for capital support agreement for one structured investment vehicle (SIV) held by our AAA-rated non-government money market mutual funds (included in noninterest expense).

Revenue, the sum of net interest income and noninterest income, grew 12% to $10.56 billion in first quarter 2008 from $9.44 billion in first quarter 2007 and included the $334 million gain from the Visa IPO. Once again, many of our businesses achieved double-digit, year-over-year revenue growth, including commercial banking, asset-based lending, insurance, international, wealth management, regional banking, debit and credit cards, mortgage banking, business direct, Small Business Administration lending and business payroll services. We continued to have a good balance between loan and deposit spread revenue and fee-based revenue, reflecting record cross-sell in both our retail and wholesale businesses.

Noninterest expense was $5.46 billion for first quarter 2008, down $64 million, or 1%, from first quarter 2007 and included a $151 million reversal of Visa litigation expense related to the Visa IPO. First quarter 2008 expenses included higher salaries, sales-related insurance costs and net occupancy costs, more than offset by lower incentive compensation (reduced incentive compensation accruals), employee benefits and outside professional services costs. We continued to invest in growing our businesses, opening 11 retail banking stores and converting 18 Greater Bay Bancorp stores during the quarter. The efficiency ratio improved to 51.7% for first quarter 2008 from 58.5% a year ago.

Net charge-offs for first quarter 2008 were $1.5 billion (1.60% of average total loans outstanding, annualized), compared with $1.2 billion (1.28%) for fourth quarter 2007 and $715 million (0.90%) for first quarter 2007. Total provision expense in first quarter 2008 was $2.0 billion, including a $500 million credit reserve build, primarily for losses in the National Home Equity Group (Home Equity) and Business Direct (primarily unsecured lines of credit to small businesses) portfolios. The $813 million increase in net credit losses from first quarter 2007 included $364 million in the real estate 1-4 family junior lien category, primarily from Home Equity, and $166 million in the commercial category, primarily from Business Direct. Residential real estate values continued to decline in the quarter and the number of markets adversely impacted continued to increase. As previously disclosed, we segregated approximately $12 billion of Home Equity loans into a liquidating portfolio in fourth quarter 2007, which has decreased to $11.5 billion at March 31, 2008. The liquidating portfolio produced $163 million in net charge-offs in first quarter 2008, for an annualized quarterly loss rate of 5.58%.

Other consumer portfolios performed as expected during the quarter. Net charge-offs in the real estate 1-4 family first mortgage portfolio increased $57 million in first quarter 2008 from first quarter 2007, including an increase of $23 million in the Wells Fargo Financial debt consolidation portfolio and $21 million in the Home Mortgage portfolio, but were still at relatively low levels. The increase in mortgage loss rates was consistent with the continued declines in home prices. Despite the $123 million increase in net charge-offs from first quarter 2007, the credit card portfolio continued to perform as expected. Delinquency in our auto portfolio improved in first quarter 2008. This portfolio has received significant management attention and the changes in underwriting and collections made in 2006 and 2007 have stabilized losses.

Commercial and commercial real estate net charge-offs increased $166 million to $268 million in first quarter 2008 from $102 million in first quarter 2007. The vast majority of commercial loans (other real estate mortgage, real estate construction and lease financing) continued to perform as expected and losses remained modest. However, losses have increased in the Business Direct portfolio, with net charge-offs up $92 million from first quarter 2007. These loans have tended to perform like credit cards. Most of the increase in Business Direct losses occurred in certain metropolitan areas within California, Nevada and Florida, and appears to be concentrated in industries related to real estate or where the business owner may be experiencing difficulty with a home loan.

The provision for credit losses was $2.0 billion in first quarter 2008, $2.6 billion in fourth quarter 2007 and $715 million in first quarter 2007. The provision for first quarter 2008 included an additional $500 million in credit reserve build due to higher credit losses inherent in the loan portfolio. The allowance for credit losses, which consists of the allowance for loan losses and the reserve for unfunded credit commitments, was $6.01 billion (1.56% of total loans) at March 31, 2008, compared with $5.52 billion (1.44%) at December 31, 2007, and $3.97 billion (1.22%) at March 31, 2007.

Total nonaccrual loans were $3.26 billion (0.84% of total loans) at March 31, 2008, compared with $2.68 billion (0.70%) at December 31, 2007, and $1.75 billion (0.54%) at March 31, 2007. The majority of the increase in nonaccrual loans from a year ago was in portfolios affected by the residential real estate issues, including an increase of $517 million in Wells Fargo Financial real estate, $283 million in commercial lending, primarily in loans to home builders and developers, and $182 million in Home Equity. Total nonperforming assets (NPAs) were $4.50 billion (1.16% of total loans) at March 31, 2008, compared with $3.87 billion (1.01%) at December 31, 2007, and $2.67 billion (0.82%) at March 31, 2007. As in the prior quarter, we continued to hold more foreclosed properties than we have historically. Foreclosed assets were $1,215 million at March 31, 2008, $1,184 million at December 31, 2007, and $909 million at March 31, 2007. Foreclosed assets, a component of total NPAs, included $578 million, $535 million and $381 million of foreclosed real estate securing Government National Mortgage Association (GNMA) loans at March 31, 2008, December 31, 2007 and March 31, 2007, respectively, consistent with regulatory reporting requirements. The foreclosed real estate securing GNMA loans of $578 million represented 15 basis points of the ratio of NPAs to loans at March 31, 2008. Both principal and interest for GNMA loans secured by the foreclosed real estate are collectible because the GNMA loans are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs.

The Company and each of its subsidiary banks continued to remain well-capitalized. The ratio of stockholders equity to total assets was 8.09% at March 31, 2008, 8.28% at December 31, 2007, and 9.48% at March 31, 2007. Our total risk-based capital (RBC) ratio at March 31, 2008, was 11.01% and our Tier 1 RBC ratio was 7.92%, exceeding the minimum regulatory guidelines of 8% and 4%, respectively, for bank holding companies. Our total RBC ratio was 10.68% and 12.09% at December 31, 2007 and March 31, 2007, respectively, and our Tier 1 RBC ratio was 7.59% and 8.68% for the same periods. Our Tier 1 leverage ratio was 7.04%, 6.83% and 7.81% at March 31, 2008, December 31, 2007 and March 31, 2007, respectively, exceeding the minimum regulatory guideline of 3% for bank holding companies.

Table of Contents

Current Accounting Developments

On January 1, 2008, we adopted the following new accounting pronouncements:

FSP FIN 39-1 Financial Accounting Standards Board (FASB) Staff Position on Interpretation No. 39, *Amendment of FASB Interpretation No. 39;*

EITF 06-4 Emerging Issues Task Force (EITF) Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements;*

EITF 06-10 EITF Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements;* and

SAB 109 Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings*.

On April 30, 2007, the FASB issued FSP FIN 39-1, which amends Interpretation No. 39 to permit a reporting entity to offset the right to reclaim cash collateral (a receivable), or the obligation to return cash collateral (a payable), against derivative instruments executed with the same counterparty under the same master netting arrangement. The provisions of this FSP are effective for the year beginning on January 1, 2008, with early adoption permitted. We adopted FSP FIN 39-1 on January 1, 2008, and it did not have a material effect on our consolidated financial statements.

On September 20, 2006, the FASB ratified the consensus reached by the EITF at its September 7, 2006, meeting with respect to EITF 06-4. On March 28, 2007, the FASB ratified the consensus reached by the EITF at its March 15, 2007, meeting with respect to EITF 06-10. These pronouncements require that for endorsement split-dollar life insurance arrangements and collateral split-dollar life insurance arrangements where the employee is provided benefits in postretirement periods, the employer should recognize the cost of providing that insurance over the employee s service period by accruing a liability for the benefit obligation. Additionally, for collateral assignment split-dollar life insurance arrangements, EITF 06-10 requires an employer to recognize and measure an asset based upon the nature and substance of the agreement. EITF 06-4 and EITF 06-10 are effective for the year beginning on January 1, 2008, with early adoption permitted. We adopted EITF 06-4 and EITF 06-10 on January 1, 2008, and reduced beginning retained earnings for 2008 by $20 million (after tax), primarily related to split-dollar life insurance arrangements from the acquisition of Greater Bay Bancorp.

On November 5, 2007, the Securities and Exchange Commission (SEC) issued SAB 109, which provides the staff s views on the accounting for written loan commitments recorded at fair value under U.S. generally accepted accounting principles (GAAP). To make the staff s views consistent with current authoritative accounting guidance, SAB 109 revises and rescinds portions of SAB 105, *Application of Accounting Principles to Loan Commitments*. Specifically, SAB 109 states the expected net future cash flows associated with the servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The provisions of SAB 109, which we adopted on January 1, 2008, are applicable to written loan commitments recorded at fair value that are entered into beginning on or after January 1, 2008. The implementation of SAB 109 did not have a material impact on our first quarter 2008 results or the valuation of our loan commitments.

Table of Contents

On December 4, 2007, the FASB issued FAS 141R, *Business Combinations*. This statement requires an acquirer to recognize the assets acquired (including loan receivables), the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, to be measured at their fair values as of that date, with limited exceptions. The acquirer is not permitted to recognize a separate valuation allowance as of the acquisition date for loans and other assets acquired in a business combination. The revised statement requires acquisition-related costs to be expensed separately from the acquisition. It also requires restructuring costs that the acquirer expected but was not obligated to incur, to be expensed separately from the business combination. FAS 141R should be applied prospectively to business combinations beginning with the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. We are currently evaluating the impact that FAS 141R may have on our consolidated financial statements.

On December 4, 2007, the FASB issued FAS 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. FAS 160 specifies that noncontrolling interests in a subsidiary are to be treated as a separate component of equity and, as such, increases and decreases in the parent s ownership interest that leave control intact are accounted for as capital transactions. It changes the way the consolidated income statement is presented by requiring that an entity s consolidated net income include the amounts attributable to both the parent and the noncontrolling interest. FAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. This statement should be applied prospectively to all noncontrolling interests, including any that arose before the effective date. The statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. We are currently evaluating the impact that FAS 160 may have on our consolidated financial statements.

On February 20, 2008, the FASB issued Staff Position FAS No. 140-3, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. FSP FAS 140-3 requires an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously or in contemplation of the initial transfer to be evaluated as a linked transaction under FAS 140 unless certain criteria are met, including that the transferred asset must be readily obtainable in the marketplace. The provisions of this FSP are effective beginning on January 1, 2009, and shall be applied prospectively to initial transfers and repurchase financings for which the initial transfer is executed on or after this date. Early application is prohibited. We are currently evaluating the impact that FSP FAS 140-3 may have on our consolidated financial statements.

On March 19, 2008, the FASB issued FAS 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. FAS 161 changes the disclosure requirements for derivative instruments and hedging activities. It requires enhanced disclosures about how and why an entity uses derivatives, how derivatives and related hedged items are accounted for, and how derivatives and hedged items affect an entity s financial position, performance, and cash flows. The provisions of FAS 161 are effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. Because FAS 161 amends only the disclosure requirements for derivative instruments and hedged items, the adoption of FAS 161 will not affect our consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are fundamental to understanding our results of operations and financial condition, because some accounting policies require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. Five of these policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. These policies govern the allowance for credit losses, the valuation of residential mortgage servicing rights (MSRs) and financial instruments, pension accounting and income taxes. Management has reviewed and approved these critical accounting policies and has discussed these policies with the Audit and Examination Committee. These policies are described in Financial Review Critical Accounting Policies and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2007 Form 10-K.

FAIR VALUE OF FINANCIAL INSTRUMENTS

We use fair value measurements to record fair value adjustments to certain financial instruments and determine fair value disclosures. (See our 2007 Form 10-K for the complete critical accounting policy related to fair value of financial instruments.)

Approximately 23% of total assets ($136.7 billion) at March 31, 2008, and 22% of total assets ($123.8 billion) at December 31, 2007, consisted of financial instruments recorded at fair value on a recurring basis. At March 31, 2008, approximately 83% of these financial instruments used valuation methodologies involving market-based or market-derived information, collectively Level 1 and 2 measurements, to measure fair value. The remaining 17% of these financial instruments (4% of total assets) were measured using model-based techniques, or Level 3 measurements. Substantially all of our financial assets valued using Level 3 measurements consisted of MSRs or investments in asset-backed securities collateralized by auto leases. In first quarter 2008, $1.1 billion of mortgages held for sale were transferred into Level 3 from Level 2 due to reduced levels of market liquidity for certain residential mortgage loans. Approximately 1% of total liabilities ($6.2 billion) at March 31, 2008, and 0.5% ($2.6 billion) at December 31, 2007, consisted of financial instruments recorded at fair value on a recurring basis. Liabilities valued using Level 3 measurements were $408 million at March 31, 2008.

See Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report for additional detail for first quarter 2008. See Note 8 (Securitizations and Variable Interest Entities) to Financial Statements in our 2007 Form 10-K for a detailed discussion of the key assumptions used to determine the fair value of our MSRs and the related sensitivity analysis.

Table of Contents

EARNINGS PERFORMANCE

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 for deposits and long-term and short-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 to consistently reflect income from taxable and tax-exempt loans and securities based on a 35% federal statutory tax rate.

Net interest income on a taxable-equivalent basis increased 15% to $5.81 billion in first quarter 2008 from $5.04 billion in first quarter 2007, primarily driven by strong growth in both loans and interest-bearing deposits. The net interest margin increased 7 basis points to 4.69% for first quarter 2008 from fourth quarter 2007 as the benefit of lower funding costs offset the growth in earning assets. The decline in the net interest margin from 4.95% for first quarter 2007 was largely due to the 21% growth in earning assets.

Average earning assets increased $86.1 billion (21%) to $496.9 billion in first quarter 2008 from $410.8 billion in first quarter 2007. Average loans increased to $383.9 billion in first quarter 2008 from $321.4 billion a year ago. Average mortgages held for sale decreased to $26.3 billion in first quarter 2008 from $32.3 billion a year ago. Average debt securities available for sale increased to $75.2 billion in first quarter 2008 from $44.7 billion a year ago.

Core deposits are an important contributor to growth in net interest income and the net interest margin, and are a low-cost source of funding. Core deposits are noninterest-bearing deposits, interest-bearing checking, savings certificates, market rate and other savings, and certain foreign deposits (Eurodollar sweep balances). Average core deposits rose 9% to $317.3 billion for first quarter 2008 from $290.6 billion for first quarter 2007 and funded 83% and 90% of average loans in first quarter 2008 and 2007, respectively. Total average retail core deposits, which exclude Wholesale Banking core deposits and retail mortgage escrow deposits, grew $11.5 billion (5%) to $228.4 billion for first quarter 2008 from a year ago. Average mortgage escrow deposits were $20.4 billion for first quarter 2008, down $205 million from a year ago. Average savings certificates of deposits increased to $41.9 billion in first quarter 2008 from $38.5 billion a year ago and average noninterest-bearing checking accounts and other core deposit categories (interest-bearing checking and market rate and other savings) increased to $250.0 billion in first quarter 2008 from $234.3 billion a year ago. Total average interest-bearing deposits increased to $258.4 billion in first quarter 2008 from $221.0 billion a year ago.

The following table presents the individual components of net interest income and the net interest margin.

Table of Contents

AVERAGE BALANCES, YIELDS AND RATES PAID (TAXABLE-EQUIVALENT BASIS) (1) (2)

					Quarter ended March 31,	
			2008			2007
(in millions)	**Average balance**	**Yields/ rates**	**Interest income/ expense**	Average balance	Yields/ rates	Interest income/ expense
EARNING ASSETS						
Federal funds sold, securities purchased under resale agreements and other short-term investments	**$ 3,888**	**3.30%**	**$ 32**	$ 5,867	5.15%	$ 75
Trading assets	**5,129**	**3.73**	**48**	4,305	5.53	59
Debt securities available for sale (3):						
Securities of U.S. Treasury and federal agencies	**975**	**3.86**	**9**	753	4.31	8
Securities of U.S. states and political subdivisions	**6,290**	**7.43**	**120**	3,532	7.39	63
Mortgage-backed securities:						
Federal agencies	**36,097**	**6.10**	**535**	30,640	6.19	467
Private collateralized mortgage obligations	**20,994**	**6.08**	**324**	3,993	6.33	62
Total mortgage-backed securities	**57,091**	**6.09**	**859**	34,633	6.21	529
Other debt securities (4)	**10,825**	**6.93**	**196**	5,778	7.44	106
Total debt securities available for sale (4)	**75,181**	**6.30**	**1,184**	44,696	6.43	706
Mortgages held for sale (5)	**26,273**	**6.00**	**394**	32,343	6.55	530
Loans held for sale (5)	**647**	**7.54**	**12**	794	7.82	15
Loans:						
Commercial and commercial real estate:						
Commercial	**91,085**	**6.92**	**1,569**	71,063	8.30	1,455
Other real estate mortgage	**37,426**	**6.44**	**600**	30,590	7.41	560
Real estate construction	**18,932**	**6.06**	**285**	15,892	8.01	314
Lease financing	**6,825**	**5.77**	**98**	5,503	5.74	79
Total commercial and commercial real estate	**154,268**	**6.65**	**2,552**	123,048	7.93	2,408
Consumer:						
Real estate 1-4 family first mortgage	**72,308**	**6.90**	**1,246**	54,444	7.33	995
Real estate 1-4 family junior lien mortgage	**75,263**	**7.31**	**1,368**	69,079	8.17	1,393
Credit card	**18,776**	**12.33**	**579**	14,557	13.55	493
Other revolving credit and installment	**55,910**	**9.09**	**1,264**	53,539	9.75	1,287
Total consumer	**222,257**	**8.05**	**4,457**	191,619	8.78	4,168

Foreign	**7,394**	**11.27**	**207**	6,762	11.54	192
Total loans (5)	**383,919**	**7.55**	**7,216**	321,429	8.51	6,768
Other	**1,825**	**4.54**	**20**	1,327	5.12	16
Total earning assets	**$ 496,862**	**7.19**	**8,906**	$ 410,761	8.04	8,169
FUNDING SOURCES						
Deposits:						
Interest-bearing checking	**$ 5,226**	**1.92**	**25**	$ 4,615	3.25	37
Market rate and other savings	**159,865**	**1.97**	**784**	140,934	2.77	963
Savings certificates	**41,915**	**3.96**	**413**	38,514	4.43	421
Other time deposits	**4,763**	**3.53**	**42**	9,312	5.13	118
Deposits in foreign offices	**46,641**	**2.84**	**330**	27,647	4.67	318
Total interest-bearing deposits	**258,410**	**2.48**	**1,594**	221,022	3.41	1,857
Short-term borrowings	**52,970**	**3.23**	**425**	11,498	4.78	136
Long-term debt	**100,686**	**4.29**	**1,077**	89,027	5.15	1,138
Total interest-bearing liabilities	**412,066**	**3.02**	**3,096**	321,547	3.94	3,131
Portion of noninterest-bearing funding sources	**84,796**			89,214		
Total funding sources	**$ 496,862**	**2.50**	**3,096**	$ 410,761	3.09	3,131
Net interest margin and net interest income on a taxable-equivalent basis (6)		**4.69%**	**$ 5,810**		4.95%	$ 5,038
NONINTEREST-EARNING ASSETS						
Cash and due from banks	**$ 11,648**			$ 11,862		
Goodwill	**13,161**			11,274		
Other	**53,323**			48,208		
Total noninterest-earning assets	**$ 78,132**			$ 71,344		
NONINTEREST-BEARING FUNDING SOURCES						
Deposits	**$ 84,886**			$ 88,769		
Other liabilities	**30,348**			25,536		
Stockholders equity	**47,694**			46,253		
Noninterest-bearing funding sources used to fund earning assets	**(84,796)**			(89,214)		
Net noninterest-bearing funding sources	**$ 78,132**			$ 71,344		
TOTAL ASSETS	**$ 574,994**			$ 482,105		

(1) Our average prime rate was 6.22% and 8.25% for the quarters ended March 31, 2008 and 2007, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 3.29% and 5.36% for the same quarters, respectively.

(2) Interest rates and amounts include the effects of hedge and risk management activities associated with the respective asset and liability categories.

(3) Yields are based on amortized cost balances computed on a settlement date basis.

(4) Includes certain preferred securities.

(5) Nonaccrual loans and related income are included in their respective loan categories.

(6) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities. The

federal statutory tax rate was 35% for the periods presented.

NONINTEREST INCOME

(in millions)	Quarter ended March 31, 2008	2007	% Change
Service charges on deposit accounts	**$ 748**	$ 685	9%
Trust and investment fees:			
Trust, investment and IRA fees	**559**	537	4
Commissions and all other fees	**204**	194	5
Total trust and investment fees	**763**	731	4
Card fees	**558**	470	19
Other fees:			
Cash network fees	**48**	45	7
Charges and fees on loans	**248**	238	4
All other fees	**203**	228	(11)
Total other fees	**499**	511	(2)
Mortgage banking:			
Servicing income, net	**273**	216	26
Net gains on mortgage loan origination/sales activities	**267**	495	(46)
All other	**91**	79	15
Total mortgage banking	**631**	790	(20)
Operating leases	**143**	192	(26)
Insurance	**504**	399	26
Net gains from trading activities	**103**	265	(61)
Net gains on debt securities available for sale	**323**	31	942
Net gains from equity investments	**313**	97	223
All other	**218**	260	(16)
Total	**$ 4,803**	$ 4,431	8

We earn trust, investment and IRA fees from managing and administering assets, including mutual funds, corporate trust, personal trust, employee benefit trust and agency assets. At March 31, 2008, these assets totaled $1.13 trillion, up 11% from $1.02 trillion at March 31, 2007. Trust, investment and IRA fees are primarily based on a tiered scale relative to the market value of the assets under management or administration. The 4% increase in these fees in first quarter 2008 from a year ago was due to continued growth across all trust and investment management businesses, despite a 7% decline in the S&P500 Index.

We also receive commissions and other fees for providing services to full-service and discount brokerage customers. At March 31, 2008 and 2007, brokerage balances totaled $126 billion and $120 billion, respectively. Generally, these fees include transactional commissions, which are based on the number of transactions executed at the customer s direction, or asset-based fees, which are based on the market value of the customer s assets.

Card fees increased 19% to $558 million in first quarter 2008 from $470 million in first quarter 2007, primarily due to an increase in the percentage of our customer base using a Wells Fargo credit card and to higher credit and debit card transaction volume. Purchase volume on these cards was up 18% from a year ago and average card balances were up

30%.

Mortgage banking noninterest income was $631 million in first quarter 2008, compared with $790 million in first quarter 2007. Servicing fees, included in net servicing income, decreased to $964 million in first quarter 2008 from $1.05 billion in first quarter 2007, reflecting sales of a

portion of our excess servicing to improve the risk profile of our servicing assets and to take advantage of market conditions for excess servicing at that time. Our portfolio of loans serviced for others was $1.43 trillion at March 31, 2008, up 9% from $1.31 trillion at March 31, 2007. Net servicing income also includes both changes in the fair value of MSRs during the period as well as changes in the value of derivatives (economic hedges) used to hedge the MSRs. Net servicing income for first quarter 2008 included a $94 million net MSRs valuation gain that was recorded to earnings ($1.8 billion fair value loss offset by a $1.9 billion economic hedging gain) and for first quarter 2007 included a $34 million net MSRs valuation loss ($11 million fair value loss plus a $23 million economic hedging loss). At March 31, 2008, the ratio of MSRs to related loans serviced for others was 1.08%.

Net gains on mortgage loan origination/sales activities were $267 million in first quarter 2008, down from $495 million in first quarter 2007. Gains for first quarter 2008 were partly offset by losses of $263 million, which consisted of a $108 million write-down of the mortgage warehouse/pipeline, a $107 million write-down primarily due to mortgage loans repurchased and an increase in the repurchase reserve, and a $48 million decline in the servicing value of loans held in the mortgage warehouse/pipeline. Residential real estate originations totaled $66 billion in first quarter 2008 and $68 billion in first quarter 2007. (For additional detail, see Asset/Liability and Market Risk Management Mortgage Banking Interest Rate and Market Risk, Note 8 (Mortgage Banking Activities) and Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.)

The 1-4 family first mortgage unclosed pipeline was $61 billion at March 31, 2008, $43 billion at December 31, 2007, and $57 billion at March 31, 2007.

Insurance revenue was up 26% from first quarter 2007, primarily due to an increase in premiums in our crop insurance business.

Income from trading activities was $103 million in first quarter 2008 and $265 million in first quarter 2007, due to lower capital markets income in 2008. Net gains on debt securities were $323 million in first quarter 2008, compared with net gains of $31 million in first quarter 2007. As rates dropped significantly during first quarter 2008, we sold $13 billion of mortgage-backed securities as part of Home Mortgage s MSRs economic risk hedging activities, ultimately replacing these securities largely with off-balance sheet hedges when rates moved back up in the quarter.

Net gains from equity investments were $313 million in first quarter 2008, compared with $97 million in first quarter 2007, and reflected the $334 million gain from our ownership in Visa, which completed its IPO in March 2008.

We routinely review our investment portfolios and recognize impairment write-downs based primarily on fair market value, issuer-specific factors and results, and our intent to hold such securities to recovery. We also consider general economic and market conditions, including industries in which venture capital investments are made, and adverse changes affecting the availability of venture capital. We determine other-than-temporary impairment based on the information available at the time of the assessment, with particular focus on the severity and duration of specific security impairments, but new information or economic developments in the future could result in recognition of additional impairment.

NONINTEREST EXPENSE

(in millions)	Quarter ended March 31, 2008	2007	% Change
Salaries	**$ 1,984**	$ 1,867	6%
Incentive compensation	**644**	742	(13)
Employee benefits	**587**	665	(12)
Equipment	**348**	337	3
Net occupancy	**399**	365	9
Operating leases	**116**	153	(24)
Outside professional services	**171**	192	(11)
Outside data processing	**109**	111	(2)
Travel and entertainment	**105**	109	(4)
Contract services	**108**	118	(8)
Operating losses (reduction in losses)	**(73)**	87	NM
Insurance	**161**	128	26
Advertising and promotion	**85**	91	(7)
Postage	**89**	87	2
Telecommunications	**78**	81	(4)
Stationery and supplies	**52**	53	(2)
Security	**44**	43	2
Core deposit intangibles	**31**	26	19
All other	**424**	271	56
Total	**$ 5,462**	$ 5,526	(1)

NM - Not meaningful

Noninterest expense decreased 1% from the prior year and included a $151 million reversal of Visa litigation expense related to the Visa IPO. First quarter 2008 expenses included higher salaries, sales-related insurance costs and net occupancy costs, more than offset by lower incentive compensation (reduced incentive compensation accruals), employee benefits and outside professional services costs. In the last 12 months, we opened 80 retail banking stores, including 11 stores this quarter, converted 60 stores from acquisitions, including 18 Greater Bay Bancorp stores this quarter, and added 1,300 full-time equivalent (FTE) team members. All other noninterest expense for first quarter 2008 included higher expenses on foreclosed assets and a $39 million liability recorded for a capital support agreement for one SIV held by our AAA-rated non-government money market mutual funds.

INCOME TAX EXPENSE

Our effective income tax rate was 34.9% for first quarter 2008, up from 29.9% for first quarter 2007. The tax rate in the first quarter of 2007 was primarily impacted by the resolution of certain outstanding federal income tax matters.

Table of Contents

OPERATING SEGMENT RESULTS

We have three lines of business for management reporting: Community Banking, Wholesale Banking and Wells Fargo Financial. For a more complete description of our operating segments, including additional financial information and the underlying management accounting process, see Note 17 (Operating Segments) to Financial Statements in this Report. To reflect the realignment of our corporate trust business from Community Banking into Wholesale Banking in first quarter 2008, results for prior periods have been revised.

Community Banking s net income decreased 5% to $1.43 billion in first quarter 2008 from $1.50 billion a year ago. Revenue increased 16% to $6.86 billion from $5.92 billion a year ago. Net interest income increased 15% to $3.64 billion in first quarter 2008 from $3.15 billion a year ago. The growth in earning assets was driven by loan and securities growth. Average loans were up 19% to $214.9 billion in first quarter 2008 from $180.8 billion a year ago. Average core deposits were up 5% to $248.4 billion in first quarter 2008 from $237.1 billion a year ago. Noninterest income increased 17% to $3.22 billion in first quarter 2008 from $2.77 billion a year ago, primarily due to retail banking fee revenue growth in brokerage, deposit service charges, cards, mortgage banking and investments. The provision for credit losses increased to $1.31 billion in first quarter 2008 from $306 million a year ago. The increase reflected higher losses in the Home Equity portfolio and included a $385 million credit reserve build. Although noninterest expense decreased 7% to $3.34 billion in first quarter 2008 from $3.57 billion a year ago, the business continued to make investments in technology, distribution and sales staff. Results for first quarter 2008 included the effect of the Visa IPO, consisting of the $334 million gain and the $151 million reversal of litigation expense.

Wholesale Banking s net income decreased 25% to $475 million in first quarter 2008 from $633 million a year ago. Revenue increased 4% to a record $2.28 billion from $2.20 billion a year ago. Net interest income increased 21% to $1.03 billion for first quarter 2008 from $855 million a year ago due to higher earning asset volumes and lower funding costs partially offset by lower earning asset yields and related fees. Average loans increased 29% to $100.6 billion in first quarter 2008 from $77.9 billion a year ago. Average core deposits grew 29% to $68.9 billion, all in interest-bearing balances. The increase in provision for credit losses to $161 million in first quarter 2008 from $13 million a year ago included $61 million from higher net charge-offs and an additional $87 million credit reserve build. Noninterest income decreased 7% to $1.25 billion in first quarter 2008 from a year ago. Higher trust and investment income, deposit service charges, foreign exchange fees, financial products and insurance revenue were offset by a lower level of commercial real estate brokerage fees and capital markets activity. Noninterest income in first quarter 2008 also included $63 million of net write-downs on commercial mortgages held for sale (MHFS) due to widening credit spreads. Noninterest expense increased 17% to $1.42 billion in first quarter 2008 from $1.21 billion a year ago, due to higher personnel-related costs, including additional team members, as well as insurance commissions, expenses related to higher financial product sales and the liability recorded for a capital support agreement for one SIV.

Wells Fargo Financial s net income decreased 13% to $97 million in first quarter 2008 from $112 million a year ago reflecting higher credit losses consistent with the general condition of the economy. Revenue was up 7% to $1.42 billion in first quarter 2008 from $1.32 billion a year ago. Net interest income increased 9% to $1.09 billion from $1.01 billion from a year ago due to growth in average loans. Average loans increased 9% to $68.4 billion in first quarter 2008 from

Table of Contents

$62.7 billion a year ago. The provision for credit losses increased $158 million in first quarter 2008 from a year ago, primarily due to an increase in net charge-offs in the credit card portfolio and Wells Fargo Financial s unsecured portfolios due to the current economic environment. Noninterest expense decreased $38 million (5%) in first quarter 2008 from $749 million a year ago.

BALANCE SHEET ANALYSIS

SECURITIES AVAILABLE FOR SALE

Our securities available for sale consists of both debt and marketable equity securities. We hold debt securities available for sale primarily for liquidity, interest rate risk management and long-term yield enhancement. Accordingly, this portfolio primarily includes very liquid, high-quality federal agency debt and privately issued mortgage-backed securities. At March 31, 2008, we held $78.8 billion of debt securities available for sale, with net unrealized losses of $304 million, compared with $70.2 billion at December 31, 2007, with net unrealized gains of $775 million. The debt securities consisted of agency mortgage-backed securities, which have appreciated in value since the end of 2007, as well as other high-quality securities, mostly AAA-rated, purchased over the past few quarters at attractive long-term yields in a period when credit spreads have continued to widen. We also held $3.0 billion of marketable equity securities available for sale at March 31, 2008, and $2.8 billion at December 31, 2007, with net unrealized losses of $294 million and $95 million for the same periods, respectively.

The weighted-average expected maturity of debt securities available for sale was 6.5 years at March 31, 2008. Since 78% of this portfolio is mortgage-backed securities, the expected remaining maturity may differ from contractual maturity because borrowers may have the right to prepay obligations before the underlying mortgages mature. The estimated effect of a 200 basis point increase or decrease in interest rates on the fair value and the expected remaining maturity of the mortgage-backed securities available for sale is shown below.

MORTGAGE-BACKED SECURITIES

(in billions)	Fair value	Net unrealized gain (loss)	Remaining maturity
At March 31, 2008	$ 61.2	$ 0.3	4.4 yrs.
At March 31, 2008, assuming a 200 basis point:			
Increase in interest rates	56.0	(4.9)	6.6 yrs.
Decrease in interest rates	63.6	2.7	1.9 yrs.

See Note 4 (Securities Available for Sale) to Financial Statements in this Report for securities available for sale by security type.

Table of Contents

LOAN PORTFOLIO

A discussion of average loan balances is included in Earnings Performance Net Interest Income on page 10 and a comparative schedule of average loan balances is included in the table on page 11; quarter-end balances are in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Total loans at March 31, 2008, were $386.3 billion, up $60.8 billion (19%) from $325.5 billion at March 31, 2007. Commercial and commercial real estate loans were $156.8 billion at March 31, 2008, up $31.6 billion (25%) from $125.2 billion a year ago. Consumer loans were $222.3 billion at March 31, 2008, up $28.8 billion (15%) from $193.5 billion a year ago. Mortgages held for sale were $29.7 billion at March 31, 2008, down $2.6 billion from $32.3 billion a year ago.

DEPOSITS

(in millions)	**Mar. 31, 2008**	Dec. 31, 2007	Mar. 31, 2007
Noninterest-bearing	**$ 90,793**	$ 84,348	$ 89,067
Interest-bearing checking	**5,372**	5,277	3,652
Market rate and other savings	**163,230**	153,924	146,911
Savings certificates	**39,554**	42,708	38,753
Foreign deposits (1)	**28,411**	25,474	18,086
Core deposits	**327,360**	311,731	296,469
Other time deposits	**6,033**	3,654	4,503
Other foreign deposits	**24,751**	29,075	10,185
Total deposits	**$ 358,144**	$ 344,460	$ 311,157

(1) Reflects Eurodollar sweep balances included in core deposits.

Average core deposits increased $26.7 billion to $317.3 billion in first quarter 2008 from first quarter 2007, predominantly due to growth in market rate and other savings, along with growth in foreign deposits.

OFF-BALANCE SHEET ARRANGEMENTS AND AGGREGATE CONTRACTUAL OBLIGATIONS

In the ordinary course of business, we engage in financial transactions that are not recorded in the balance sheet, or may be recorded in the balance sheet in amounts that are different than the full contract or notional amount of the transaction. These transactions are designed to (1) meet the financial needs of customers, (2) manage our credit, market or liquidity risks, (3) diversify our funding sources, or (4) optimize capital, and are accounted for in accordance with U.S. GAAP.

Almost all of our off-balance sheet arrangements result from securitizations. As part of our normal business operations, we routinely securitize home mortgage loans and, from time to time, other financial assets, including commercial mortgages. We normally structure loan securitizations as sales, in accordance with FAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities a replacement of FASB Statement No. 125*. This involves the transfer of financial assets to certain qualifying special-purpose entities

Table of Contents

(QSPEs) that we are not required to consolidate. We also enter into certain contractual obligations. For additional information on off-balance sheet arrangements and other contractual obligations see Financial Review Off-Balance Sheet Arrangements and Aggregate Contractual Obligations in our 2007 Form 10-K and Note 11 (Guarantees) to Financial Statements in this Report.

In December 2007, the American Securitization Forum (ASF) issued the Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans (the ASF Framework). The ASF Framework provides guidance for servicers to streamline borrower evaluation procedures and to facilitate the use of foreclosure and loss prevention efforts in an attempt to reduce the number of U.S. subprime residential mortgage borrowers who might default because the borrowers cannot afford to pay the increased loan interest rate after their subprime adjustable rate mortgage (ARM) loan interest rate resets. The ASF Framework was developed with the participation of representatives of the mortgage securitization industry and the U.S. Government and is intended to keep borrowers in their homes while also maximizing trust proceeds to investors and requires lenders to comply with relevant tax regulations and off-balance sheet accounting standards for loan securitizations.

Specifically, the ASF Framework applies to all first lien subprime residential ARM loans that have an initial fixed rate period of 36 months or less that were originated between January 1, 2005, and July 31, 2007, that are included in securitized pools, and that have an initial interest rate reset between January 1, 2008, and July 31, 2010. The ASF Framework divides these subprime ARM loans into three segments and requires loan servicers to address the borrowers according to their assigned segment. Segment 1 includes current loans where the borrower is likely to be able to refinance into an available mortgage product. Segment 2 includes loans where the borrower is current, meets other specific criteria, and is unlikely to be able to refinance into other readily available mortgage products. Loans included in Segment 2 are eligible for a streamlined loan modification which generally includes freezing the introductory interest rate for a period of five years following the upcoming reset date. Segment 3 includes loans where the borrower is not current and does not meet the criteria for Segments 1 or 2. The total of ASF Framework segmented loans owned by QSPEs that we serviced was approximately $2 billion at March 31, 2008, less than 0.1% of our total managed servicing portfolio.

We believe our adoption of the ASF Framework does not affect the off-balance sheet accounting treatment of the QSPEs that hold these subprime ARM loans. The Office of the Chief Accountant of the SEC has issued guidance regarding the ASF Framework that these streamlined loan modifications will not impact the accounting for the QSPEs because it would be reasonable to conclude that defaults on these loans are reasonably foreseeable without a loan modification.

RISK MANAGEMENT

CREDIT RISK MANAGEMENT PROCESS

Our credit risk management process provides for decentralized management and accountability by our lines of business. Our overall credit process includes comprehensive credit policies, judgmental or statistical credit underwriting, frequent and detailed risk measurement and modeling, extensive credit training programs and a continual loan review and audit process. In addition, regulatory examiners review and perform detailed tests of our credit underwriting, loan

Table of Contents

administration and allowance processes. In 2007, we updated our credit policies related to residential real estate lending to reflect the deteriorating economic conditions in the industry and decisions were made to exit certain underperforming indirect channels. We continually evaluate and modify our credit policies to address unacceptable levels of risk as they are identified.

Nonaccrual Loans and Other Assets

The table below shows the comparative data for nonaccrual loans and other assets. We generally place loans on nonaccrual status when:

- the full and timely collection of interest or principal becomes uncertain;
- they are 90 days (120 days with respect to real estate 1-4 family first and junior lien mortgages and auto loans) past due for interest or principal (unless both well-secured and in the process of collection); or
- part of the principal balance has been charged off.

Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2007 Form 10-K describes our accounting policy for nonaccrual loans.

NONACCRUAL LOANS AND OTHER ASSETS

(in millions)	**Mar. 31, 2008**	Dec. 31, 2007	Mar. 31, 2007
Nonaccrual loans:			
Commercial and commercial real estate:			
Commercial	**$ 588**	$ 432	$ 350
Other real estate mortgage	**152**	128	114
Real estate construction	**438**	293	82
Lease financing	**57**	45	31
Total commercial and commercial real estate	**1,235**	898	577
Consumer:			
Real estate 1-4 family first mortgage (1)	**1,398**	1,272	701
Real estate 1-4 family junior lien mortgage	**381**	280	233
Other revolving credit and installment	**196**	184	195
Total consumer	**1,975**	1,736	1,129
Foreign	**49**	45	46
Total nonaccrual loans (2)	**3,259**	2,679	1,752
As a percentage of total loans	**0.84%**	0.70%	0.54%
Foreclosed assets:			
GNMA loans (3)	**578**	535	381
Other	**637**	649	528
Real estate and other nonaccrual investments (4)	**21**	5	5
Total nonaccrual loans and other assets	**$ 4,495**	$ 3,868	$ 2,666
As a percentage of total loans	**1.16%**	1.01%	0.82%

(1) Includes nonaccrual mortgages held for sale.

(2) Includes impaired loans of $859 million, $469 million and $251 million at March 31, 2008, December 31, 2007, and March 31, 2007, respectively. See Note 5 to Financial Statements in this Report and Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in our 2007 Form 10-K for further information on impaired loans.

(3) Consistent with regulatory reporting requirements, foreclosed real estate securing GNMA loans is classified as nonperforming. Both principal and interest for GNMA loans secured by the foreclosed real estate are collectible because the GNMA loans are insured by the FHA or

guaranteed by the Department of Veterans Affairs.

(4) Includes real estate investments (contingent interest loans accounted for as investments) that would be classified as nonaccrual if these assets were recorded as loans.

Nonperforming loans increased $1.5 billion to $3.3 billion at March 31, 2008, from $1.8 billion at March 31, 2007, with a significant portion of the increase in the real estate 1-4 family first mortgage loan portfolio (including $115 million in Home Mortgage and $507 million in Wells

Fargo Financial real estate) due to the deteriorating conditions in the residential real estate market and the national rise in mortgage default rates. Nonaccrual real estate 1-4 family loans include approximately $124 million of loans at March 31, 2008, that have been modified. Our policy requires these loans to become current and remain current for six months before they are returned to accrual status. Additionally, a portion of the increase related to loan growth. The increase in the nonaccrual commercial and commercial real estate portfolios was influenced by the deterioration of credit related to the residential real estate and construction industries. In addition, due to illiquid market conditions, we are now holding more foreclosed properties than we have historically. As a result, other foreclosed asset balances increased $109 million to $637 million at March 31, 2008, from a year ago, including an increase of $76 million from Home Equity and $17 million from Home Mortgage.

We expect that the amount of nonaccrual loans will change due to portfolio growth, portfolio seasoning, routine problem loan recognition and resolution through collections, sales or charge-offs. Additionally, we expect that the change in charge-off policy from 120 to 180 days for the Home Equity business will add to the balance of nonaccrual loans. (See Financial Review - Allowance for Credit Losses in this Report for additional discussion.) The performance of any one loan can be affected by external factors, such as economic or market conditions, or factors affecting a particular borrower.

Table of Contents

Loans 90 Days or More Past Due and Still Accruing

Loans included in this category are 90 days or more past due as to interest or principal and still accruing, because they are (1) well-secured and in the process of collection or (2) real estate 1-4 family first mortgage loans or consumer loans exempt under regulatory rules from being classified as nonaccrual.

The total of loans 90 days or more past due and still accruing was $6,919 million, $6,393 million and $4,812 million at March 31, 2008, December 31, 2007, and March 31, 2007, respectively. The total included $5,288 million, $4,834 million and $3,683 million for the same periods, respectively, in advances pursuant to our servicing agreements to GNMA mortgage pools and similar loans whose repayments are insured by the FHA or guaranteed by the Department of Veterans Affairs. The table below reflects loans 90 days or more past due and still accruing excluding the insured/guaranteed GNMA advances.

LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING
(EXCLUDING INSURED/GUARANTEED GNMA AND SIMILAR LOANS)

(in millions)	**Mar. 31, 2008**	Dec. 31, 2007	Mar. 31, 2007
Commercial and commercial real estate:			
Commercial	**$ 29**	$ 32	$ 29
Other real estate mortgage	**24**	10	4
Real estate construction	**15**	24	5
Total commercial and commercial real estate	**68**	66	38
Consumer:			
Real estate 1-4 family first mortgage (1)	**314**	286	159
Real estate 1-4 family junior lien mortgage	**228**	201	64
Credit card	**449**	402	272
Other revolving credit and installment	**532**	552	560
Total consumer	**1,523**	1,441	1,055
Foreign	**40**	52	36
Total	**$ 1,631**	$ 1,559	$ 1,129

(1) Includes mortgage loans held for sale 90 days or more past due and still accruing.

Allowance for Credit Losses

The allowance for credit losses, which consists of the allowance for loan losses and the reserve for unfunded credit commitments, is management s estimate of credit losses inherent in the loan portfolio at the balance sheet date. We assume that our allowance for credit losses as a percentage of charge-offs and nonaccrual loans will change at different points in time based on credit performance, loan mix and collateral values. We increased our allowance for credit losses by providing $500 million in excess of net charge-offs in first quarter 2008 to build reserves for future credit losses inherent in our loan portfolio. The detail of the changes in the allowance for credit losses, including charge-offs and recoveries by loan category, is in Note 5 (Loans and Allowance for Credit Losses) to Financial

Statements in this Report.

Net charge-offs for first quarter 2008 were $1.5 billion (1.60% of average total loans outstanding, annualized), compared with $1.2 billion (1.28%) for fourth quarter 2007 and $715 million (0.90%) for first quarter 2007. Total provision expense in first quarter 2008 was $2.0 billion, including a $500 million credit reserve build, primarily for losses in the National

Home Equity Group (Home Equity) and Business Direct (primarily unsecured lines of credit to small businesses) portfolios. The $813 million increase in net credit losses from a year ago included $364 million in the real estate 1-4 family junior lien category, primarily from Home Equity as residential real estate values continued to decline in the quarter and the number of markets adversely impacted continued to increase. Net credit losses in the commercial category (primarily Business Direct) increased $166 million from a year ago.

Because of our responsible lending and risk management practices, we have largely avoided many of the products others in the mortgage industry have offered. We have not offered certain mortgage products such as negative amortizing mortgages or option ARMs. We have minimal ARM reset risk across our owned loan portfolios at March 31, 2008. While our disciplined underwriting standards have resulted in first mortgage delinquencies below industry levels through March 31, 2008, we continually evaluate and modify our credit policies to address unacceptable levels of risk as they are identified. In the past year, for example, we have tightened underwriting standards as we believed appropriate. Home Mortgage closed its nonprime wholesale channel early in third quarter 2007, after closing its nonprime correspondent channel in second quarter 2007. In addition, rates were increased for non-conforming mortgage loans during third quarter 2007 reflecting the reduced liquidity in the capital markets.

Credit quality in Wells Fargo Financial s real estate-secured lending business has not experienced the level of credit degradation that many nonprime lenders have because of our disciplined underwriting practices. Wells Fargo Financial has continued its practice not to use brokers or correspondents in its U.S. debt consolidation business. We endeavor to ensure that there is a tangible benefit to the borrower before we make a loan. The guidance issued by the federal financial regulatory agencies in June 2007, *Statement on Subprime Mortgage Lending,* which addresses issues relating to certain ARM products, has not had a significant impact on Wells Fargo Financial s operations, since many of those guidelines have long been part of our normal business practices.

The deterioration in segments of the Home Equity portfolio required a targeted approach to managing these assets. We segregated into a liquidating portfolio all home equity loans generated through the wholesale channel not behind a Wells Fargo first mortgage, and all home equity loans acquired through correspondents. While the $11.5 billion of loans in this liquidating portfolio represented about 3% of total loans outstanding at March 31, 2008, these loans experienced a significant portion of the credit losses in our $83.6 billion Home Equity portfolio, with an annualized loss rate of 5.58% for first quarter 2008, compared with 1.56% for the remaining core portfolio. The loans in the liquidating portfolio are largely concentrated in geographic markets that have experienced the most abrupt and steepest declines in housing prices. The core portfolio consists of $72.1 billion of loans in the Home Equity portfolio at March 31, 2008. The following table includes the credit attributes of these two portfolios.

Table of Contents

HOME EQUITY PORTFOLIO

	Outstanding balances		% of loans two payments or more past due		Annualized loss rate (1)	
(in millions)	**Mar. 31, 2008**	Dec. 31, 2007	**Mar. 31, 2008**	Dec. 31, 2007	**Mar. 31, 2008**	Dec. 31, 2007
Liquidating portfolio						
California	**$ 4,417**	$ 4,387	**3.32%**	2.94%	**8.52%**	7.34%
Florida	**582**	582	**5.40**	4.98	**10.56**	7.08
Arizona	**275**	274	**3.43**	2.67	**5.57**	5.84
Texas	**219**	221	**0.65**	0.83	**1.93**	0.78
Minnesota	**139**	141	**3.10**	3.18	**7.91**	4.09
Other	**5,866**	6,296	**2.18**	2.00	**2.98**	2.94
Total	**11,498**	11,901	**2.79**	2.50	**5.58**	4.80
Core portfolio						
California	**26,331**	25,991	**1.96**	1.63	**2.21**	1.27
Florida	**2,595**	2,614	**3.80**			