

How we're **working together** with our customers to uncover their financial needs—and create industry-leading products to serve them better.

*Troy Ledo, Customer
Alicia Moore, Team Member*

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Wells Fargo & Company (NYSE: WFC)

We're a diversified financial services company providing banking, insurance, investments, mortgage loans and consumer finance.

Our corporate headquarters is in San Francisco, but we're decentralized so all Wells Fargo "convenience points"—stores, regional commercial banking centers, ATMs, *Wells Fargo Phone Bank*SM centers and the internet—are headquarters for satisfying all our customers' financial needs and helping them succeed financially.

Aaa, AAA

Wells Fargo Bank, N.A. is the only U.S. bank, and one of only two worldwide, to have the highest credit rating from both Moody's Investors Service, "Aaa," and Standard & Poor's Ratings Service, "AAA."

Assets: \$575 billion
(5th among U.S. peers)

Market value of stock: \$112 billion (1/31/08)
(4th among U.S. peers)

Fortune 500: Profit, 19th; Market cap, 19th

Team members: 159,800
(U.S.'s 27th-largest private employer)

Stores: 6,000

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On the Cover

Working Together Customer Troy Ledo of Danville, California, not only has five products with Wells Fargo, but thanks to Alicia Moore of our ATM Banking team, he now deposits his checks faster than ever. Please see page 19.





Working Together

Our customers — like Lisa Kluever (left, and page 12) — expect it of us every day. They say: Take the time to work with me. Understand my complete financial picture. Listen to me. Know me. Give me value. Make it easy for me to access my funds and move my money with one click. Help me manage my finances and wealth with savvy and integrity. Save me time and money. Reward me for giving you more business.

From these conversations with our customers, we discover even better ways to satisfy their needs. This is how new products and services are born at Wells Fargo. It doesn't start with technology in search of a need. It starts with relationships with our customers. It starts with what *they* need. As a result, we've been at the forefront of every major innovation in financial services including internet banking — and we've built one of the most extensive and convenient distribution systems in all of financial services.

In this annual report, we showcase several of our latest products and services, created by our talented teams, to show you how every new idea we have for serving our customers better... starts by working together with them.

To Our Owners

Our 2007 results were disappointing. They were not what you, our owners, expect from Wells Fargo. They were not what we expect of ourselves. Our diluted earnings per share of \$2.38 declined nine cents from 2006. Two items, in particular, caused this.

First, in the fourth quarter Visa Inc., the world's largest credit and debit card provider, completed its global restructuring and announced it would be going public, contemplating an initial public offering early in 2008. Wells Fargo owns approximately 2.8 percent of Visa. With the concurrence of the U.S. Securities and Exchange Commission, Wells Fargo recorded a pretax charge of \$203 million, or 4 cents per share, during the year (third and fourth quarters) for its share of Visa's anticipated litigation expenses. These charges were not expected, but we anticipate they will be more than offset as a result of our ownership in the valuable Visa franchise. **Second**, in the fourth quarter Wells Fargo recorded a special credit provision of \$1.4 billion pretax, or 27 cents per share, largely for higher loan losses we expect in our home equity portfolio from indirect channels through which we're no longer accepting new business. These two items reduced our 2007 diluted earnings per share by 31 cents.

So, what happened and why did it happen? What did we do right? What did we do wrong?

For the last several years in our annual reports and other investor communications, we've been saying to you, our owners, that the financial credit markets were acting as if there's little or no risk to lending money.* "Liquidity"—the amount of money readily available for investing—had reached unprecedented high levels for individuals, corporations and central banks worldwide. This led, in part, to careless, undisciplined lending, borrowing, investing and overall risk management across many segments of

the economy. Many categories of debt became significantly overvalued. Lenders were not being paid enough for credit risk. Credit spreads were at record lows across all asset classes. Aggressive subprime mortgage lenders, many of them unregulated brokers, used "teaser" rates and "negative amortization" loans (which add to the unpaid balance) to put many people in homes they could not afford. Easy access to cheap money encouraged excessive risk taking, highly leveraged transactions and complex pools of mortgage-backed debt obligations (many of which were underestimated for risk by some rating agencies).

This foolishness could not go on forever. Something had to give. Housing prices—inflated by speculation and aggressive lending—plunged in many parts of the country. Trust and confidence in the mortgage securities market collapsed. Large global and domestic financial services companies took losses exceeding \$163 billion, writing down mortgage loans, leveraged loan commitments and other assets. A long-overdue upward repricing of risk continues into 2008. Despite the pain it has caused many individuals and organizations, long term it is healthy for our industry and our economy. Credibility, trust and confidence in pricing for risk are being restored in the credit markets. This swift retribution is one of the strengths of capitalism.

* Some things never change! We said 10 years ago in our Norwest Corporation Annual Report, "What's happening? Well, we're probably nearing the end of this economic cycle. Many banks and finance companies are not pricing for risk. They're chasing bad loans. They're relaxing loan covenants beyond prudent levels just to attract more business. This is irrational. It usually happens near the end of an economic cycle."



*Dick Kovacevich, Chairman (right);
John Stumpf, President and CEO*

Our Performance

Double-Digit Growth: Revenue, Loans and Deposits

\$ in millions, except per share amounts	2007	2006 ¹	% Change
FOR THE YEAR			
Net income	\$ 8,057	\$ 8,420	(4)%
Diluted earnings per common share	2.38	2.47	(4)
Profitability ratios:			
Net income to average total assets (ROA)	1.55%	1.73%	(10)
Net income to average stockholders' equity (ROE)	17.12	19.52	(12)
Efficiency ratio ²	57.9	58.4	(1)
Total revenue	\$ 39,390	\$ 35,691	10
Dividends declared per common share	1.18	1.08	9
Average common shares outstanding	3,348.5	3,368.3	(1)
Diluted average common shares outstanding	3,382.8	3,410.1	(1)
Average loans	\$344,775	\$306,911	12
Average assets	520,752	486,023	7
Average core deposits ³	303,091	268,853	13
Average retail core deposits ⁴	228,667	215,788	6
Net interest margin	4.74%	4.83%	(2)
AT YEAR END			
Securities available for sale	\$ 72,951	\$ 42,629	71
Loans	382,195	319,116	20
Allowance for loan losses	5,307	3,764	41
Goodwill	13,106	11,275	16
Assets	575,442	481,996	19
Core deposits ³	311,731	288,068	8
Stockholders' equity	47,628	45,814	4
Tier 1 capital	36,674	36,746	—
Total capital	51,638	51,365	1
Capital ratios:			
Stockholders' equity to assets	8.28%	9.51%	(13)
Risk-based capital			
Tier 1 capital	7.59	8.93	(15)
Total capital	10.68	12.49	(14)
Tier 1 leverage	6.83	7.88	(13)
Book value per common share	\$ 14.45	\$ 13.57	6
Team members (active, full-time equivalent)	159,800	158,000	1

¹ Revised to reflect \$95 million of litigation expenses for indemnification obligations relating to the Company's ownership in Visa.

² Noninterest expense divided by total revenue (net interest income and noninterest income).

³ Noninterest-bearing deposits, interest-bearing checking, savings certificates, market rate and other savings, and certain foreign deposits (Eurodollar sweep balances).

⁴ Total core deposits excluding Wholesale Banking core deposits and retail mortgage escrow deposits.



*Customer Carlos Garcia and Vanessa Barba,
Wells Fargo Card Services (please see p. 14)*

“In financial services, if you want to be the best in the industry, you first have to be the best in risk management and credit quality. It’s the foundation for every other measure of success... Our company maintained its credit risk discipline reasonably well during the years of excessive risk taking in our industry.”

Credit Quality: What We Did Right

In financial services, if you want to be the best in the industry, you first have to be the best in risk management and credit quality. It’s the foundation for every other measure of success. There’s almost no room for error. For instance, to meet our profit goals for lending to commercial businesses, we can be wrong on credit throughout an economic cycle only about one-third of one percent of the time. That’s a very small margin of error. Our company maintained its credit risk discipline reasonably well during the years of excessive risk taking in our industry. Unlike many of our competitors, we did not make option adjustable-rate mortgages (ARMs)—consistent with our responsible lending principles (www.wellsfargo.com/jump/truthinlending). We did not make negative amortization ARMs. We offered in only a very few instances, below certain credit scores, stated-income mortgages and low- and no-documentation mortgages. Because of our prudent lending to customers with less than prime credit and our decision not to make negative amortization loans, we estimate we lost between two and four percent in mortgage origination market share from 2004 to 2006. That translates into losing between \$60 billion and \$120 billion in mortgage originations in 2006 alone. We’re glad we did. Such lending would have been economically unsound and not right for many borrowers.

Unlike many of our competitors, we did not participate to any significant degree in collateralized debt obligations (CDOs), structured investment vehicles (SIVs) to hold assets off our balance sheet, hedge fund financing, off-balance sheet conduits, the underwriting of low-covenant or no-covenant, large, highly leveraged loans and commitments to companies acquired by private equity firms through leveraged buyouts (LBOs).

Our balance sheet strength enables us to take the long view. We have minimal ARM interest rate “reset” risk in the loan portfolios we own because we underwrote those loans to account for higher interest rate resets. We sell the vast majority of our mortgage loans to capital market investors. We believe our commercial lending portfolio is among the highest quality of any large bank in the nation.

We’re disappointed with the \$1.4 billion in special credit provision, but it is less than two percent of common equity after tax, and it’s relatively small compared to the \$163 billion in write-downs taken by our competitors.

Only Way to Lend: Responsibly

We’ve built a reputation as an industry leader in responsible lending. Our goal is not just to help customers achieve the dream of home ownership, but to do what’s right for them so they can keep their homes.

Our Responsible Mortgage Lending Principles (first published in 2004) commit us to:

- Price loans fairly and consistent with the risk,
- Give customers the information they need to fully understand the terms of the loan,
- Make a loan only if it provides a demonstrable benefit to the customer,
- Not lend to customers unless we believe they can make the loan payments, and
- Work diligently to help customers having trouble making their payments so they can stay in their homes.

Because of our Responsible Mortgage Lending Principles and our Responsible Mortgage Servicing Principles, our foreclosure rate in our home mortgage servicing portfolio in 2007 was more than 20 percent better than the industry average. Less than one in every 100 loans in our servicing portfolio was in foreclosure.

We contact customers with impending ARM resets, offer a toll-free number they can call to discuss solutions with a Wells Fargo expert, and provide credit management education programs. In 2007 across the mortgage industry, almost one of every two foreclosures involving a customer with an ARM occurred *before* the loan was reset at a higher rate, mostly due to too much debt, lower income or a decline in the home's market value. For those borrowers in financial trouble, about half never contacted their servicer. So, our message to any of our customers struggling to make payments is loud and clear: *Call us!* If they do, we can work with them to try to find options to help them stay in their home or find other alternatives to avoid foreclosure. We also must protect the interests of investors who own the mortgage-backed securities and who depend on a flow of payments from those securities. Of the 10 million home mortgages we service, about three percent are adjustable-rate mortgages for customers with less than prime credit whose rates are expected to increase sometime before the end of 2008. At this time, it appears eight to nine of every 10 of these customers are expected to pay in full, refinance, manage the payment or benefit from a solution.

To help keep more of our customers in their homes, we launched in 2006 a free program called *Steps to Success*SM for all our new mortgage customers who have less than prime credit. It provides credit reports and credit scores, access to advice from credit education specialists, financial education and access to automatic mortgage payment programs to help consumers better manage their credit. We've signed up 20,000 customers for this program, and they appear to have a lower likelihood of delinquency than our customers not enrolled in this program.

We're a leader in Hope Now, a new national alliance of mortgage counselors, mortgage servicers, capital markets investors and the government to help at-risk homeowners facing foreclosure or higher ARM resets. The industry campaign includes direct mail to millions of at-risk borrowers, encouraging them to contact servicers or counselors for help and a toll-free customer hotline. In late 2007 — partnering with other large mortgage servicers, the U.S. Treasury Department and the American Securitization Forum — we announced our support for a “fast-track” solution for many subprime ARMs scheduled to reset to higher rates in 2008 and 2009. In February 2008, as part of an alliance with our large peers and the U.S. Treasury, we sent letters to both our nonprime and prime customers 90 days or more late in their mortgage payments, offering them, if they qualify, a 30-day pause in the foreclosure process so we can consider a possible solution to help them to stay in their homes.

We're a strong, well-capitalized, well-funded mortgage lender and servicer and can maintain our liquidity for the long term. With our extensive distribution network and our strong relationships with Realtors®, builders and joint venture partners, we have the opportunity to grow mortgage market share responsibly at a time when some of our competitors have gone out of business or are struggling — and we're hiring highly

successful salespeople from our competitors. We've been the nation's #1 retail mortgage originator for 15 consecutive years.

Credit Quality: What We Did Wrong

Our risk management performance in 2007 was not perfect. We made some mistakes. We took on too much risk — and did not price sufficiently for it — in the home equity loans we purchased through indirect channels such as mortgage brokers, bankers and other mortgage companies. Too many of our home equity loans had “loan-to-value” ratios that were too high — the ratio of loans to the fair market value of the property. Sometimes we did not require full documentation for these home equity loans we purchased from brokers because these were prime borrowers who had high credit scores with lower expected risk of default.

When home prices in parts of California and other areas of the country fell dramatically, the severity of the losses was much higher than we or anyone else expected. We should not have offered such lenient loan terms through indirect channels, and we made the mistake of taking on too much risk. We should have known better.

In third quarter 2007, we stopped purchasing home equity loans from third-party correspondents. In fourth quarter, we stopped purchasing loans through wholesalers when the borrowers were not Wells Fargo mortgage customers. We've also exited the nonprime wholesale and correspondent channels for first mortgages. In fourth quarter 2007, we placed \$11.9 billion of such loans — about three percent of our total loans outstanding — into a liquidating portfolio, and added \$1.4 billion to our credit loss reserves primarily for losses incurred in this portfolio. We continue to accept loan applications in the home equity *wholesale* channel, but only for loans behind a Wells Fargo first mortgage and that have a combined loan-to-value ratio below 90 percent.

Balance Sheet and Capital Strength

In addition to credit quality, another important attribute of an outstanding financial services company is capital, or what's left for shareholders after subtracting a company's liabilities from its assets. At Wells Fargo, our #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. We want to maintain such a strong balance sheet that our customers would put their money in our banks even if there was no FDIC insurance.

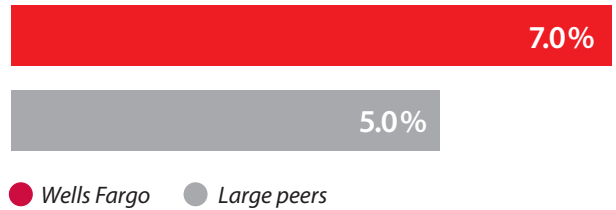
Capital measurements show how much a bank depends on borrowing and how much “cushion” it has to absorb losses. Wells Fargo's capital ratios are among the strongest in our peer group. You can see one of the most important measures of capital strength on the opposite page. Our capital levels as a percent of our tangible assets outpace our peers. This is one reason we have the only bank in the U.S. rated Triple A by both Moody's Investors Service and Standard & Poor's Ratings Service.

Our 2007 Performance

Despite the disappointing earnings-per-share results in 2007, our businesses' core performance in 2007 was strong. Wells Fargo achieved double-digit revenue growth, up 10.4 percent, something very few financial institutions were able to accomplish. Our

“‘Capital’ is an important attribute of an outstanding financial services company. It’s what’s left for shareholders after subtracting a company’s liabilities from its assets. Our capital levels outpace our peers.”

Our Capital Strength



Tangible Common Equity + Allowance/Tangible Assets Measures a bank’s “cushion” for both expected and unexpected losses as a percent of tangible assets. We had \$7.00 of such cushion for every \$100 of tangible assets (12/31/07) — 200 basis points greater than our large peers’ average.

Source: Wells Fargo, SNL

revenue also grew faster than our expenses (up 9.5 percent), which we consider the best long-term measure of a company’s efficiency. Our return on equity (after-tax profit for every shareholder dollar) was a very respectable 17.1 percent. Most of our businesses achieved very solid financial results. Among their achievements:

- Wholesale Banking – Record net income of \$2.3 billion, up 13 percent, and revenue up 15 percent, its ninth consecutive year of double-digit growth. Average loans rose 20 percent. Cross-sell reached a record 6.1 products per Wholesale customer relationship (4.9 five years ago) and 7.6 products per middle-market commercial banking relationship. Almost a third of our regional commercial banking offices had more than eight products per relationship. Some averaged more than 10!
- Asset Management Group – Double-digit growth in revenue, earnings and assets under management. *Wells Fargo Advantage Funds*® — with assets up 24 percent — is the nation’s third-largest fund manager among banks.
- Community Banking – Revenue up 11 percent, average loans up nine percent, average retail core deposits up six percent, record retail bank household cross-sell of 5.5 products per household (5.2 a year ago, about three, nine years ago), and we opened 87 new banking stores. One of every five of our retail banking customers has more than eight products with us, and in our top region almost one of every three customers does. Core product solutions (checking, savings, credit cards and referrals of mortgage, insurance and brokerage) rose 11 percent, 16 percent in California. *Wells Fargo Packages*® sales (checking account and at least three other products) rose 21 percent — purchased by almost three of every four of our new checking customers. Consumer checking accounts rose a net 4.7 percent.
- Team member engagement – An important leading indicator of satisfied customers who give us more of their business — rose again. Our ratio of engaged to actively disengaged team members in Community Banking now stands at 8.5 to 1 (7.1 to 1 last year, 2.5 to 1 five years ago) — the fifth consecutive year of improvement. The national average for all surveyed companies is only 2 to 1.

- Wells Fargo Home Mortgage had a relatively good year and was the nation’s #1 retail mortgage originator for the 15th consecutive year despite the sharp housing downturn and turbulent secondary markets. Mortgage originations declined seven percent to \$272 billion, but our owned home mortgage servicing (processing the monthly payments of your home loan) portfolio reached \$1.53 trillion, up 12 percent from 2006.

Growth Opportunities

As we’ve said for years, our greatest opportunities for growth are right in front of us: satisfying all our customers’ financial needs and helping them succeed financially. Here’s a progress report on three of our biggest growth opportunities: wealth management, insurance and business banking.

Wealth Management Group Our #1 strategic initiative is to grow our investments and insurance businesses to 25 percent of our company’s total earnings. We continue to make good progress. The total assets we managed in our Wealth Management Group — Investment Management, Insurance, Brokerage, Trust and Estate, and Private Banking — grew 10 percent in 2007. We want to give our highest-value customers the most personalized service possible. To that end, we introduced Wells Fargo Private Bank across the country, including several markets outside our 23 Community Banking states. The Private Bank provides personalized wealth management solutions for clients with \$1 million or more in Wells Fargo relationship balances, excluding mortgages. Our dedicated relationship teams help clients manage their daily financial needs, preserve and build wealth, achieve philanthropic goals and build a legacy for future generations.

Our Wealth Management Group grew core deposits 28 percent and loans 15 percent — and our offer of 100 commission-free trades through *WellsTrade*® online brokerage for our *Wells Fargo*® *PMA*® Package customers helped us grow self-directed brokerage assets under administration by 35 percent. We also launched The Private Bank online, which generated significant new balances.

Insurance We’re the world’s fifth-largest insurance brokerage, third-largest U.S. commercial insurance brokerage, and the largest bank-owned U.S. insurance brokerage, but we’re a long way from being #1 for all our customers’ insurance needs. The



Brian McMahon, Internet Services Group (please see p. 18)

“We’re known across our industry as number one, second to none, for cross-sell and revenue growth, and now we also want to be known for smart, efficient expense management.”

last four years, almost half our new insurance business came from Wells Fargo customers — yet only five of every 100 of our 28 million customers have bought at least one insurance product from us. Our goal: one of every five.

We believe this is achievable because insurance (with checking, mortgage and investments) is one of four core products: one that consumers value so much that they’re more likely to buy more products from that same company than from competitors. We want to provide the full line of insurance products that both our commercial businesses and retail household customers need to help them succeed financially.

As part of a broader relationship conversation with our customers (not just “transactional selling” of insurance from a third party), we now help our banking customers via the phone and the internet plan their insurance needs, recommend the best product choices, and update them as their needs change. This is an “inbound” service model — triggered by events in our customers’ lives and channeled to our insurance sales centers through referrals from our banking stores and our *Wells Fargo Phone Bank*SM centers (1+ million such referrals in 2007, up 50 percent). Our acquisition this year of Greater Bay Bancorp in northern California also brought us ABD Insurance and Financial Services, the nation’s 15th-largest insurance broker. This expands our insurance presence on the West Coast and adds insurance products to our menu that especially benefit the technology, real estate and construction industries. Also in 2007, we acquired six insurance brokerages and nine insurance portfolios in California, Georgia, Illinois, Michigan, Minnesota, New Hampshire, North Carolina, Ohio, Texas, Utah and Washington.

Business Banking We’re making good progress in broadening and deepening our relationships with businesses that have annual revenues up to \$20 million.

Our sales of product “solutions” to businesses through our banking stores rose 16 percent this year, up 40 percent from two years ago. Small business loans, usually less than \$100,000, rose 19 percent, up 40 percent from two years ago. We’re the #1 U.S.

small business lender in dollars for the fifth consecutive year. We’re also #1 by this same measure for loans to small businesses in low- and moderate-income neighborhoods. Since 1995, we’ve loaned \$35 billion to businesses owned by women, African-Americans, Latinos and Asian-Americans.

There’s still tremendous opportunity to do better. We want our business banking results to be as good as our consumer results, especially in cross-sell. More than four in 10 of the small businesses that opened checking accounts with us bought a package of four or more products from us at the same time. That’s up from 2.5 of every 10, two years ago, but it’s still lower than the 7 of every 10 of our consumer customers who bought a package of products when they opened checking accounts with us. Our average business relationship now has 3.5 products with us (3.0 two years ago), but that’s still far fewer than the 5.5 products our average retail bank household has with us.

Expense Management The key to the bottom line for us has always been the top line — revenue growth — but we can’t be complacent about the expense line. We’re known across our industry as number one, second to none, for cross-sell and revenue growth, and now we also want to be known for smart, efficient expense management. We’ve always paid close attention to expenses in our businesses, but in 2008 we’re formalizing a process to coordinate expense management consistently and quickly across our company. Obviously, this is a time of slower economic growth, potentially higher credit losses and slowing deposit growth, causing pressure on earnings across our industry, but this is a process we need regardless of good times or tough times. It’s just good business. We’re examining all aspects of how we spend money, from buying goods and services to the structural expenses of each of our businesses. We want to take full advantage of our company-wide buying power and expense management best-practices. Making expense management a competitive advantage across our company should enable us to grow market share when many of our competitors are struggling.

One Wells Fargo: Our Progress

For the past two years, hundreds of our team members have examined processes inside our company that are most important to making it easier for our customers to do business with us. Their work is part of a way of thinking and acting we call “One Wells Fargo” — a culture of collaboration that instinctively and naturally puts what’s best for the customer first — and then delivering it. Our “One Wells Fargo” teams are working on six major initiatives:

- **Deliver a consistent “you know me” experience for our customers.** Example: We streamlined the process for opening checking and savings accounts by compressing the online process from 15 screens with 18 fields to fill in down to five screens and four fields. Completions for the new, shorter application have tripled.
- **Speak the language of our customers with clear and simple messages.** Example: We now have company-wide guidelines, tools and examples of correspondence to help us communicate with customers in ways that are easy to read, understand and act on. We use their language, not “bank-speak.” For instance:

Bank-speak	Customer-speak
Credited	Deposited
Debited	Withdrawn
Insufficient funds	Not enough money in your account
Unauthorized transactions	Charges made without your permission
Delinquent	Past due
Delayed availability	Your money will be available on (date)

- **Communicate more effectively with customers electronically rather than with paper.** Example: Two-thirds of all our servicing communication with customers now is available electronically — saving 15,000 trees a year. We deliver one of every five of our checking or savings account statements online only, an increase of 50 percent in 2007 alone.
- **Simplify products.** Example: We reduced our “menu board” of checking products from more than 20 down to six checking and savings account packages. This makes it easier for our customers to do business with us and easier for our team members to serve them. We rolled out an automated tool across all our Community Banking states and the *Wells Fargo Phone Bank* for those situations when we reverse fees.
- **Fix customers’ problems the first time they contact us.** Example: We now track in 14 of our 80 businesses and 15 of our 39 call centers how often we fix problems for customers the first time they contact us. This covers 95 percent of the calls our customer service team members handle. This year, we fixed problems for three million more customers after they contacted us the first time. By measuring and tracking this and finding ways to improve the process, we expect the number of first-time fixes to improve significantly over time.

- **Address recurring complaints affecting customer loyalty.** Example: Making it easier for our customers to reconstruct where they paid for goods and services. When they review their debit card, ATM and online bill pay transactions, they now see the name and location of the merchant where they made the purchase or payment rather than just the generic “Check card activity.”

Working Together

Wells Fargo has been at the forefront of every major innovation in financial services, including being the first to offer internet banking (1994). How does this happen? It does not, we can assure you, start with technology in search of a need. Nor does it start with outside consultants. It starts with our customers and the team members who serve them. Everything we do at Wells Fargo starts with what our customers need. Developing products and services to satisfy their financial needs requires an environment in which our team members at every level (most often those closest to the customer) are free to use their “what if” imaginations. They then should be assured that they’ll find open, receptive minds across our company willing to listen to their idea’s potential. Then come the most important steps — developing the new idea, designing the system, processes and technology, testing with customers and making changes based on their feedback, and then rolling out the well-tested new product to the marketplace.

In our annual report this year, beginning on page 12, we show you how our customers benefit from our latest and best products and services — created by our talented teams — and how every new idea we have for better serving our customers starts by “Working Together” with them.

We thank all our 159,800 talented team members for their outstanding accomplishments during what has been one of the more challenging years we’ve ever experienced in financial services. We thank our customers for entrusting us with more of their business and for returning to us for their next financial services product. We thank our communities — thousands of them across North America — that we partner with to make them better places to live and work. And we thank you, our owners, for your confidence in Wells Fargo as we begin our 157th year.

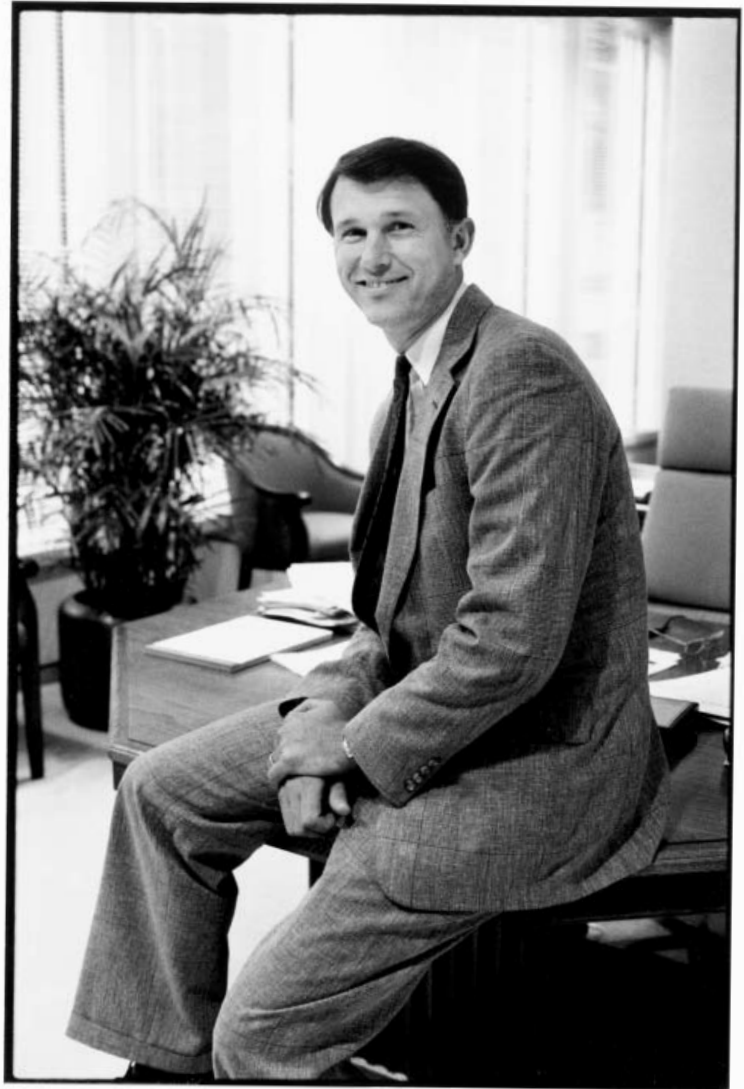
And now we’re going for great in ’08!



Richard M. Kovacevich, Chairman



John G. Stumpf, President and Chief Executive Officer



Dick Kovacevich, late 1980s, Norwest Corporation

Turning Over the Reins

Dick Kovacevich joined the former Norwest Corporation, predecessor of Wells Fargo, in 1986 as vice chairman and chief operating officer for banking. In the early '80s Norwest had suffered a series of setbacks in agriculture, energy and foreign lending, mortgage write-downs and a fire that destroyed its Minneapolis headquarters. Norwest reported a loss of \$30 million in 1987, but Kovacevich and Chairman and CEO Lloyd Johnson had already begun shaping a new culture built on the vision of satisfying all our customers' financial needs and helping them succeed financially.

Two Decades of Growth: Our Foundation for the Future

	1986*	2007
Assets	\$79 billion	\$575 billion
Net income	\$400 million	\$8.1 billion
Stock market value	\$4 billion	\$112 billion <small>(1/31/08)</small>
Earnings per share	\$0.18	\$2.38
Team members	41,000	159,800
Stores	1,500	6,000

*Includes former Norwest and former Wells Fargo (merged 1998), and former First Security (acquired 2000)

A Message from Dick

As our company continues on its journey toward even more industry-leading success, my active role on that trail will come to an end in 2008. It's time to turn over the reins to **John Stumpf** and his team and for me to board the next stage. We're very fortunate to have John as our CEO. He's extremely talented and experienced in all aspects of the financial services business. He's been an inspirational leader and architect of our business model and vision and values spanning over 25 years. He's passionate about our culture, our people, our customers, our communities and our investors. He walks the talk. He's smart, articulate, a person of the highest integrity, knowledgeable, fun to be around, a great leader, and he cares. He cares for our company and our team. He cares about our customers, our communities and about building wealth for customers, team members and investors.

It's also important to recognize that the size, complexity and growth prospects of Wells Fargo are so great that it ceased to be run by a single CEO many, many years ago. John, like me before him, is very fortunate to be supported by a team of CEOs. Each of them has a group of businesses that, if they were a stand-alone corporation, would be in the *Fortune* 200s in size. These very talented, experienced senior executive vice presidents, **Dave Hoyt**, **Mark Oman**, **Carrie Tolstedt** and **Howard Atkins**, are the CEOs of their groups. They work with John, their fellow group heads, the businesses and the staff groups on the vision, values and strategy of Wells Fargo. They make it all happen.

To you, our stockholders and also to buy side/sell side equity analysts, thank you for your incredible loyalty to Wells Fargo. Most of you have been stockholders and supporters for many years. Many of you for over a decade. Some came on board over two decades ago when our journey began. I've enjoyed our many meetings and discussions. It's unusual, in today's world, that such investment longevity exists. I trust that the ride has been prosperous and enjoyable for you.

To you, our board of directors, thank you for your ideas, wise counsel and support. It took unusual courage and confidence to allow us to follow our vision, supported by our values, while the "herd" and the conventional wisdom often pointed in another direction. You appropriately challenged but never wavered. Your advice and direction contributed enormously to our success.

To you, our customers and communities, thank you for the honor and pleasure of serving you. You've always been our primary focus. We strive to give you such great service and sound financial advice that you will give us more of your business (we hope all of it!). You've, indeed, paid us the greatest honor by coming to us for your next financial services product. That's why our results have been consistently among the very best in our industry for now over two decades. You're the reason we exist.

Most especially, a very special and sincere thanks to my colleagues and team members. You've proven, beyond any doubt, that our business is about people—about customer focus, leadership, vision, values, caring, sharing, teamwork, collaboration, community involvement, commitment, partnering, optimism, hard work, ethics and integrity. You prove every day it's all about people as a competitive advantage. I've had the distinct pleasure to have played with the best team in financial services, perhaps the best team in corporate America. It's no wonder we've won more games and scored more points than any of our competitors. I just wish I was 10 years younger so I could still play with this great team. I no longer hold the reins and will soon be just a passenger on the stagecoach—but as we all know from our history, even passengers need to help the stagecoach from time to time. Please let me know when I can help you. Remember four things:

- Be the best, number one second to none.
- "Out-local" the nationals, "out-national" the locals®.
- People are our competitive advantage.
- Always care and have fun!

I will miss you more than you know.



Richard M. Kovacevich, Chairman

Working Together with Our Customers

A finance head for a wholesale distributor in Ohio. A chemistry professor from Iowa. A hair stylist from California. Their lives are worlds apart. But they're all connected by an essential daily need—to access, manage and grow their money. They each need a financial partner that can make those transactions for them fast, securely and accurately, but also one that can find new and better ways, as part of a full relationship, to save them even more time and money.

These are the stories of nine of our 28 million customers and how we're working together with them to design new products to serve them better, satisfy all their financial needs and help them succeed financially.

Banking "In-the-Moment"

*Wells Fargo Mobile*SM | Lisa Kluever was caught by surprise. She thought she could pay by credit card, but the painting company wanted a check. Now she was in a cab to the airport for a Florida business trip, and time was tight. She whipped out her cell phone, connected with *Wells Fargo Mobile* service, and punched in a few numbers. A quick transfer from savings, and she could relax. *Wells Fargo Mobile* service connects to many Wells Fargo accounts by mobile web or text messaging from a mobile phone or other hand-held device. You can check account balances and review recent account activity using the mobile browser or text messaging functions, or transfer funds. "I'm an in-the-moment kind of person, and when I think of something to get done, I want to do it now," said Kluever of Anaheim, California, a finance manager for a *Fortune* 500 company who's been a Wells Fargo customer since 1990. "Since I always have my cell phone with me, Wells Fargo is always with me, too."



Far from Home, Close at Heart

Wells Fargo ExpressSend® | Carlos Garcia, native of Guatemala, is one of eight brothers and sisters (three pictured below) — the only one to leave his country. His parents and siblings still live in the town where they were raised. He came to the United States two years ago with his wife and two children. Today, he's an assistant manager for an American agricultural company in Harquahala, Arizona, where they grow, process and export melons. He sends money to relatives in Guatemala on Saturdays — conveniently, securely and economically — from his local Wells Fargo banking store through our *Wells Fargo ExpressSend* remittance service (also available to Mexico, El Salvador, the Philippines, India, China and Vietnam). The money he sends home supports his extended family and also helps them build their retirement savings. "My Wells Fargo bank has employees who are able and willing to help customers — and they speak Spanish as well," he said. "I just sign up once, and it's easy and quick to send money the next time."





What Matters Most?

Wells Fargo Business Services® | When you own a small business, you aren't just a business owner. You're a financial planner, business development officer, operations manager, HR consultant and much more. As a founder and chief administrative officer of The Architecture Company of Tucson, Arizona, Nancy Tom wears all of these hats. To simplify her financial role, she chose a *Wells Fargo Business Services* package, which bundles other products and services with her checking account and offers relationship pricing. She saves time and money, and instead of worrying about the finances, she can concentrate on projects that matter the most — like the company's design of the Tucson Chinese Cultural Center. "Thanks to Wells Fargo," she said, "I can leave my finance hat in the office and hop in the car to get inspiration and ideas for new design projects."



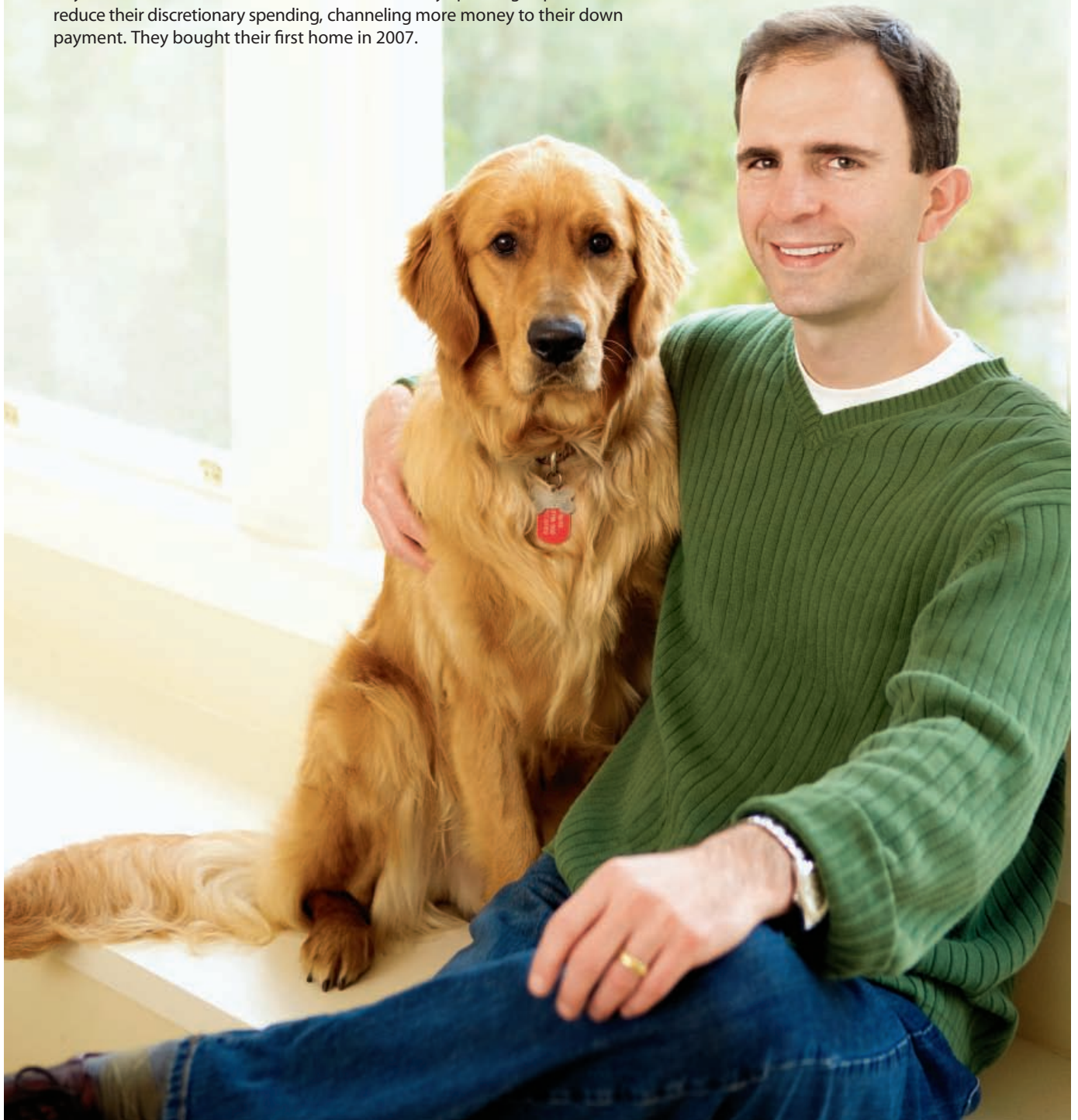
Watching It Grow

*My Savings Plan*SM | Christine DeVries, a chemistry professor at Wartburg College (Iowa), enjoys watching gases bubble up in beakers and compounds change colors. She appreciates any tangible, visual experiment that yields a new insight. To her surprise, she's getting the same satisfaction these days in her finances. With Wells Fargo's *My Savings Plan*, she literally watches her savings grow. *My Savings Plan* customers set a goal and a target savings amount, set time frames for reaching that goal, and track their progress meter online. A recently hired professor, DeVries soon begins making payments on her student loans, so she set up her *My Savings Plan* to help her do it. "With each deposit into my savings account, I watch the progress bar grow," she said. "I know how much closer I am to reaching my savings goal. It's an emotional boost that really motivates me."



Where's Your Money Going?

My Spending Report | Our own team members don't just design, test and launch new products for Wells Fargo — they champion them in the marketplace because they're Wells Fargo customers, too. Team member **Brian McMahon** of San Francisco is one of the one million unique customers using Wells Fargo's My Spending Report, our online personal financial management tool that collects and summarizes your spending by category, monthly. As product manager in our Internet Services Group for My Spending Report, he knows our customers want to better manage their spending and plan for the future. "We want to help our customers succeed financially," he said, "and this gives them a total view of their spending through Wells Fargo in one convenient place so they can see quickly where their money is going." As newlyweds who wanted to buy their first home, McMahon and his wife used My Spending Report to track and reduce their discretionary spending, channeling more money to their down payment. They bought their first home in 2007.





Pushing the Envelope –Aside

Wells Fargo *Envelope-Free*SM *webATM*[®] | Troy Ledo of Danville, California, is a hair designer and color specialist whose customers often pay him with checks — checks he once deposited with a teller on his day off. Not anymore. One of his customers, **Alicia Moore** of Wells Fargo, told him about a new function at Wells Fargo ATMs that could save him time and hassle. Now he just goes to a nearby Wells Fargo ATM any time of day and simply slips a stack of checks directly into the slot. He doesn't need a pen or need to do any math. The ATM does all the work — sorts and reads each check, and then prints an image of the check on his receipt. "I know ATMs weren't meant to be fun," he said, "but they are when you can do this! I'm confident the bank received my checks, and tracking my clients' payments is a breeze." Since they were installed beginning in 2006 in northern California, 1,300 Wells Fargo *Envelope-Free webATM* machines have processed 22 million checks — that's 16 million fewer paper envelopes, or 1,344 trees saved.*

* Estimate using Environmental Defense Paper Calculator





Depositing Checks at Light Speed

Desktop Deposit® | If you think balancing one checkbook a month is daunting, try doing over 450. Ward Allen and his finance team at WinWholesale (Dayton, Ohio) used to wait days for checks to clear and deposit reports to trickle in from dozens of banks before fully knowing the company's cash picture. Now, with our *Desktop Deposit* service, employees at its 450 locations in 44 states scan and send checks safely and securely via the internet to one bank — Wells Fargo — at light speed. We collect one of every eight of our commercial customers' checks via our *Desktop Deposit* service. "It gives our people more time to spend with their customers instead of going to the bank," said Allen, whose company is a leading wholesale distributor of plumbing and heating supplies, industrial pipes, valves and fittings, electrical and other equipment. "We have better visibility and better availability of cash and improved customer focus."

A man with a mustache, wearing a brown suit jacket, a blue dress shirt, and a yellow and blue patterned tie, is smiling. He is standing in front of a blurred background that appears to be an office or a modern building.

Power of the Portal

Commercial Electronic Office® | A dozen times a day — from his desk or on the road — Robert O'Dell checks the financial pulse of J.F. Shea Company using our *Commercial Electronic Office (CEO)*® internet portal. The Walnut, California-based company, one of the nation's largest privately held home builders and civil-engineering firms, has money in constant motion. O'Dell is the company's treasurer and needs to know where that money is... now. With our CEO portal — from his desktop or hand-held mobile device — he views accounts, maintains check registers, views images of deposited and disbursed checks, and prints and downloads activity reports. It also protects the company's confidential data and helps reduce fraud risks. "We have far-flung operations, and the CEO portal gives us the power of a large treasury staff," he said. "We used Wells Fargo's old dial-up system a decade ago and were the early testers of the CEO product. We couldn't live without it. It lets us do more with less."



Tools for Life

Teen CheckingSM | Sometimes real-life experience is the best way to learn valuable lessons. Seventeen-year-old Briani Franklin of Milwaukee, Wisconsin, and her mother, Tarena, agree. Together they opened a *Teen Checking* account so Briani can have a little financial freedom — such as using her debit card when she goes shopping with friends from her basketball team — and learn how to manage her money responsibly while her mother watches from a safe distance. The account combines financial education, parental controls such as daily spending limits, and free account alerts. Opening the account led mother and daughter to new conversations about managing money and budgeting — “tools for life,” as Tarena puts it. They learn from each other. “I balance my checkbook by hand, but Briani does hers with *Wells Fargo Online*[®] Banking — something I’d like her to teach me, too!”

Working Together with Our Communities

We work together with our communities the same way we work together with our customers. Think about it—every customer belongs to a community! The relationships we build serving customers often bring us opportunities to help their communities. Before we decide where to invest in a community, we rely first on the people who know our communities best—the people who live and work there—our team members. By paying attention, asking the right questions and making the right connections, they discover where Wells Fargo can make an important difference in their communities.

By working together we can make our communities better places to live and work. Good for customers. Good for team members. Good for communities.



Revitalizing the Railyard

Can a city park flourish when there isn't enough water? Santa Fe, New Mexico, has a plan, and Wells Fargo is helping to put it into action. Team member **Thomas Bustamante**, an active community volunteer, learned that the Trust for Public Land was revitalizing Santa Fe's historic Railyard. The project creates a gathering place for the community including parks, a farmers' market and an arts center. But where can the city get enough water to cultivate 50 acres of land? The solution: an advanced water harvesting system that feeds the park with rainwater runoff from other buildings. Bustamante connected the Trust for Public Land with Wells Fargo. Result: an environmental matching grant for \$12,500 from Wells Fargo to help build the system and preserve the city's precious water supply.



Helping Homebuyers

Fifteen years ago, we saw an opportunity to help low-income renters in Minnesota better prepare themselves to become homeowners. The result? A partnership between housing nonprofits and mortgage lenders led by Wells Fargo that provides consistent, high-quality homebuyer counseling and education services across the state, and provides community organizations with training, technical and financial support. We've been there since day one as community representatives, volunteers and members of the board of directors. Team member **Andrew Slack** has taught pre-purchase classes for homebuyers for six years at a church in Duluth, Minnesota. "Not a week goes by without someone stopping me on the street to say hello and discuss their first home purchase," he said. "It's an amazing feeling to have a hand in their success."



A woman with brown hair, wearing a white chef's uniform and a pink floral headband, is smiling and sitting at a wooden table in a restaurant. She has her arms crossed and is wearing a silver watch. In the background, there are other wooden chairs and tables with bottles on them.

Coming to Terms with Banking

When it comes to banking, our team members want everyone to know the language. A Wells Fargo team in Orange County, California — home to the largest Vietnamese population in the United States — created a free dictionary to translate common banking terms into Vietnamese. The 80-page guide helps Vietnamese customers understand financial words that often have no equivalent in their language. With a \$100,000 grant and the banking terms dictionary from Wells Fargo, the Orange County Small Business Development Center helps Vietnamese-American business owners become financially successful. Entrepreneurs such as restaurant owner Kathy Nguyen save time and money by using a full range of Wells Fargo products — time and money she can use to focus on better serving her customers.



School Supplies — Free!

Like many teachers, Christy Zabo sometimes pitches in to help pay for classroom materials. But thanks to Schoolhouse Supplies in Portland, Oregon, more of her money stays in her pocket. That's because Schoolhouse Supplies runs a fully stocked warehouse of school supplies where teachers can shop without having to worry about the bill because it's all free. With the help of a \$2,500 grant from Wells Fargo, Schoolhouse Supplies opened in 2000, collecting supplies from local companies to donate to schools. Since opening, it has provided 130 public schools with 1.4 million pencils and other school supplies totaling \$9 million. Wells Fargo has given \$130,000 to support Schoolhouse Supplies, our team members are active on its board, and in 2007 alone our Portland banking teams collected \$3,800 worth of supplies, delivered straight to the warehouse.

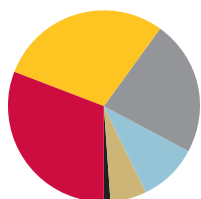
Investing in Our Communities

The past two years we've contributed almost **\$200 million**

to 17,000 nonprofits, or an average of:

- \$1.8 million every week
- \$266,000 every day
- \$11,000 every hour

Where We Give



● Education	.....	31%
● Human Services	.....	29%
● Community Development	.....	23%
● Arts and Culture	.....	10%
● Civic	.....	6%
● Environmental	.....	1%

\$28.4 million

donated by 65,000 team members during the '07 Community Support Campaign;

Participation up 13% from '06

\$789 million

in Community Development Lending;

Includes affordable housing, community service and economic development loans

796,000 hours

volunteered by team members;

Average value of a volunteer hour is \$18.44 = \$14.7 million in time contributed, up 6% from '06

Volunteer Leave Program

Wells Fargo's 30-year-old Volunteer Leave Program is one of the few corporate programs of its kind in the U.S. that offers fully paid sabbaticals for employees to provide community service. We reward selected team members with up to four months off, with full pay and benefits, to help a nonprofit of their choice achieve long-term sustainability. This year, team member **Adetoun Sokeye** was awarded three months to work with Rescue Now Services, a nonprofit providing food, hygiene packs, vocational programs and counseling to the homeless in Minneapolis, Minnesota. With Sokeye's help, Rescue Now can reduce its operating costs and still expand its services. He was one of 20 team members who received a portion of the 43 months of Volunteer Leave awarded in 2007.

\$550 million

spent with diverse suppliers;

Over halfway to our goal of \$1 billion by 2010

\$28.4 million

to 5,700 educational organizations;

+ \$6.7 million in matched educational donations from team members, up 32% from '06

Environmental Stewardship

America's largest buyers of renewable energy*

1. PepsiCo
2. Wells Fargo & Company
3. Whole Foods Market
4. The Pepsi Bottling Group, Inc.
5. U.S. Air Force
6. Johnson & Johnson
7. U.S. Environmental Protection Agency
8. Kohl's Department Stores
9. Los Angeles County Sanitation Districts
10. Starbucks

* U.S. Environmental Protection Agency

\$1.5 billion

in financing for Leadership in Energy and Environmental Design certified "green" buildings;

Up 80% from '06

Corporate Citizenship Report

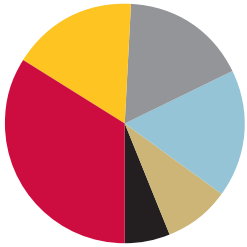
Our 2007 report on our progress in corporate citizenship is available at: www.wellsfargo.com/about/csr



The Businesses of Wells Fargo

Our Earnings Diversity

Historical averages, near-future year expectations



● Community Banking	34%
● Home Mortgage/Home Equity	17%
● Investments & Insurance	17%
● Specialized Lending*	17%
● Wholesale Banking/Commercial Real Estate	9%
● Consumer Finance	6%

* Credit cards, student loans, asset-based lending, equipment finance, structured finance, correspondent banking, etc.

Our Market Leadership

- #1 retail mortgage originator
- #1 small business lender
- #1 small business lender in low- to moderate-income neighborhoods
- #1 insurance broker owned by bank holding company (world's 5th largest insurance broker)
- #1 agricultural lender
- #1 financial services provider to middle-market businesses across our banking states
- #1 commercial real estate broker
- #2 mortgage servicer
- #2 debit card issuer
- #3 ATM network
- #4 deposits (U.S.)

Our Reputation

Barron's

World's 16th Most-Admired Company

Moody's Investors Service

"Aaa" credit-rated U.S. bank

Standard & Poor's Ratings Service

Only bank in the U.S. to be credit-rated "AAA"

Global Finance magazine

Top 10 World's Safest Banks

Financial Times

18th Highest-Valued Brand in the World

BusinessWeek

Top 50 Best Places to Launch a Career

Among America's top 10 most generous corporate givers

DiversityInc magazine

20th Best Company for Diversity; Top 10 Best Companies for Latinos; Top 10 Best Companies for Asian-Americans

Human Rights Campaign

Perfect score of 100 on Corporate Equality Index

Out & Equal Workplace Advocates

Workplace Excellence Award

LATINA Style magazine

Top 50 Companies for Latinas

Essence magazine

Top 25 Great Places to Work for African-American Women

National Association of Real Estate Brokers

Corporate Achievement Awards for work in fair and responsible lending and servicing principles

Advertising Age magazine

Top 10 marketers to the U.S. Asian market

Environmental Protection Agency

Green Power Partner of the Year

Board of Directors



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Chairman, President, CEO
Sybase, Inc.
Dublin, California
(Computer software)



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Chairman Emeritus
US WEST, Inc.
Denver, Colorado
(Communications)



Stephen W. Sanger ^{3,5}
Chairman
General Mills, Inc.
Minneapolis, Minnesota
(Packaged foods)



Lloyd H. Dean ^{1,3}
President, CEO
Catholic Healthcare West
San Francisco, California
(Health care)



Cynthia H. Milligan ^{1,2,4}
Dean
College of Business
Administration
University of Nebraska –
Lincoln
(Higher education)



John G. Stumpf
President, CEO
Wells Fargo & Company



Susan E. Engel ^{2,3,5}
Retired Chairwoman, CEO
Lenox Group Inc.
Eden Prairie, Minnesota
(Specialty retailer)



Nicholas G. Moore ^{1,3}
Retired Global Chairman
PricewaterhouseCoopers
New York, New York
(Accounting)



Susan G. Swenson ^{1,2,4}
COO
New Motion, Inc.
Los Angeles, California
(Mobile entertainment)



Enrique Hernandez, Jr. ^{1,3}
Chairman, CEO
Inter-Con Security Systems, Inc.
Pasadena, California
(Security services)



Philip J. Quigley ^{1,2,4}
Retired Chairman,
President, CEO
Pacific Telesis Group
San Francisco, California
(Telecommunications)



Michael W. Wright ^{2,4,5}
Retired Chairman, CEO
SUPERVALU INC.
Eden Prairie, Minnesota
(Food distribution, retailing)



Robert L. Joss ^{1,2,4}
Philip H. Knight
Professor and Dean
Stanford U. Graduate
School of Business
Palo Alto, California
(Higher education)



Donald B. Rice ^{4,5}
President, CEO
Agensys, Inc.
Santa Monica, California
(Biotechnology)

Standing Committees

1. Audit and Examination
2. Credit
3. Finance
4. Governance and Nominating
5. Human Resources



Richard M. Kovacevich
Chairman
Wells Fargo & Company



Judith M. Runstad ^{2,3}
Of Counsel
Foster Pepper PLLC
Seattle, Washington
(Law firm)

Executive Officers, Corporate Staff

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John G. Stumpf, President, CEO *

Senior Executive Vice Presidents

Howard I. Atkins, Chief Financial Officer *
David A. Hoyt, Wholesale Banking *
Mark C. Oman, Home and Consumer Finance *
Carrie L. Tolstedt, Community Banking *

Paul R. Ackerman, Treasurer
Caryl J. Athanasiu, Compliance and
Risk Management
Lawrence P. Haeg, Corporate Communications
Ellen Haude, Investment Portfolio
Bruce E. Helsel, Corporate Development
Laurel A. Holschuh, Corporate Secretary
Richard D. Levy, Controller *
Michael J. Loughlin, Chief Credit Officer *

Kevin McCabe, Chief Auditor
Avid Modjtabai, Technology
Eric D. Shand, Chief Loan Examiner
Diana L. Starcher, Customer Service,
Sales, Operations
Robert S. Strickland, Investor Relations
James M. Strother, General Counsel,
Government Relations *
Julie M. White, Human Resources *

* Executive officers* according to Securities
and Exchange Commission rules

Senior Business Leaders

COMMUNITY BANKING

Group Head

Carrie L. Tolstedt

Regional Banking

Regional Presidents

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Jim D. Hanson, Greater Minnesota

Frederick A. Bertoldo, Michigan, Wisconsin

Carl A. Miller, Jr., Indiana, Ohio

Daniel P. Murphy, South Dakota

Kurt E. Mattox, North Dakota

Debra J. Paterson, Metro Minnesota

Paul W. "Chip" Carlisle, Texas/Border Banking

George W. Cone, Heart of Texas

John T. Gavin, Dallas-Fort Worth

Glenn V. Godkin, Houston

Don C. Kendrick, Central Texas

Kenneth A. Telg, West Texas

Hector Retta, Border Banking

Thomas W. Honig, Mountain Midwest

Nathan E. Christian, Colorado

Robert A. Hatch, Utah

J. Scott Johnson, Illinois, Iowa

Kirk L. Kellner, Nebraska

Michael J. Matthews, Wyoming

Joy N. Ott, Montana

Laura A. Schulte, Western Banking

Michael F. Billeci, Greater San Francisco Bay Area

Felizardo S. Fernandez, Northern California

Shelley Freeman, Los Angeles Metro

G. Darryl Harmon, Central California

Alan V. Johnson, Oregon

Suzanne M. Ramos, Idaho

John K. Sotoodeh, Southern California

Lisa J. Stevens, San Francisco Metro

Richard Strutz, Alaska

Robert D. Worth, California Business Banking

Patrick G. Yalung, Washington

Kim M. Young, Orange County

Gerrit van Huisstede, Desert Mountain

Kirk V. Clausen, Nevada

Pamela M. Conboy, Arizona

Gregory A. Winegardner, New Mexico

Mergers and Acquisitions

Jon R. Campbell

Diversified Products Group

Michael R. James

Marc L. Bernstein, Business Direct Lending

Louis M. Cosso, Auto Dealer Commercial Services

Rebecca Macieira-Kaufmann, Small Business Segment

Kevin Moss, Home Equity

Todd A. Reimringer, Business Payroll Services

Debra B. Rossi, Merchant Payment Solutions

Robert D. Worth, Business Banking Support Group

David J. Rader, SBA Lending

Enterprise Marketing

Sylvia L. Reynolds

Consumer Deposits Group

Kenneth A. Zimmerman

HOME AND CONSUMER FINANCE

Group Head

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Cara K. Heiden, Co-President, National Consumer and Institutional Lending

Mary C. Coffin, Mortgage Servicing/ Post Closing

Susan A. Davis, National Retail Sales/ Fulfillment Services

Michael Lepore, Institutional Lending

Card Services and Consumer Credit

Kevin A. Rhein, President

Daniel I. Ayala, Global Remittance Services

Michael J. DeVito, Education Finance Services

Edward M. Kadletz, Debit Card Management

Wells Fargo Financial, Inc.

Thomas P. Shippee, CEO, President

David R. Kvamme, Chief Operating Officer

John B. Keilholz, Consumer Business

Greg M. Janasko, Commercial Business

WHOLESALE BANKING

Group Head

David A. Hoyt

Commercial, Real Estate and Specialized Financial Services

Timothy J. Sloan

Commercial Banking

Iris S. Chan

John C. Adams, Northern California

JoAnn N. Bertges, Central California

Robert A. Chereck, Texas

Albert F. (Rick) Ehrke, Southern California

Paul D. Kalsbeek, Southeast

Richard J. Kerbis, Northeast

Edmond O. Lelo, Greater Los Angeles

Perry G. Pelos, Central West

John V. Rindlaub, Pacific Northwest

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A. Larry Chapman

Charles H. Fedalen, Jr., Real Estate Group

Robin W. Michel, Middle Market Real Estate

Mark L. Myers, Real Estate

Merchant Banking

Specialized Financial Services

J. Edward Blakey, Commercial Mortgage Group

John M. McQueen, Wells Fargo Equipment Finance, Inc.

J. Michael Johnson, Energy, Financial Sponsors, Gaming, Media, Mezzanine Finance, Distribution, Investment Banking

David B. Marks, Corporate Banking, Shareowner Services

John R. Shrewsbury, Securities Investment Group

Corporate Trust Services

Brian J. Bartlett

Credit Administration

David J. Weber

International and Insurance Services

David J. Zuercher, Chairman, Wells Fargo Insurance Services

Neal R. Aton, Wells Fargo Insurance

Randy C. Tronnes, Rural Community Insurance Services

Peter P. Connolly, International Financial Services

Ronald A. Caton, Global Correspondent Banking

Sanjiv S. Sanghvi, Wells Fargo HSBC Trade Bank, N.A.

Sara Wardell Smith, Foreign Exchange

Asset-Based Lending

Peter E. Schwab

Henry K. Jordan, Wells Fargo Foothill

Scott R. Diehl, Commercial Finance

Jeffrey T. Nikora, Alternative Investment Management

Martin J. McKinley, Wells Fargo Business Credit

Stuart M. Brister, Wells Fargo Century

Eastdil Secured, LLC

Benjamin V. Lambert, Chairman

Roy H. March, CEO

D. Michael Van Konynenburg, President

Asset Management Group

Michael J. Niedermeyer

Robert W. Bissell, Wells Capital Management Inc.

James W. Paulsen, Wells Capital Management Inc.

John S. McCune, Institutional Brokerage

Laurie B. Nordquist, Institutional Trust Group

Karla M. Rabusch, Wells Fargo Funds LLC

Wealth Management Group/ Internet Services

Clyde W. Ostler

James P. Smith, Internet Services Group

Jay S. Welker, Wealth Management Group

James Cimino, Southern California

Anne D. Copeland, Northern Central California

Joe W. DeFur, Los Angeles County

Jeffrey Grubb, Northwest

David J. Kasper, Mountain Midwest

Russell A. LaBrasca, South

Timothy N. Traudt, Great Lakes

Wholesale Services

Stephen M. Ellis

Jose R. Becquer, Health Benefit Services

Deborah M. Ball, Treasury Management

Daniel C. Peltz, Treasury Management

Norwest Equity Partners

John E. Lindahl, Managing Partner

Norwest Venture Partners

Promod Haque, Managing Partner

Corporate Properties

Donald E. Dana

Wells Fargo & Company

Stock Listing

Wells Fargo & Company is listed and trades on the New York Stock Exchange: WFC

Common Stock

3,297,102,208 common shares outstanding (12/31/07)

Stock Purchase and Dividend Reinvestment

You can buy Wells Fargo stock directly from Wells Fargo, even if you're not a Wells Fargo stockholder, through optional cash payments or automatic monthly deductions from a bank account. You can also have your dividends reinvested automatically. It's a convenient, economical way to increase your Wells Fargo investment.

Call 1-877-840-0492 for an enrollment kit including a plan prospectus.

Form 10-K

We will send Wells Fargo's 2007 Annual Report on Form 10-K (including the financial statements filed with the Securities and Exchange Commission) free to any stockholder who asks for a copy in writing. Stockholders also can ask for copies of any exhibit to the Form 10-K. We will charge a fee to cover expenses to prepare and send any exhibits. Please send requests to: Corporate Secretary, Wells Fargo & Company, Wells Fargo Center, MAC N9305-173, Sixth and Marquette, Minneapolis, MN 55479.

SEC Filings

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available free of charge on our website (www.wellsfargo.com) as soon as practical after they are electronically filed with or furnished to the SEC. Those reports and amendments are also available free of charge on the SEC's website at www.sec.gov.

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Corporate Information

Annual Stockholders' Meeting

1:00 p.m., Tuesday, April 29, 2008
420 Montgomery Street
San Francisco, CA

Certifications

Our chief executive officer certified to the New York Stock Exchange (NYSE) that, as of May 15, 2007, he was not aware of any violation by the Company of the NYSE's corporate governance listing standards. The certifications of our chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act of 2002 were filed as Exhibits 31(a) and 31(b), respectively, to our 2007 Form 10-K.

Forward-Looking Statements In this report we may make forward-looking statements about our company's financial condition, results of operations, plans, objectives and future performance and business. We make forward-looking statements when we use words such as "believe," "expect," "anticipate," "estimate," "may," "can," "will" or similar expressions. Forward-looking statements involve risks and uncertainties. They are based on current expectations. Several factors could cause actual results to differ significantly from expectations including • our ability to sell more products to our customers • the effect of an economic slowdown on the demand for our products and services • the effect of a fall in stock market prices on fee income from our brokerage and asset management businesses • the effect of changes in interest rates on our net interest margin and our mortgage originations, mortgage servicing rights and mortgages held for sale • the adequacy of our allowance for credit losses • disruptions in the capital markets and reduced investor demand for mortgages loans • our election to provide support to our mutual funds for structured credit products they may hold • changes in the value of our venture capital investments • changes in our accounting policies or in accounting standards or in how accounting standards are to be applied • mergers and acquisitions • federal and state regulations • reputational damage from negative publicity • fines, penalties and other negative consequences from regulatory violations • the loss of checking and saving account deposits to other investments such as the stock market • fiscal and monetary policies of the Federal Reserve Board. Under "Risk Factors" on pages 66-71 of this report we discuss these and other factors that could cause actual results to differ from expectations. We discuss additional factors elsewhere in the Financial Review and in the Financial Statements and related Notes in this report and in the "Regulation and Supervision" section of our 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission and available on the SEC's website at www.sec.gov.

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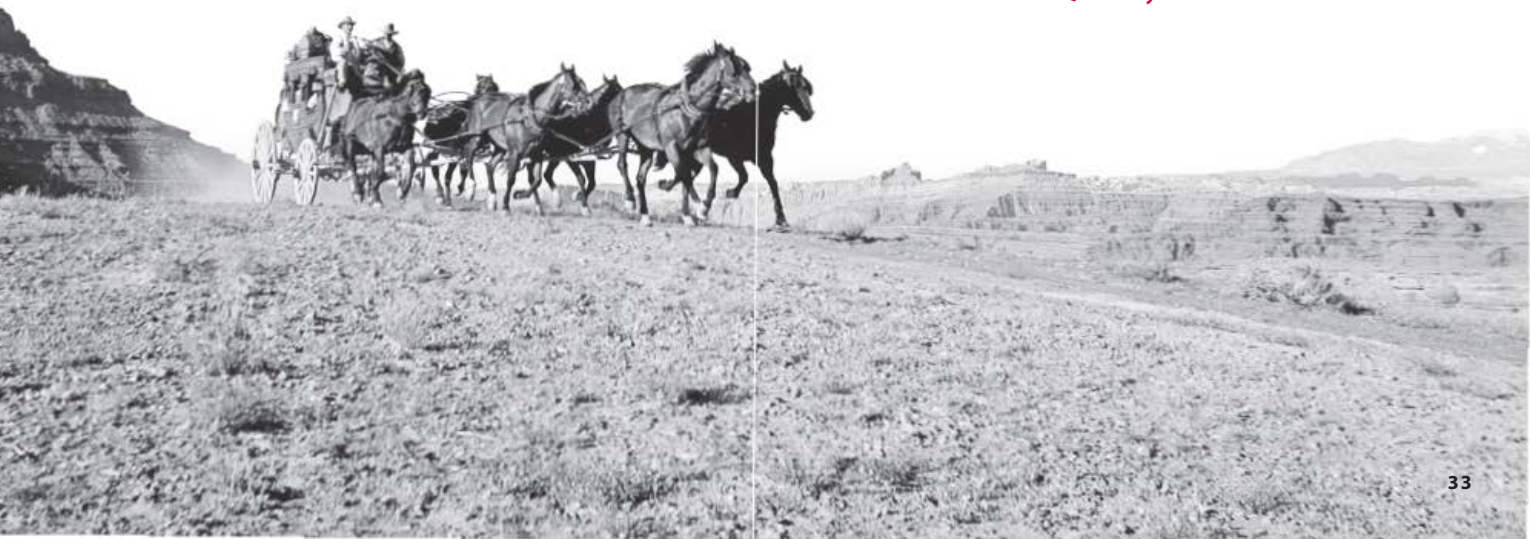
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This Annual Report, including the Financial Review and the Financial Statements and related Notes, has forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results may differ significantly from our forecasts and expectations due to several factors. Please refer to the “Risk Factors” section of this Report for a discussion of some of the factors that may cause results to differ.

Financial Review

Overview

Wells Fargo & Company is a \$575 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 December 31, 2007. 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.

The financial services industry faced unprecedented challenges in 2007. Home values declined abruptly and sharply, adversely impacting the consumer lending business of many financial service providers; credit spreads widened as the capital markets repriced in many asset classes; price volatility increased and market liquidity decreased in several sectors of the capital markets; and, late in the year, economic growth declined sharply.

We were not immune to these unprecedented external factors. Our provision for credit losses was \$2.7 billion higher in 2007 than in 2006, reflecting \$1.3 billion in additional provisions for actual charge-offs that occurred in 2007 and a special \$1.4 billion provision to further build reserves for loan losses.

While the \$2.7 billion in additional provisions reduced consolidated net income after tax by 18%, consolidated full-year earnings per share declined only 4% to \$2.38 per share, a strong overall result given the external environment and higher credit costs.

Our results were as strong as they were because we largely avoided or had negligible exposure to many of the problem areas that resulted in significant costs and write-downs at other large financial institutions and because we continued to build our diversified franchise throughout 2007, once again achieving growth rates, operating margins, and returns at or near the top of the financial services industry, while at the same time maintaining strong capital levels and strong liquidity.

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. Despite the aforementioned challenges, we continued to earn more of our customers’ business in 2007 in both our retail and commercial banking businesses. Our cross-sell set records for the ninth consecutive year—our average retail banking household now has 5.5 products, almost one in five have more than eight, 6.1 for Wholesale Banking customers, and our average middle-market commercial banking customer has almost eight products. Business banking cross-sell reached 3.5 products. Our goal in each customer segment is eight products per customer, which is currently half of our estimate of potential demand.

Revenue, the sum of net interest income and noninterest income, grew 10.4% to a record \$39.4 billion in 2007 from \$35.7 billion in 2006. The breadth and depth of our business model resulted in very strong and balanced growth in loans, deposits and fee-based products. Many of our businesses continued to post double-digit, year-over-year revenue growth, including business direct, wealth management, credit and debit card, global remittance services, personal credit management, home mortgage, asset-based lending, asset management, specialized financial services and international.

Among the many products and services that grew in 2007, we achieved the following results:

- Average loans grew by 12%;
- Average core deposits grew by 13%;
- Assets under management were up 14%;
- Mortgage servicing fees were up 14%;
- Insurance premiums were up 14%; and
- Total noninterest income rose 17%, reflecting the breadth of our cross-sell efforts.

We continue to maintain leading market positions in deposits in many communities within our banking footprint and to be #1 in many categories of financial services nationally, including small business lending, retail mortgage originations, agricultural lending, internet banking, insurance brokerage among banks, and provider of financial services to middle-market companies in the western U.S.

We have stated in the past that to consistently grow over the long term, successful companies must invest in their core businesses and maintain strong balance sheets. We continued to make investments in 2007 by opening 87 regional banking stores and converting 42 stores acquired from Placer Sierra Bancshares and National City Bank to our network. We grew our sales and service force by adding 1,755 team members (full-time equivalents) in 2007, including 578 retail

platform bankers. In fourth quarter 2007, we completed the acquisition of Greater Bay Bancorp, with \$7.4 billion in assets, the third largest bank acquisition in our history, adding to our community banking, commercial insurance brokerage, specialty finance and trust businesses. We also recently agreed to acquire the banking operations of United Bancorporation of Wyoming, which will make us the largest bank in our nation's ninth fastest growing state.

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 maintain 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 management of our business risks.

Wells Fargo Bank, N.A. continued to be rated as "Aaa," the highest possible credit rating issued by Moody's Investors Service (Moody's), and was upgraded in February 2007 to "AAA," the highest possible credit rating issued by Standard & Poor's Ratings Services (S&P). Of the more than 1,100 financial institutions and 70 national banking systems covered by S&P globally, this upgrade makes our bank one of only two banks worldwide to have S&P's "AAA" credit rating. Wells Fargo Bank, N.A. is now the only U.S. bank to have the highest possible credit rating from both Moody's and S&P.

Our financial results included the following:

Net income in 2007 was \$8.06 billion (\$2.38 per share), compared with \$8.42 billion (\$2.47 per share) in 2006. Results for 2007 included the impact of the previously announced \$1.4 billion (pre tax) credit reserve build (\$0.27 per share) and \$203 million of Visa litigation expenses (\$0.04 per share), and for 2006 included \$95 million (\$0.02 per share) of Visa litigation expenses. Despite the challenging environment in 2007, we had a solid year and achieved both double-digit top line revenue growth and positive operating leverage (revenue growth of 10.4% exceeding expense growth of 9.5%). Return on average total assets (ROA) was 1.55% and return on average stockholders' equity (ROE) was 17.12% in 2007, compared with 1.73% and 19.52%, respectively, in 2006. Both ROA and ROE were, once again, at or near the top of our large bank peers.

Net interest income on a taxable-equivalent basis was \$21.1 billion in 2007, up from \$20.1 billion a year ago, reflecting strong loan growth. Average earning assets grew 7% from 2006. Our net interest margin was 4.74% for 2007, compared with 4.83% in 2006, primarily due to earning assets increasing at a slightly faster rate than core deposits.

Noninterest income increased 17% to \$18.4 billion in 2007 from \$15.7 billion in 2006. The increase was across our businesses, with double-digit increases in debit and credit card fees (up 22%), deposit service charges (up 13%), trust

and investment fees (up 15%), and insurance revenue (up 14%). Capital markets and equity investment results were also strong. Mortgage banking noninterest income increased \$822 million (36%) from 2006 because net servicing fee income increased due to growth in loans serviced for others.

During 2007, noninterest income was affected by changes in interest rates, widening credit spreads, and other credit and housing market conditions, including:

- \$(803) million – \$479 million write-down of the mortgage warehouse/pipeline, and \$324 million write-down, primarily due to mortgage loans repurchased and an increase in the repurchase reserve for projected early payment defaults.
- \$583 million – Increase in mortgage servicing income reflecting a \$571 million reduction in the value of mortgage servicing rights (MSRs) due to the decline in mortgage rates during the year, offset by a \$1.15 billion gain on the financial instruments hedging the MSRs. The ratio of MSRs to related loans serviced for others at December 31, 2007, was 1.20%, the lowest ratio in 10 quarters.

Noninterest expense was \$22.8 billion in 2007, up 9.5% from \$20.8 billion in 2006, primarily due to continued investments in new stores and additional sales and service-related team members. Despite these investments and the acquisition of Greater Bay Bancorp and related integration expense, our efficiency ratio improved to 57.9% in 2007 from 58.4% in 2006. We obtained concurrence from the staff of the Securities and Exchange Commission (SEC) regarding our accounting for certain transactions related to the restructuring of Visa Inc., and recorded a litigation liability and corresponding expense, included in operating losses, of \$203 million for 2007 and \$95 million for 2006.

During 2007, net charge-offs were \$3.54 billion (1.03% of average total loans), up \$1.3 billion from \$2.25 billion (0.73%) during 2006. Commercial and commercial real estate net charge-offs increased \$239 million in 2007 from 2006, of which \$162 million was from loans originated through our business direct channel. Business direct consists primarily of unsecured lines of credit to small firms and sole proprietors that tend to perform in a manner similar to credit cards. Total wholesale net charge-offs (excluding business direct) were \$103 million (0.08% of average loans). The remaining balance of commercial and commercial real estate (other real estate mortgage, real estate construction and lease financing) continued to have low net charge-off rates in 2007.

National Home Equity Group (Home Equity) portfolio net charge-offs totaled \$595 million (0.73% of average loans) in 2007, compared with \$110 million (0.14%) in 2006. Because the majority of the Home Equity net charge-offs were concentrated in the indirect or third party origination channels, which have a higher percentage of 90% or greater combined loan-to-value portfolios, we have discontinued third party activities not behind a Wells Fargo first mortgage and segregated these indirect loans into a liquidating portfolio. As previously disclosed, while the \$11.9 billion of loans in this liquidating portfolio represented about 3% of total loans outstanding at December 31, 2007, these loans represent

the highest risk in our \$84.2 billion Home Equity portfolio. The loans in the liquidating portfolio were primarily sourced through wholesale (brokers) and correspondents. Additionally, they are largely concentrated in geographic markets that have experienced the most abrupt and steepest declines in housing prices. We will continue to provide home equity financing directly to our customers, but have stopped originating or acquiring new home equity loans through indirect channels unless they are behind a Wells Fargo first mortgage and have a combined loan-to-value ratio lower than 90%. We also experienced increased net charge-offs in our unsecured consumer portfolios, such as credit cards and lines of credit, in part due to growth and in part due to increased economic stress in households.

Full year 2007 auto portfolio net charge-offs were \$1.02 billion (3.45% of average loans), compared with \$857 million (3.15%) in 2006. These results were consistent with our expectations and reflected planned lower growth in originations and an improvement in collection activities within this business.

The provision for credit losses was \$4.94 billion in 2007, an increase of \$2.74 billion from \$2.20 billion in 2006, due to higher net charge-offs and the 2007 credit reserve build of \$1.4 billion, primarily for higher net loss content that we estimated in the Home Equity portfolio. Given the weakness in housing and the overall state of the U.S. economy, it is likely that net charge-offs will be higher in 2008. The allowance for credit losses, which consists of the allowance for loan losses and the reserve for unfunded credit commitments, was \$5.52 billion (1.44% of total loans) at December 31, 2007, compared with \$3.96 billion (1.24%) at December 31, 2006.

At December 31, 2007, total nonaccrual loans were \$2.68 billion (0.70% of total loans) up from \$1.67 billion (0.52%) at December 31, 2006. The majority of the increase in nonaccrual loans was concentrated in the first mortgage portfolio (\$209 million in Wells Fargo Home Mortgage and \$343 million in Wells Fargo Financial) and was due to the national rise in mortgage default rates. We believe there is minimal additional loss content in these loans since they are

Table 1: Six-Year Summary of Selected Financial Data

(in millions, except per share amounts)	2007	2006 ⁽¹⁾	2005	2004	2003	2002	% Change 2007/2006	Five-year compound growth rate
INCOME STATEMENT								
Net interest income	\$ 20,974	\$ 19,951	\$ 18,504	\$ 17,150	\$ 16,007	\$ 14,482	5%	8%
Noninterest income	18,416	15,740	14,445	12,909	12,382	10,767	17	11
Revenue	39,390	35,691	32,949	30,059	28,389	25,249	10	9
Provision for credit losses	4,939	2,204	2,383	1,717	1,722	1,684	124	24
Noninterest expense	22,824	20,837	19,018	17,573	17,190	14,711	10	9
Before effect of change in accounting principle⁽²⁾								
Net income	\$ 8,057	\$ 8,420	\$ 7,671	\$ 7,014	\$ 6,202	\$ 5,710	(4)	7
Earnings per common share	2.41	2.50	2.27	2.07	1.84	1.68	(4)	7
Diluted earnings per common share	2.38	2.47	2.25	2.05	1.83	1.66	(4)	7
After effect of change in accounting principle								
Net income	\$ 8,057	\$ 8,420	\$ 7,671	\$ 7,014	\$ 6,202	\$ 5,434	(4)	8
Earnings per common share	2.41	2.50	2.27	2.07	1.84	1.60	(4)	9
Diluted earnings per common share	2.38	2.47	2.25	2.05	1.83	1.58	(4)	9
Dividends declared per common share	1.18	1.08	1.00	0.93	0.75	0.55	9	16
BALANCE SHEET								
(at year end)								
Securities available for sale	\$ 72,951	\$ 42,629	\$ 41,834	\$ 33,717	\$ 32,953	\$ 27,947	71	21
Loans	382,195	319,116	310,837	287,586	253,073	192,478	20	15
Allowance for loan losses	5,307	3,764	3,871	3,762	3,891	3,819	41	7
Goodwill	13,106	11,275	10,787	10,681	10,371	9,753	16	6
Assets	575,442	481,996	481,741	427,849	387,798	349,197	19	11
Core deposits ⁽³⁾	311,731	288,068	253,341	229,703	211,271	198,234	8	9
Long-term debt	99,393	87,145	79,668	73,580	63,642	47,320	14	16
Guaranteed preferred beneficial interests in Company's subordinated debentures ⁽⁴⁾	—	—	—	—	—	2,885	—	—
Stockholders' equity	47,628	45,814	40,660	37,866	34,469	30,319	4	9

(1) Results for 2006 have been revised to reflect \$95 million of litigation expenses associated with indemnification obligations arising from the Company's ownership interest in Visa.

(2) Change in accounting principle is for a transitional goodwill impairment charge recorded in 2002 upon adoption of FAS 142, *Goodwill and Other Intangible Assets*.

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

(4) At December 31, 2003, upon adoption of FIN 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FIN 46(R)), these balances were reflected in long-term debt. See Note 14 (Long-Term Debt) to Financial Statements for more information.

adjusted to market value when transferred to nonperforming asset (NPA) status. Total NPAs were \$3.87 billion (1.01% of total loans) at December 31, 2007, compared with \$2.42 billion (0.76%) at December 31, 2006. Due to illiquid market conditions, we are now holding more foreclosed properties than we have historically. Foreclosed assets were \$1.18 billion at December 31, 2007, compared with \$745 million at December 31, 2006. Foreclosed assets, a component of total NPAs, included \$649 million and \$423 million in residential property or auto loans and \$535 million and \$322 million of foreclosed real estate securing Government National Mortgage Association (GNMA) loans at December 31, 2007 and 2006, respectively, consistent with regulatory reporting requirements. The foreclosed real estate securing GNMA loans of \$535 million represented 14 basis points of the ratio of NPAs to loans at December 31, 2007. Both principal and interest for the 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.

Table 2: Ratios and Per Common Share Data

	Year ended December 31,		
	2007	2006	2005
PROFITABILITY RATIOS			
Net income to average total assets (ROA)	1.55%	1.73%	1.72%
Net income to average stockholders' equity (ROE)	17.12	19.52	19.59
EFFICIENCY RATIO ⁽¹⁾	57.9	58.4	57.7
CAPITAL RATIOS			
At year end:			
Stockholders' equity to assets	8.28	9.51	8.44
Risk-based capital ⁽²⁾			
Tier 1 capital	7.59	8.93	8.26
Total capital	10.68	12.49	11.64
Tier 1 leverage ⁽²⁾	6.83	7.88	6.99
Average balances:			
Stockholders' equity to assets	9.04	8.88	8.78
PER COMMON SHARE DATA			
Dividend payout ⁽³⁾	49.0	43.2	44.1
Book value	\$14.45	\$13.57	\$12.12
Market price ⁽⁴⁾			
High	\$37.99	\$36.99	\$32.35
Low	29.29	30.31	28.81
Year end	30.19	35.56	31.42

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

(2) See Note 26 (Regulatory and Agency Capital Requirements) to Financial Statements for additional information.

(3) Dividends declared per common share as a percentage of earnings per common share.

(4) Based on daily prices reported on the New York Stock Exchange Composite Transaction Reporting System.

The Company and each of its subsidiary banks remained “well capitalized” under applicable regulatory capital adequacy guidelines. The ratio of stockholders' equity to total assets was 8.28% at December 31, 2007, compared with 9.51% at December 31, 2006. Our total risk-based capital (RBC) ratio at December 31, 2007, was 10.68% and our Tier 1 RBC ratio was 7.59%, exceeding the minimum

regulatory guidelines of 8% and 4%, respectively, for bank holding companies. Our RBC ratios at December 31, 2006, were 12.49% and 8.93%, respectively. Our Tier 1 leverage ratios were 6.83% and 7.88% at December 31, 2007 and 2006, respectively, exceeding the minimum regulatory guideline of 3% for bank holding companies.

Current Accounting Developments

On January 1, 2007, we adopted the following new accounting pronouncements:

- FIN 48 – Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*;
- FSP 13-2 – FASB Staff Position 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*;
- FAS 155 – Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140*;
- FAS 157 – *Fair Value Measurements*; and
- FAS 159 – *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*.

The adoption of FIN 48, FAS 155, FAS 157 and FAS 159 did not have any effect on our financial statements at the date of adoption. For additional information, see Note 17 (Fair Values of Assets and Liabilities) and Note 21 (Income Taxes) to Financial Statements.

Upon adoption of FSP 13-2, we recorded a cumulative effect of change in accounting principle to reduce the beginning balance of 2007 retained earnings by \$71 million after tax (\$115 million pre tax). This amount will be recognized back into income over the remaining terms of the affected leases.

On July 1, 2007, we adopted Emerging Issues Task Force (EITF) Topic D-109, *Determining the Nature of a Host Contract Related to a Hybrid Financial Instrument Issued in the Form of a Share under FASB Statement No. 133* (Topic D-109), which provides clarifying guidance as to whether certain hybrid financial instruments are more akin to debt or equity, for purposes of evaluating whether the embedded derivative financial instrument requires separate accounting under FAS 133, *Accounting for Derivative Instruments and Hedging Activities*. In accordance with the transition provisions of Topic D-109, we transferred \$1.2 billion of securities, consisting of investments in preferred stock callable by the issuer, from trading assets to securities available for sale. Because the securities were carried at fair value, the adoption of Topic D-109 did not have any effect on our total stockholders' equity.

On April 30, 2007, the FASB issued Staff Position FIN 39-1, *Amendment of FASB Interpretation No. 39* (FSP FIN 39-1). FSP FIN 39-1 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 Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* (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 Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements* (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 Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* (SAB 109). SAB 109 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.

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.

Critical Accounting Policies

Our significant accounting policies (see Note 1 (Summary of Significant Accounting Policies) to Financial Statements) 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.

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 have an established process, using several analytical tools and benchmarks, to calculate a range of possible outcomes and determine the adequacy of the allowance. No single statistic or measurement determines the adequacy of the allowance. Loan recoveries and the provision for credit losses increase the allowance, while loan charge-offs decrease the allowance.

PROCESS TO DETERMINE THE ADEQUACY OF THE ALLOWANCE FOR CREDIT LOSSES

While we attribute portions of the allowance to specific loan categories as part of our analytical process, the entire allowance is used to absorb credit losses inherent in the total loan portfolio.

A significant portion of the allowance is estimated at a pooled level for consumer loans and some segments of commercial small business loans. We use forecasting models to measure the losses inherent in these portfolios. We validate and update these models periodically to capture recent behavioral characteristics of the portfolios, such as updated credit bureau information, actual changes in underlying economic or market conditions and changes in our loss mitigation strategies.

The remaining portion of the allowance is for commercial loans, commercial real estate loans and lease financing. We initially estimate this portion of the allowance by applying historical loss factors statistically derived from tracking losses associated with actual portfolio movements over a specified period of time, using a standardized loan grading process. Based on this process, we assign loss factors to each pool of graded loans and a loan equivalent amount for unfunded loan commitments and letters of credit. These estimates are then adjusted or supplemented where necessary from additional

analysis of long-term average loss experience, external loss data or other risks identified from current conditions and trends in selected portfolios, including management's judgment for imprecision and uncertainty. We assess and account for as impaired certain nonaccrual commercial and commercial real estate loans that are over \$3 million and certain consumer, commercial and commercial real estate loans whose terms have been modified in a troubled debt restructuring. We include the impairment on these nonperforming loans in the allowance unless it has already been recognized as a loss.

Reflected in the two portions of the allowance previously described is an amount for imprecision or uncertainty that incorporates the range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This amount is the result of our judgment of risks inherent in the portfolios, economic uncertainties, historical loss experience and other subjective factors, including industry trends, calculated to better reflect our view of risk in each loan portfolio.

The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the balance sheet date. To estimate the possible range of allowance required at December 31, 2007, and the related change in provision expense, we assumed the following scenarios of a reasonably possible deterioration or improvement in loan credit quality.

Assumptions for deterioration in loan credit quality were:

- for consumer loans, a 23 basis point increase in estimated loss rates from actual 2007 loss levels, moving closer to longer term average loss rates or more prolonged stress case for home equity loans; and
- for wholesale loans, a 24 basis point increase in estimated loss rates, moving closer to historical averages.

Assumptions for improvement in loan credit quality were:

- for consumer loans, an 18 basis point decrease in estimated loss rates from actual 2007 loss levels, adjusting for the elevated home equity losses and an improving real estate market for consumers; and
- for wholesale loans, nominal change from the 2007 net credit loss performance.

Under the assumptions for deterioration in loan credit quality, another \$804 million in expected losses could occur and under the assumptions for improvement, a \$416 million reduction in expected losses could occur.

Changes in the estimate of the allowance for credit losses and the related provision expense can materially affect net income. The example above is only one of a number of reasonably possible scenarios. Determining the allowance for credit losses requires us to make forecasts of losses that are highly uncertain and require a high degree of judgment. Given that the majority of our loan portfolio is consumer loans, for which losses tend to emerge within a relatively short, predictable timeframe, and that a significant portion of the allowance for credit losses relates to estimated credit

losses associated with consumer loans, management believes that the provision for credit losses for consumer loans, absent any significant credit event, severe decrease in collateral values, significant acceleration of losses or significant change in payment behavior, will closely track the level of related net charge-offs. From time to time, events or economic factors may impact the loan portfolio, causing management to provide additional amounts or release balances from the allowance for credit losses. The increase in the allowance for credit losses in excess of net charge-offs in 2007 was primarily due to higher losses in the Home Equity portfolio stemming from the steeper than anticipated decline in national home prices. See Note 6 (Loans and Allowance for Credit Losses) to Financial Statements and “Risk Management – Credit Risk Management Process” for further discussion of our allowance for credit losses.

Valuation of Residential Mortgage Servicing Rights

We recognize as assets the rights to service mortgage loans for others, or mortgage servicing rights (MSRs), whether we purchase the servicing rights, or the servicing rights result from the sale or securitization of loans we originate (asset transfers). We also acquire MSRs under co-issuer agreements that provide for us to service loans that are originated and securitized by third-party correspondents. Effective January 1, 2006, under FAS 156, *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140*, we elected to initially measure and carry our MSRs related to residential mortgage loans (residential MSRs) using the fair value measurement method. Under this method, purchased MSRs and MSRs from asset transfers are capitalized and carried at fair value. Prior to the adoption of FAS 156, we capitalized purchased residential MSRs at cost, and MSRs from asset transfers based on the relative fair value of the servicing right and the residential mortgage loan at the time of sale, and carried both purchased MSRs and MSRs from asset transfers at the lower of cost or market value. Effective January 1, 2006, upon the remeasurement of our residential MSRs at fair value, we recorded a cumulative effect adjustment to increase the 2006 beginning balance of retained earnings by \$101 million after tax (\$158 million pre tax) in stockholders’ equity.

At the end of each quarter, we determine the fair value of MSRs using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds (including housing price volatility), discount rate, default rates, cost to service (including delinquency and foreclosure costs), escrow account earnings, contractual servicing fee income, ancillary income and late fees. The valuation of MSRs is discussed further in this section and in Note 1 (Summary of Significant Accounting Policies), Note 8 (Securitizations and Variable Interest Entities), Note 9 (Mortgage Banking Activities) and Note 17 (Fair Values of Assets and Liabilities) to Financial Statements.

To reduce the sensitivity of earnings to interest rate and market value fluctuations, we may use securities available for sale and free-standing derivatives (economic hedges) to hedge the risk of changes in the fair value of MSRs, with the resulting gains or losses reflected in income. Changes in the fair value of the MSRs from changing mortgage interest rates are generally offset by gains or losses in the fair value of the derivatives depending on the amount of MSRs we hedge and the particular instruments chosen to hedge the MSRs. We may choose not to fully hedge MSRs, partly because origination volume tends to act as a “natural hedge.” For example, as interest rates decline, servicing values generally decrease and fees from origination volume tend to increase. Conversely, as interest rates increase, the fair value of the MSRs generally increases, while fees from origination volume tend to decline. See “Mortgage Banking Interest Rate and Market Risk” for discussion of the timing of the effect of changes in mortgage interest rates.

Net servicing income, a component of mortgage banking noninterest income, includes the changes from period to period in fair value of both our residential MSRs and the free-standing derivatives (economic hedges) used to hedge our residential MSRs. Changes in the fair value of residential MSRs from period to period result from (1) changes in the valuation model inputs or assumptions (principally reflecting changes in discount rates and prepayment speed assumptions, mostly due to changes in interest rates) and (2) other changes, representing changes due to collection/realization of expected cash flows.

We use a dynamic and sophisticated model to estimate the value of our MSRs. The model is validated by an independent internal model validation group operating in accordance with Company policies. Senior management reviews all significant assumptions quarterly. Mortgage loan prepayment speed—a key assumption in the model—is the annual rate at which borrowers are forecasted to repay their mortgage loan principal. The discount rate used to determine the present value of estimated future net servicing income—another key assumption in the model—is the required rate of return investors in the market would expect for an asset with similar risk. To determine the discount rate, we consider the risk premium for uncertainties from servicing operations (e.g., possible changes in future servicing costs, ancillary income and earnings on escrow accounts). Both assumptions can, and generally will, change quarterly as market conditions and interest rates change. For example, an increase in either the prepayment speed or discount rate assumption results in a decrease in the fair value of the MSRs, while a decrease in either assumption would result in an increase in the fair value of the MSRs. In recent years, there have been significant market-driven fluctuations in loan prepayment speeds and the discount rate. These fluctuations can be rapid and may be significant in the future. Therefore, estimating prepayment speeds within a range that market participants would use in determining the fair value of MSRs requires significant management judgment.

These key economic assumptions and the sensitivity of the fair value of MSRs to an immediate adverse change in those assumptions are shown in Note 8 (Securitized and Variable Interest Entities) to Financial Statements.

Fair Valuation of Financial Instruments

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Trading assets, securities available for sale, derivatives and substantially all mortgages held for sale (MHFS) are financial instruments recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other financial assets on a nonrecurring basis, such as nonprime residential and commercial MHFS, loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets. Further, we include in Notes to Financial Statements information about the extent to which fair value is used to measure assets and liabilities, the valuation methodologies used and its impact to earnings. Additionally, for financial instruments not recorded at fair value we disclose the estimate of their fair value.

FAS 157, *Fair Value Measurements* (FAS 157), defines fair value as the price that would be received to sell the financial asset or paid to transfer the financial liability in an orderly transaction between market participants at the measurement date.

FAS 157 establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data.

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 instruments include securities traded on active exchange markets, such as the New York Stock Exchange, as well as U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 2 instruments include securities traded in less active dealer or broker markets and MHFS that are valued based on prices for other mortgage whole loans with similar characteristics.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect

our own estimates of assumptions market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

In accordance with FAS 157, it is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. When available, we use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that use primarily market-based or independently-sourced market parameters, including interest rate yield curves, prepayment speeds, option volatilities and currency rates. Substantially all of our financial instruments use either of the foregoing methodologies, collectively Level 1 and Level 2 measurements, to determine fair value adjustments recorded to our financial statements. However, in certain cases, when market observable inputs for model-based valuation techniques may not be readily available, we are required to make judgments about assumptions market participants would use in estimating the fair value of the financial instrument.

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management judgment is necessary to estimate fair value. In addition, changes in the market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. Therefore, when market data is not available, we would use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement.

At December 31, 2007, approximately 22% of total assets, or \$123.8 billion, consisted of financial instruments recorded at fair value on a recurring basis. Approximately 82% of these financial instruments used valuation methodologies involving market-based or market-derived information, collectively Level 1 and 2 measurements, to measure fair value. Approximately 18% of these financial assets are measured using model-based techniques, or Level 3 measurements. Virtually all of our financial assets valued using Level 3 measurements represented MSRs (previously described) or investments in asset-backed securities where we underwrite the underlying collateral (auto lease receivables). At December 31, 2007, approximately 0.5% of total liabilities, or \$2.6 billion, consisted of financial instruments recorded at fair value on a recurring basis.

See Note 17 (Fair Values of Assets and Liabilities) to Financial Statements for a complete discussion on our use of fair valuation of financial instruments, our related measurement techniques and its impact to our financial statements.

Pension Accounting

We account for our defined benefit pension plans using an actuarial model required by FAS 87, *Employers' Accounting for Pensions*, as amended by FAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. FAS 158 was issued on September 29, 2006, and became effective for us on December 31, 2006. FAS 158 requires us to recognize the funded status of our pension and postretirement benefit plans in our balance sheet. Additionally, FAS 158 will require us to use a year-end measurement date beginning in 2008. The adoption of FAS 158 did not change the amount of net periodic benefit expense recognized in our income statement.

We use four key variables to calculate our annual pension cost: size and characteristics of the employee population, actuarial assumptions, expected long-term rate of return on plan assets, and discount rate. We describe below the effect of each of these variables on our pension expense.

SIZE AND CHARACTERISTICS OF THE EMPLOYEE POPULATION

Pension expense is directly related to the number of employees covered by the plans, and other factors including salary, age and years of employment.

ACTUARIAL ASSUMPTIONS

To estimate the projected benefit obligation, actuarial assumptions are required about factors such as the rates of mortality, turnover, retirement, disability and compensation increases for our participant population. These demographic assumptions are reviewed periodically. In general, the range of assumptions is narrow.

EXPECTED LONG-TERM RATE OF RETURN ON PLAN ASSETS

We determine the expected return on plan assets each year based on the composition of assets and the expected long-term rate of return on that portfolio. The expected long-term rate of return assumption is a long-term assumption and is not anticipated to change significantly from year to year.

To determine if the expected rate of return is reasonable, we consider such factors as (1) long-term historical return experience for major asset class categories (for example, large cap and small cap domestic equities, international equities and domestic fixed income), and (2) forward-looking return expectations for these major asset classes. Our expected rate of return for 2008 is 8.75%, the same rate used for 2007 and 2006. Differences in each year, if any, between expected and actual returns are included in our net actuarial gain or loss amount, which is recognized in other comprehensive income. We generally amortize any net actuarial gain or loss in excess of a 5% corridor (as defined in FAS 87) in net periodic pension expense calculations over the next five years. Our average remaining service period is approximately 11 years. See Note 20 (Employee Benefits and Other Expenses) to Financial Statements for information on funding, changes in the pension benefit obligation, and plan assets (including the investment categories, asset allocation and the fair value).

We use November 30 as the measurement date for our pension assets and projected benefit obligations. If we were to assume a 1% increase/decrease in the expected long-term rate of return, holding the discount rate and other actuarial assumptions constant, pension expense would decrease/increase by approximately \$54 million. In 2008 we will use December 31 as our measurement date as required under FAS 158.

DISCOUNT RATE

We use a discount rate to determine the present value of our future benefit obligations. The discount rate reflects the current rates available on long-term high-quality fixed-income debt instruments, and is reset annually on the measurement date. To determine the discount rate, we review in conjunction with our independent actuary, spot interest rate yield curves based upon yields from a broad population of high-quality bonds, adjusted to match the timing and amounts of the Cash Balance Plan's expected benefit payments. We used a discount rate of 6.25% in 2007 and 5.75% in 2006.

If we were to assume a 1% increase in the discount rate, and keep the expected long-term rate of return and other actuarial assumptions constant, pension expense would decrease by approximately \$6 million. If we were to assume a 1% decrease in the discount rate, and keep other assumptions constant, pension expense would increase by approximately \$82 million. The decrease in pension expense due to a 1% increase in discount rate differs from the increase in pension expense due to a 1% decrease in discount rate due to the impact of the 5% gain/loss corridor.

Income Taxes

We are subject to the income tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which we operate. We account for income taxes in accordance with FAS 109, *Accounting for Income Taxes*, as interpreted by FIN 48, *Accounting for Uncertainty in Income Taxes*. Our income tax expense consists of two components: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the current period and includes income tax expense related to our uncertain tax positions. We determine deferred income taxes using the balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and recognized enacted changes in tax rates and laws in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized subject to management's judgment that realization is "more likely than not." Uncertain tax positions that meet the more likely than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that management believes is greater than 50% likely of being realized upon settlement. Foreign taxes paid are generally applied as credits to reduce federal income taxes payable. We account for interest and penalties as a component of income tax expense.

The income tax laws of the jurisdictions in which we operate are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. In establishing a provision for income tax expense, we must make judgments and interpretations about the application of these inherently complex tax laws. We must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions by the government taxing authorities, both domestic and foreign. Our interpretations may be subjected to review during examination by taxing authorities and disputes may arise over the respective tax positions. We attempt to resolve these disputes during the tax examination and audit process and ultimately through the court systems when applicable.

We monitor relevant tax authorities and revise our estimate of accrued income taxes due to changes in income tax laws and their interpretation by the courts and regulatory authorities on a quarterly basis. Revisions of our estimate of accrued income taxes also may result from our own income tax planning and from the resolution of income tax controversies. Such revisions in our estimates may be material to our operating results for any given quarter.

See Note 21 (Income Taxes) to Financial Statements for a further description of our provision for income taxes and related income tax assets and liabilities.

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 was \$21.1 billion in 2007, up 5% from \$20.1 billion in 2006. Our net interest margin decreased to 4.74% for 2007 from 4.83% for 2006. Both the increase in net interest income and the decrease in the net interest margin were largely driven by strong growth in earning assets which were up 7% in 2007.

Average earning assets increased \$30.1 billion to \$445.9 billion in 2007 from \$415.8 billion in 2006. Average loans increased to \$344.8 billion in 2007 from \$306.9 billion in 2006. Average mortgages held for sale decreased to \$33.1 billion in 2007 from \$42.9 billion in 2006. Average debt securities available for sale increased to \$57.0 billion in 2007 from \$53.6 billion in 2006.

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). We have one of the largest bases of core deposits among large U.S. banks. Average core deposits grew 13% to \$303.1 billion in 2007 from \$268.9 billion in 2006 and funded 88% of average total loans in both years. Total average retail core deposits, which exclude Wholesale Banking core deposits and retail mortgage escrow deposits, for 2007 grew \$12.9 billion (6%) from 2006. Average mortgage escrow deposits increased to \$21.5 billion in 2007 from \$18.2 billion in 2006. Average savings certificates of deposit increased to \$40.5 billion in 2007 from \$32.4 billion in 2006 and average noninterest-bearing checking accounts and other core deposit categories (interest-bearing checking and market rate and other savings) increased to \$241.9 billion in 2007 from \$227.7 billion in 2006. Total average interest-bearing deposits increased to \$239.2 billion in 2007 from \$223.8 billion in 2006, due to a shift in the deposit mix in favor of higher-yielding savings and certificates of deposit relative to lower cost savings and demand deposit accounts.

Table 3 presents the individual components of net interest income and the net interest margin.

Table 3: Average Balances, Yields and Rates Paid (Taxable-Equivalent Basis) ⁽¹⁾⁽²⁾

(in millions)	2007			2006		
	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	\$ 4,468	4.99%	\$ 223	\$ 5,515	4.80%	\$ 265
Trading assets	4,291	4.37	188	4,958	4.95	245
Debt securities available for sale ⁽³⁾ :						
Securities of U.S. Treasury and federal agencies	848	4.26	36	875	4.36	39
Securities of U.S. states and political subdivisions	4,740	7.37	342	3,192	7.98	245
Mortgage-backed securities:						
Federal agencies	38,592	6.10	2,328	36,691	6.04	2,206
Private collateralized mortgage obligations	6,548	6.12	399	6,640	6.57	430
Total mortgage-backed securities	45,140	6.10	2,727	43,331	6.12	2,636
Other debt securities ⁽⁴⁾	6,295	7.52	477	6,204	7.10	439
Total debt securities available for sale ⁽⁴⁾	57,023	6.34	3,582	53,602	6.31	3,359
Mortgages held for sale ⁽⁵⁾	33,066	6.50	2,150	42,855	6.41	2,746
Loans held for sale ⁽⁵⁾	896	7.76	70	630	7.40	47
Loans:						
Commercial and commercial real estate:						
Commercial	77,965	8.17	6,367	65,720	8.13	5,340
Other real estate mortgage	32,722	7.38	2,414	29,344	7.32	2,148
Real estate construction	16,934	7.80	1,321	14,810	7.94	1,175
Lease financing	5,921	5.84	346	5,437	5.72	311
Total commercial and commercial real estate	133,542	7.82	10,448	115,311	7.78	8,974
Consumer:						
Real estate 1-4 family first mortgage	61,527	7.25	4,463	57,509	7.27	4,182
Real estate 1-4 family junior lien mortgage	72,075	8.12	5,851	64,255	7.98	5,126
Credit card	15,874	13.58	2,155	12,571	13.29	1,670
Other revolving credit and installment	54,436	9.71	5,285	50,922	9.60	4,889
Total consumer	203,912	8.71	17,754	185,257	8.57	15,867
Foreign	7,321	11.68	855	6,343	12.39	786
Total loans ⁽⁵⁾	344,775	8.43	29,057	306,911	8.35	25,627
Other	1,402	5.07	71	1,357	4.97	68
Total earning assets	<u>\$445,921</u>	7.93	<u>35,341</u>	<u>\$415,828</u>	7.79	<u>32,357</u>
FUNDING SOURCES						
Deposits:						
Interest-bearing checking	\$ 5,057	3.16	160	\$ 4,302	2.86	123
Market rate and other savings	147,939	2.78	4,105	134,248	2.40	3,225
Savings certificates	40,484	4.38	1,773	32,355	3.91	1,266
Other time deposits	8,937	4.87	435	32,168	4.99	1,607
Deposits in foreign offices	36,761	4.57	1,679	20,724	4.60	953
Total interest-bearing deposits	239,178	3.41	8,152	223,797	3.21	7,174
Short-term borrowings	25,854	4.81	1,245	21,471	4.62	992
Long-term debt	93,193	5.18	4,824	84,035	4.91	4,124
Guaranteed preferred beneficial interests in Company's subordinated debentures ⁽⁶⁾	—	—	—	—	—	—
Total interest-bearing liabilities	358,225	3.97	14,221	329,303	3.73	12,290
Portion of noninterest-bearing funding sources	87,696	—	—	86,525	—	—
Total funding sources	<u>\$445,921</u>	3.19	<u>14,221</u>	<u>\$415,828</u>	2.96	<u>12,290</u>
Net interest margin and net interest income on a taxable-equivalent basis ⁽⁷⁾		<u>4.74%</u>	<u>\$21,120</u>		<u>4.83%</u>	<u>\$20,067</u>
NONINTEREST-EARNING ASSETS						
Cash and due from banks	\$ 11,806			\$ 12,466		
Goodwill	11,957			11,114		
Other	51,068			46,615		
Total noninterest-earning assets	<u>\$ 74,831</u>			<u>\$ 70,195</u>		
NONINTEREST-BEARING FUNDING SOURCES						
Deposits	\$ 88,907			\$ 89,117		
Other liabilities	26,557			24,467		
Stockholders' equity	47,063			43,136		
Noninterest-bearing funding sources used to fund earning assets	(87,696)			(86,525)		
Net noninterest-bearing funding sources	<u>\$ 74,831</u>			<u>\$ 70,195</u>		
TOTAL ASSETS	<u>\$520,752</u>			<u>\$486,023</u>		

(1) Our average prime rate was 8.05%, 7.96%, 6.19%, 4.34% and 4.12% for 2007, 2006, 2005, 2004 and 2003, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 5.30%, 5.20%, 3.56%, 1.62% and 1.22% for the same years, 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.

2005			2004			2003		
Average balance	Yields/rates	Interest income/expense	Average balance	Yields/rates	Interest income/expense	Average balance	Yields/rates	Interest income/expense
\$ 5,448	3.01%	\$ 164	\$ 4,254	1.49%	\$ 64	\$ 4,174	1.16%	\$ 49
5,411	3.52	190	5,286	2.75	145	6,110	2.56	156
997	3.81	38	1,161	4.05	46	1,286	4.74	58
3,395	8.27	266	3,501	8.00	267	2,424	8.62	196
19,768	6.02	1,162	21,404	6.03	1,248	18,283	7.37	1,276
<u>5,128</u>	5.60	<u>283</u>	<u>3,604</u>	5.16	<u>180</u>	<u>2,001</u>	6.24	<u>120</u>
24,896	5.94	1,445	25,008	5.91	1,428	20,284	7.26	1,396
<u>3,846</u>	7.10	<u>266</u>	<u>3,395</u>	7.72	<u>236</u>	<u>3,302</u>	7.75	<u>240</u>
33,134	6.24	2,015	33,065	6.24	1,977	27,296	7.32	1,890
38,986	5.67	2,213	32,263	5.38	1,737	58,672	5.34	3,136
2,857	5.10	146	8,201	3.56	292	7,142	3.51	251
58,434	6.76	3,951	49,365	5.77	2,848	47,279	6.08	2,876
29,098	6.31	1,836	28,708	5.35	1,535	25,846	5.44	1,405
11,086	6.67	740	8,724	5.30	463	7,954	5.11	406
<u>5,226</u>	5.91	<u>309</u>	<u>5,068</u>	6.23	<u>316</u>	<u>4,453</u>	6.22	<u>277</u>
103,844	6.58	6,836	91,865	5.62	5,162	85,532	5.80	4,964
78,170	6.42	5,016	87,700	5.44	4,772	56,252	5.54	3,115
55,616	6.61	3,679	44,415	5.18	2,300	31,670	5.80	1,836
10,663	12.33	1,315	8,878	11.80	1,048	7,640	12.06	922
<u>43,102</u>	8.80	<u>3,794</u>	<u>33,528</u>	9.01	<u>3,022</u>	<u>29,838</u>	9.09	<u>2,713</u>
187,551	7.36	13,804	174,521	6.38	11,142	125,400	6.85	8,586
<u>4,711</u>	13.49	<u>636</u>	<u>3,184</u>	15.30	<u>487</u>	<u>2,200</u>	18.00	<u>396</u>
296,106	7.19	21,276	269,570	6.23	16,791	213,132	6.54	13,946
<u>1,581</u>	4.34	<u>68</u>	<u>1,709</u>	3.81	<u>65</u>	<u>1,626</u>	4.57	<u>74</u>
<u>\$383,523</u>	6.81	<u>26,072</u>	<u>\$354,348</u>	5.97	<u>21,071</u>	<u>\$318,152</u>	6.16	<u>19,502</u>
\$ 3,607	1.43	51	\$ 3,059	0.44	13	\$ 2,571	0.27	7
129,291	1.45	1,874	122,129	0.69	838	106,733	0.66	705
22,638	2.90	656	18,850	2.26	425	20,927	2.53	529
27,676	3.29	910	29,750	1.43	427	25,388	1.20	305
<u>11,432</u>	3.12	<u>357</u>	<u>8,843</u>	1.40	<u>124</u>	<u>6,060</u>	1.11	<u>67</u>
194,644	1.98	3,848	182,631	1.00	1,827	161,679	1.00	1,613
24,074	3.09	744	26,130	1.35	353	29,898	1.08	322
79,137	3.62	2,866	67,898	2.41	1,637	53,823	2.52	1,355
—	—	—	—	—	—	3,306	3.66	121
<u>297,855</u>	2.50	<u>7,458</u>	<u>276,659</u>	1.38	<u>3,817</u>	<u>248,706</u>	1.37	<u>3,411</u>
<u>85,668</u>	—	<u>—</u>	<u>77,689</u>	—	<u>—</u>	<u>69,446</u>	—	<u>—</u>
<u>\$383,523</u>	1.95	<u>7,458</u>	<u>\$354,348</u>	1.08	<u>3,817</u>	<u>\$318,152</u>	1.08	<u>3,411</u>
	<u>4.86%</u>	<u>\$18,614</u>		<u>4.89%</u>	<u>\$17,254</u>		<u>5.08%</u>	<u>\$16,091</u>
\$ 13,173			\$ 13,055			\$ 13,433		
10,705			10,418			9,905		
<u>38,389</u>			<u>32,758</u>			<u>36,123</u>		
<u>\$ 62,267</u>			<u>\$ 56,231</u>			<u>\$ 59,461</u>		
\$ 87,218			\$ 79,321			\$ 76,815		
21,559			18,764			20,030		
39,158			35,835			32,062		
<u>(85,668)</u>			<u>(77,689)</u>			<u>(69,446)</u>		
<u>\$ 62,267</u>			<u>\$ 56,231</u>			<u>\$ 59,461</u>		
<u>\$445,790</u>			<u>\$410,579</u>			<u>\$377,613</u>		

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

(6) At December 31, 2003, upon adoption of FIN 46(R), these balances were reflected in long-term debt. See Note 14 (Long-Term Debt) to Financial Statements for more information.

(7) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities. The federal statutory tax rate was 35% for all years presented.

Table 4 allocates the changes in net interest income on a taxable-equivalent basis to changes in either average balances or average rates for both interest-earning assets and interest-bearing liabilities. Because of the numerous simultaneous volume and rate changes during any period,

it is not possible to precisely allocate such changes between volume and rate. For this table, changes that are not solely due to either volume or rate are allocated to these categories in proportion to the percentage changes in average volume and average rate.

Table 4: Analysis of Changes in Net Interest Income

(in millions)	Year ended December 31,					
	2007 over 2006			2006 over 2005		
	Volume	Rate	Total	Volume	Rate	Total
Increase (decrease) in interest income:						
Federal funds sold, securities purchased under resale agreements and other short-term investments	\$ (52)	\$ 10	\$ (42)	\$ 2	\$ 99	\$ 101
Trading assets	(30)	(27)	(57)	(17)	72	55
Debt securities available for sale:						
Securities of U.S. Treasury and federal agencies	(2)	(1)	(3)	(5)	6	1
Securities of U.S. states and political subdivisions	117	(20)	97	(13)	(8)	(21)
Mortgage-backed securities:						
Federal agencies	102	20	122	1,040	4	1,044
Private collateralized mortgage obligations	(5)	(26)	(31)	93	54	147
Other debt securities	8	30	38	173	—	173
Mortgages held for sale	(634)	38	(596)	230	303	533
Loans held for sale	21	2	23	(146)	47	(99)
Loans:						
Commercial and commercial real estate:						
Commercial	1,001	26	1,027	529	860	1,389
Other real estate mortgage	248	18	266	16	296	312
Real estate construction	167	(21)	146	278	157	435
Lease financing	28	7	35	12	(10)	2
Consumer:						
Real estate 1-4 family first mortgage	292	(11)	281	(1,441)	607	(834)
Real estate 1-4 family junior lien mortgage	634	91	725	620	827	1,447
Credit card	448	37	485	247	108	355
Other revolving credit and installment	339	57	396	730	365	1,095
Foreign	116	(47)	69	205	(55)	150
Other	2	1	3	(10)	10	—
Total increase in interest income	<u>2,800</u>	<u>184</u>	<u>2,984</u>	<u>2,543</u>	<u>3,742</u>	<u>6,285</u>
Increase (decrease) in interest expense:						
Deposits:						
Interest-bearing checking	23	14	37	12	60	72
Market rate and other savings	345	535	880	75	1,276	1,351
Savings certificates	343	164	507	337	273	610
Other time deposits	(1,134)	(38)	(1,172)	167	530	697
Deposits in foreign offices	732	(6)	726	376	220	596
Short-term borrowings	211	42	253	(88)	336	248
Long-term debt	465	235	700	186	1,072	1,258
Total increase in interest expense	<u>985</u>	<u>946</u>	<u>1,931</u>	<u>1,065</u>	<u>3,767</u>	<u>4,832</u>
Increase (decrease) in net interest income on a taxable-equivalent basis	<u>\$ 1,815</u>	<u>\$(762)</u>	<u>\$ 1,053</u>	<u>\$ 1,478</u>	<u>\$(25)</u>	<u>\$ 1,453</u>

Noninterest Income

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 December 31, 2007, these assets totaled \$1.12 trillion, up 14% from \$983 billion at December 31, 2006. 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 13% increase in these fees in 2007 from 2006 was due to continued strong asset growth across all the trust and investment management businesses.

We also receive commissions and other fees for providing services to full-service and discount brokerage customers. At December 31, 2007 and 2006, brokerage assets totaled

\$131 billion and \$115 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. A significant portion of the 20% increase in these fees in 2007 from a year ago was due to higher securities issuance and investment banking activity.

Card fees increased 22% to \$2,136 million in 2007 from \$1,747 million in 2006, 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 increased 19% from a year ago and average card balances were up 28%.

Table 5: Noninterest Income

(in millions)	Year ended December 31,			% Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Service charges on deposit accounts	\$ 3,050	\$ 2,690	\$ 2,512	13%	7%
Trust and investment fees:					
Trust, investment and IRA fees	2,305	2,033	1,855	13	10
Commissions and all other fees	844	704	581	20	21
Total trust and investment fees	3,149	2,737	2,436	15	12
Card fees	2,136	1,747	1,458	22	20
Other fees:					
Cash network fees	193	184	180	5	2
Charges and fees on loans	1,011	976	1,022	4	(5)
All other fees	1,088	897	727	21	23
Total other fees	2,292	2,057	1,929	11	7
Mortgage banking:					
Servicing income, net	1,511	893	987	69	(10)
Net gains on mortgage loan origination/sales activities	1,289	1,116	1,085	16	3
All other	333	302	350	10	(14)
Total mortgage banking	3,133	2,311	2,422	36	(5)
Operating leases	703	783	812	(10)	(4)
Insurance	1,530	1,340	1,215	14	10
Net gains from trading activities	544	544	571	—	(5)
Net gains (losses) on debt securities available for sale	209	(19)	(120)	NM	(84)
Net gains from equity investments	734	738	511	(1)	44
All other	936	812	699	15	16
Total	<u>\$18,416</u>	<u>\$15,740</u>	<u>\$14,445</u>	<u>17</u>	<u>9</u>

NM – Not meaningful

Mortgage banking noninterest income was \$3,133 million in 2007, compared with \$2,311 million in 2006. Servicing fees, included in net servicing income, increased to \$4,025 million in 2007 from \$3,525 million in 2006, due to growth in loans serviced for others, primarily reflecting the full year effect of the \$140 billion servicing portfolio acquired from Washington Mutual, Inc. in July 2006. Our portfolio of loans serviced for others was \$1.43 trillion at December 31, 2007, up 12% from \$1.28 trillion at December 31, 2006. Servicing income also includes both changes in the fair value of MSR's during the period as well as changes in the value of derivatives (economic hedges) used to hedge the MSR's. Net servicing income for 2007 included a \$583 million net MSR's valuation gain that was recorded to earnings (\$571 million fair value loss offset by a \$1.15 billion economic hedging gain) and for 2006 included a \$154 million net MSR's valuation loss (\$9 million fair value loss plus a \$145 million economic hedging loss). At December 31, 2007, the ratio of MSR's to related loans serviced for others was 1.20%, the lowest ratio in 10 quarters.

Net gains on mortgage loan origination/sales activities were \$1,289 million in 2007, up from \$1,116 million in 2006. Gains for 2007 were partly offset by losses of \$803 million, which consisted of a \$479 million write-down of the mortgage warehouse/pipeline, and a \$324 million write-down primarily due to mortgage loans repurchased and an increase in the repurchase reserve for projected early payment defaults. During 2006, we realized losses of \$126 million resulting from the sale of low yielding ARM's as part of our balance

sheet repositioning strategy. Residential real estate originations totaled \$272 billion in 2007, compared with \$294 billion in 2006. Under FAS 159 we elected in 2007 to account for new prime MHFS at fair value. These loans are initially measured at fair value, with subsequent changes in fair value recognized as a component of net gains on mortgage loan origination/sales activities. Prior to the adoption of FAS 159, these fair value gains would have been deferred until the sale of these loans. (For additional detail, see "Asset/Liability and Market Risk Management – Mortgage Banking Interest Rate and Market Risk," and Note 1 (Summary of Significant Accounting Policies), Note 9 (Mortgage Banking Activities) and Note 17 (Fair Values of Assets and Liabilities) to Financial Statements.) The 1-4 family first mortgage unclosed pipeline was \$43 billion at December 31, 2007 and \$48 billion at December 31, 2006.

Insurance revenue was up 14% from 2006, due to higher insurance commissions and increases in crop insurance premiums.

Income from trading activities was \$544 million in both 2007 and 2006. Net gains on debt securities were \$209 million for 2007, compared with losses of \$19 million for 2006. Net gains from equity investments were \$734 million in 2007, compared with \$738 million in 2006.

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

Table 6: Noninterest Expense

(in millions)	Year ended December 31,			% Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Salaries	\$ 7,762	\$ 7,007	\$ 6,215	11%	13%
Incentive compensation	3,284	2,885	2,366	14	22
Employee benefits	2,322	2,035	1,874	14	9
Equipment	1,294	1,252	1,267	3	(1)
Net occupancy	1,545	1,405	1,412	10	—
Operating leases	561	630	635	(11)	(1)
Outside professional services	899	942	835	(5)	13
Outside data processing	482	437	449	10	(3)
Travel and entertainment	474	542	481	(13)	13
Contract services	448	579	596	(23)	(3)
Operating losses	437	275	194	59	42
Insurance	416	257	224	62	15
Advertising and promotion	412	456	443	(10)	3
Postage	345	312	281	11	11
Telecommunications	321	279	278	15	—
Stationery and supplies	220	223	205	(1)	9
Security	176	179	167	(2)	7
Core deposit intangibles	113	112	123	1	(9)
All other	1,313	1,030	973	27	6
Total	<u>\$22,824</u>	<u>\$20,837</u>	<u>\$19,018</u>	<u>10</u>	<u>10</u>

We continued to build our business with investments in additional team members, largely sales and service professionals, and new banking stores in 2007. The 10% increase in non-interest expense to \$22.8 billion in 2007 from \$20.8 billion in 2006 was due primarily to the increase in salaries, incentive compensation and employee benefits. We grew our sales and service force by adding 1,755 team members (full-time equivalents), including 578 retail platform bankers. In 2007, we opened 87 regional banking stores and converted 42 stores acquired from Placer Sierra Bancshares and National City Bank to our network. The acquisition of Greater Bay Bancorp added \$87 million of expenses in 2007. Expenses also included stock option expense of \$129 million in 2007, compared with \$134 million in 2006. In addition, expenses in 2007 included \$433 million in origination costs that, prior to the adoption of FAS 159, would have been deferred and recognized as a reduction of net gains on mortgage loan origination/sales activities at the time of sale.

Operating losses included \$203 million for 2007 and \$95 million for 2006 of litigation expenses associated with indemnification obligations arising from our ownership interest in Visa.

Wells Fargo is a member of the Visa USA network. On October 3, 2007, the Visa organization of affiliated entities completed a series of global restructuring transactions to combine its affiliated operating companies, including Visa USA, under a single holding company, Visa Inc. Visa Inc. intends to issue and sell a majority of its shares to the public in an initial public offering (IPO). We have an approximate 2.8% ownership interest in Visa Inc., which is included in our balance sheet at a nominal amount.

We obtained concurrence from the staff of the SEC concerning our accounting for the Visa restructuring transactions, including (1) judgment sharing agreements previously executed among the Company, Visa Inc. and its predecessors (collectively Visa) and certain other member banks of the Visa USA network, (2) litigation, and (3) an escrow account that will be established by Visa Inc. at the time of its IPO. The escrow account will be funded from IPO proceeds and will be used to make payments related to Visa litigation. We recorded litigation liabilities associated with indemnification obligations related to agreements entered into during second quarter 2006 and third quarter 2007. Based on our proportionate membership share of Visa USA, we recorded a litigation liability and corresponding expense of \$95 million for 2006 and \$203 million for 2007. The effect to the second quarter 2006 was estimated based upon our share of an actual settlement reached in November 2007. Management does not believe that the fair value of this obligation if determined in second quarter 2006 would have been materially different given information available at that time. Management has concluded, and the Audit and Examination Committee of our Board of Directors has concurred, that these amounts are immaterial to the periods affected.

Upon completion of Visa Inc.'s IPO, we will account for the funding of the escrow account by reducing our litigation liability with a corresponding credit to noninterest expense

for our portion of the escrow account, consistent with the method of allocating joint and several liability among potentially responsible parties in American Institute of Certified Public Accountants Statement of Position 96-1, *Environmental Remediation Liabilities*.

Income Tax Expense

On January 1, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). Implementation of FIN 48 did not result in a cumulative effect adjustment to retained earnings. At January 1, 2007, the total amount of unrecognized tax benefits and accrued interest was \$3.1 billion, of which \$1.7 billion related to tax benefits and interest that, if recognized, would impact the annual effective tax rate. Our effective tax rate for 2007 was 30.7%, compared with 33.4% for 2006. Income tax expense and the related effective tax rate for 2007 included FIN 48 tax benefits of \$235 million, as well as the impact of lower pre-tax earnings in relation to the level of tax-exempt income and tax credits. The tax benefits were primarily related to the resolution of certain matters with federal and state taxing authorities and statute expirations, reduced by accruals for uncertain tax positions, in accordance with FIN 48. We expect that FIN 48 will cause more volatility in our effective tax rate from quarter to quarter as we are now required to recognize tax positions in our financial statements based on the probability of ultimately sustaining such positions with the respective taxing authorities, and we are required to reassess those positions each quarter based on our evaluation of new information.

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 24 (Operating Segments) to Financial Statements.

To reflect a change in the allocation of income taxes for management reporting adopted in 2007, results for prior periods have been revised.

COMMUNITY BANKING'S net income decreased 5% to \$5.29 billion in 2007 from \$5.55 billion in 2006. Strong sales and revenue growth combined with disciplined expense management were offset by higher credit costs, including the \$1.4 billion (pre tax) credit reserve build. Revenue increased 11% to \$25.54 billion from \$23.03 billion in 2006. Net interest income increased 2% to \$13.37 billion in 2007 from \$13.12 billion in 2006. Although the net interest margin declined 3 basis points to 4.75% (primarily due to lower investment yields), the 3% growth in earning assets more than offset the impact of the lower margin. The growth in earning assets was predominantly driven by loan growth. Average loans were up 9% to \$194.0 billion in 2007 from \$178.0 billion in 2006. Average core deposits were up 7% to \$249.8 billion in 2007 from \$233.5 billion a year ago.

Noninterest income increased 23% to \$12.17 billion in 2007 from \$9.92 billion in 2006, primarily due to retail banking fee revenue growth in brokerage, deposit service charges, cards and investments. Noninterest income also included higher mortgage banking revenue, which increased \$505 million (18%) largely due to higher servicing income. The provision for credit losses for 2007 increased to \$3.19 billion in 2007 from \$887 million in 2006 including the fourth quarter 2007 \$1.4 billion credit reserve build, with over half of the remaining increase in the Home Equity portfolio. Noninterest expense for 2007 increased 8% to \$15.00 billion in 2007 from \$13.92 billion in 2006, due to growth in personnel expenses.

WHOLESALE BANKING'S net income increased 13% to a record \$2.28 billion in 2007 from \$2.02 billion in 2006. Revenue increased 15% to a record \$8.34 billion from \$7.23 billion in 2006. Net interest income increased 16% to \$3.38 billion for 2007 from \$2.92 billion for 2006 primarily due to higher earning asset volumes and earning asset yields and related fees, partially offset by higher funding costs. Average loans increased 20% to \$85.6 billion in 2007 from \$71.4 billion in 2006. Average core deposits grew 51% to \$53.3 billion primarily due to large corporate and middle-market relationships, international and correspondent banking customers and from higher Eurodollar sweep and liquidity balances from our asset management customers. The increase in provision for credit losses to \$69 million in 2007 from \$16 million in 2006 was due to higher net charge-offs. Noninterest income increased 15% to \$4.96 billion in 2007, due to higher deposit service charges, trust and investment income, foreign exchange

fees, insurance revenue, commercial real estate brokerage fees and capital markets activity. Noninterest expense increased 16% to \$4.77 billion in 2007 from \$4.11 billion in 2006, due to higher personnel-related costs, expenses related to higher sales volumes, investments in new offices and businesses and acquisitions.

WELLS FARGO FINANCIAL'S net income decreased 44% to \$481 million in 2007 from \$852 million in 2006 reflecting higher credit losses and our decision in late 2006 to slow the growth in our auto portfolio as well as the divestiture of some of our Latin American operations and a \$50 million reversal of Hurricane Katrina-related reserves, both in 2006. Revenue was up 2% to \$5.51 billion in 2007 from \$5.43 billion in 2006. Net interest income increased 8% to \$4.23 billion from \$3.91 billion in 2006 due to growth in average loans. Average loans increased 13% to \$65.2 billion in 2007 from \$57.5 billion in 2006. The provision for credit losses increased \$382 million in 2007 from 2006, primarily due to an increase in net charge-offs in the auto lending and credit card portfolios, and lower net charge-offs in early 2006 relating to the bankruptcy law change in October 2005. Noninterest income decreased \$231 million in 2007 from 2006 in part, as a result of the Latin American sale. Noninterest expense increased \$246 million (9%) in 2007 from 2006, primarily due to higher employee compensation and benefit costs. A significant portion of this increase was due to Wells Fargo Financial's continued focus on reducing losses and delinquencies in auto lending and credit card portfolios by improving processes and staffing levels in collections.

Balance Sheet Analysis

Securities Available for Sale

Our securities available for sale consist 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 and privately issued mortgage-backed securities. At December 31, 2007, we held \$70.2 billion of debt securities available for sale, with net unrealized gains of \$775 million, compared with \$41.8 billion at December 31, 2006, with net unrealized gains of \$722 million. We also held \$2.8 billion of marketable equity securities available for sale at December 31, 2007, and \$796 million at December 31, 2006, with net unrealized losses of \$95 million and net gains of \$204 million for the same periods, respectively. The increase in marketable equity securities was primarily due to our adoption of Topic D-109 effective July 1, 2007, which resulted in the transfer of approximately \$1.2 billion of securities, consisting of investments in preferred stock callable by the issuer, from trading assets to securities available for sale.

The weighted-average expected maturity of debt securities available for sale was 5.9 years at December 31, 2007. 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 in Table 7.

Table 7: Mortgage-Backed Securities

(in billions)	Fair value	Net unrealized gain (loss)	Remaining maturity
At December 31, 2007	\$55.0	\$ 0.9	4.0 yrs.
At December 31, 2007, assuming a 200 basis point:			
Increase in interest rates	50.7	(3.4)	6.4 yrs.
Decrease in interest rates	56.7	2.6	1.7 yrs.

We have approximately \$3 billion of investments in securities, primarily municipal bonds, that are guaranteed against loss by bond insurers. These securities are almost exclusively

investment grade and were generally underwritten in accordance with our own investment standards prior to the determination to purchase, without relying on the bond insurer's guarantee in making the investment decision. These securities will continue to be monitored as part of our ongoing impairment analysis of our securities available for sale, but are expected to perform, even if the rating agencies reduce the credit rating of the bond insurers.

See Note 5 (Securities Available for Sale) to Financial Statements for securities available for sale by security type.

Loan Portfolio

A discussion of average loan balances is included in "Earnings Performance – Net Interest Income" on page 43 and a comparative schedule of average loan balances is included in Table 3; year-end balances are in Note 6 (Loans and Allowance for Credit Losses) to Financial Statements.

Total loans at December 31, 2007, were \$382.2 billion, up \$63.1 billion (20%) from \$319.1 billion at December 31, 2006. Consumer loans were \$221.9 billion at December 31, 2007, up \$31.5 billion (17%) from \$190.4 billion a year ago. Commercial and commercial real estate loans of \$152.8 billion at December 31, 2007, increased \$30.8 billion (25%) from a year ago. Mortgages held for sale decreased to \$26.8 billion at December 31, 2007, from \$33.1 billion a year ago. Our acquisitions of Greater Bay Bancorp, Placer Sierra Bancshares and the CIT construction business in 2007 added \$9.7 billion of total loans, consisting of \$8.8 billion of commercial and commercial real estate loans and \$866 million of consumer loans at December 31, 2007.

Table 8 shows contractual loan maturities and interest rate sensitivities for selected loan categories.

Table 8: Maturities for Selected Loan Categories

(in millions)	December 31, 2007			
	Within one year	After one year through five years	After five years	Total
Selected loan maturities:				
Commercial	\$27,381	\$45,185	\$17,902	\$ 90,468
Other real estate mortgage	4,828	12,606	19,313	36,747
Real estate construction	9,960	7,713	1,181	18,854
Foreign	<u>770</u>	<u>3,897</u>	<u>2,774</u>	<u>7,441</u>
Total selected loans	<u>\$42,939</u>	<u>\$69,401</u>	<u>\$41,170</u>	<u>\$153,510</u>
Sensitivity of loans due after one year to changes in interest rates:				
Loans at fixed interest rates		\$12,744	\$14,727	
Loans at floating/variable interest rates		<u>56,657</u>	<u>26,443</u>	
Total selected loans		<u>\$69,401</u>	<u>\$41,170</u>	

Deposits

Year-end deposit balances are shown in Table 9. Comparative detail of average deposit balances is included in Table 3. Average core deposits increased \$34.2 billion to \$303.1 billion in 2007 from \$268.9 billion in 2006. Average core deposits funded 58.2% and 55.3% of average total assets in 2007 and 2006, respectively. Total average interest-bearing deposits increased to \$239.2 billion in 2007 from \$223.8 billion in 2006, largely due to growth in market rate and other savings deposits, along with growth in foreign deposits, offset by a decline in other time deposits. Total average noninterest-bearing deposits declined to \$88.9 billion in 2007 from \$89.1 billion in 2006. Savings certificates increased on average to \$40.5 billion in 2007 from \$32.4 billion in 2006.

Table 9: Deposits

(in millions)	December 31,		% Change
	2007	2006	
Noninterest-bearing	\$ 84,348	\$ 89,119	(5)%
Interest-bearing checking	5,277	3,540	49
Market rate and other savings	153,924	140,283	10
Savings certificates	42,708	37,282	15
Foreign deposits ⁽¹⁾	<u>25,474</u>	<u>17,844</u>	43
Core deposits	311,731	288,068	8
Other time deposits	3,654	13,819	(74)
Other foreign deposits	<u>29,075</u>	<u>8,356</u>	248
Total deposits	<u>\$344,460</u>	<u>\$310,243</u>	11

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

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Off-Balance Sheet Arrangements, Variable Interest Entities, Guarantees and Other Commitments

We consolidate our majority-owned subsidiaries and variable interest entities in which we are the primary beneficiary.

Generally, we use the equity method of accounting if we own at least 20% of an entity and we carry the investment at cost if we own less than 20% of an entity. See Note 1 (Summary of Significant Accounting Policies) to Financial Statements for our consolidation policy.

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 from 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.

We have largely avoided many of the industry issues associated with collateralized debt obligations (CDOs) and structured investment vehicles (SIVs). A CDO is a security backed by pools of assets, which may include debt securities, including bonds (collateralized bond obligations, or CBOs) or loans (collateralized loan obligations, or CLOs). CDOs often can have reinvestment periods in which they can trade assets and/or reinvest asset sales or liquidation proceeds. Like collateralized mortgage obligations, CDOs issue tranches of debt with different maturities and risk characteristics. We typically have not engaged in creating or sponsoring SIVs to hold off-balance sheet assets and we have not made a market in subprime securities.

Almost all of our off-balance sheet arrangements result from securitizations. 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 that we are not required to consolidate. In a securitization, we can convert the assets into cash earlier

than if we held the assets to maturity. Special-purpose entities used in these types of securitizations obtain cash to acquire assets by issuing securities to investors. In a securitization, we record a liability related to standard representations and warranties we make to purchasers and issuers for receivables transferred. Also, we generally retain the right to service the transferred receivables and to repurchase those receivables from the special-purpose entity if the outstanding balance of the receivable falls to a level where the cost exceeds the benefits of servicing such receivables.

At December 31, 2007, securitization arrangements sponsored by the Company consisted of \$224 billion in securitized loan receivables, including \$135 billion of home mortgage loans and \$89 billion of commercial mortgages. At December 31, 2007, the retained servicing rights and other interests held related to these securitizations were \$10.8 billion, consisting of \$8.8 billion in securities, \$1.5 billion in servicing assets and \$413 million in other interests held. Related to our securitizations, we have committed to provide up to \$21 million in credit enhancements.

We have investments in certain special-purpose entities, generally created by other sponsoring organizations, where we hold variable interests greater than 20% but less than 50% (significant variable interests). These special-purpose entities were predominantly formed to invest in affordable housing and sustainable energy projects and to securitize corporate debt and had approximately \$5.8 billion in total assets at December 31, 2007, including \$960 million related to CDOs. We are not required to consolidate these entities. Our maximum exposure to loss as a result of our involvement with these unconsolidated variable interest entities was approximately \$2.0 billion at December 31, 2007, primarily representing investments in entities formed to invest in affordable housing and sustainable energy projects. However, we expect to recover our investment in these entities over time primarily through realization of federal tax credits. Our investments in CDOs, including those special-purpose entities where we hold significant variable interests, totaled \$860 million at December 31, 2007. Table 10 reflects these investments, including the corresponding asset collateral categories and related credit ratings.

Table 10: Investments in Collateralized Debt Obligations

(in millions)	December 31, 2007							
	Cost	Gross unrealized gains	Gross unrealized losses ⁽¹⁾	Fair value	Distribution of fair value by rating category			Total
					Investment grade	Other		
				AAA	AA to BBB-			
Corporate credit	\$589	\$ 1	\$(68)	\$522	\$ 13	\$292	\$217 ⁽²⁾	\$522
Bank or insurance trust preferred	298	1	(5)	294	257	37	—	294
Commercial mortgage	49	—	(5)	44	24	20	—	44
Residential mortgage	—	—	—	—	—	—	—	—
Total	\$936	\$ 2	\$(78)	\$860	\$294	\$349	\$217	\$860

(1) All unrecognized losses are reviewed for potential impairment on a quarterly basis. At December 31, 2007, there was no deterioration in cash flows for any of the investments reflected above and, therefore, no impairment charge. We have the ability and the intent to hold these investments until maturity or recovery.

(2) Approximately 90% had underlying credit portfolios that were selected by Wells Fargo credit analysts. Included \$192 million of non-rated securities.

In addition, in securities available for sale, we held approximately \$1,735 million in tax-exempt bonds at December 31, 2007, in the form of CDOs, consolidated in our balance sheet with related liabilities, based on the Company's participation in certain municipal tender option bond programs. The fair value includes a \$69 million net unrealized loss due to changes in interest rates which is expected to be recovered over time. Approximately 98% of the bonds are rated investment grade while 2% are not rated. Under the municipal tender option bond programs in which we participate, we place long-term tax-exempt municipal bonds in a trust sponsored by a third party which serves as the collateral for short-term tender option bonds issued by the trust to investors. These tender option bonds can be "put" or tendered by the investor to the trust at par at predetermined times (generally weekly or monthly). We are required to consolidate the trusts in accordance with FIN 46R. We earn a spread between the long-term rate on the municipal bonds and the short-term rate on the corresponding tender option bonds.

For more information on securitizations, including sales proceeds and cash flows from securitizations, see Note 8 (Securitizations and Variable Interest Entities) to Financial Statements.

Our money market mutual funds are allowed to hold investments in SIVs in accordance with approved investment parameters for the respective funds and, therefore, may have indirect exposure to CDOs. At December 31, 2007, our money market mutual funds held \$106 billion of assets under management including investments in eight SIVs not sponsored by the Company aggregating \$1.6 billion, or 1.5% of the funds' assets. Based on the maturity and pay-down of these investments, by February 1, 2008, the funds held three SIVs aggregating \$1.0 billion. At February 1, 2008, the remaining assets held by the money market funds were either U.S. government, high-grade municipal, or high-grade corporate securities. At such time, to maintain an investment rating of AAA for certain funds, we elected to enter into a capital support agreement for up to \$130 million related to one SIV held by our AAA-rated non-government money market mutual funds. We are generally not responsible for investment losses incurred by our funds, and we do not have a contractual or implicit obligation to indemnify such losses or provide additional support to the funds. Based on our estimate of the guarantee obligation at the time we entered into the agreement, we recorded a liability of \$39 million in 2008. While we elected to enter into the capital support agreement for the AAA-rated funds, we are not obligated and may elect not to provide additional support to these funds or other funds in the future.

Wells Fargo Home Mortgage (Home Mortgage), in the ordinary course of business, originates a portion of its mortgage loans through unconsolidated joint ventures in which we own an interest of 50% or less. Loans made by these

joint ventures are funded by Wells Fargo Bank, N.A. through an established line of credit and are subject to specified underwriting criteria. At December 31, 2007, the total assets of these mortgage origination joint ventures were approximately \$55 million. We provide liquidity to these joint ventures in the form of outstanding lines of credit and, at December 31, 2007, these liquidity commitments totaled \$238 million.

We also hold interests in other unconsolidated joint ventures formed with unrelated third parties to provide efficiencies from economies of scale. A third party manages our real estate lending services joint ventures and provides customers title, escrow, appraisal and other real estate related services. Our merchant services joint venture includes credit card processing and related activities. At December 31, 2007, total assets of our real estate lending and merchant services joint ventures were approximately \$775 million.

In connection with certain brokerage, asset management, insurance agency and other acquisitions we have made, the terms of the acquisition agreements provide for deferred payments or additional consideration, based on certain performance targets. At December 31, 2007, the amount of additional consideration we expected to pay was not significant to our financial statements.

As a financial services provider, we routinely commit to extend credit, including loan commitments, standby letters of credit and financial guarantees. A significant portion of commitments to extend credit may expire without being drawn upon. These commitments are subject to the same credit policies and approval process used for our loans. For more information, see Note 6 (Loans and Allowance for Credit Losses) and Note 15 (Guarantees and Legal Actions) to Financial Statements.

In our venture capital and capital markets businesses, we commit to fund equity investments directly to investment funds and to specific private companies. The timing of future cash requirements to fund these commitments generally depends on the related investment cycle, the period over which privately-held companies are funded by investors and ultimately sold or taken public. This cycle can vary based on market conditions and the industry in which the companies operate. We expect that many of these investments will become public, or otherwise become liquid, before the balance of unfunded equity commitments is used. At December 31, 2007, these commitments were approximately \$895 million. Our other investment commitments, principally related to affordable housing, civic and other community development initiatives, were approximately \$685 million at December 31, 2007.

In the ordinary course of business, we enter into indemnification agreements, including underwriting agreements relating to our securities, securities lending, acquisition agreements, and various other business transactions or arrangements. For more information, see Note 15 (Guarantees and Legal Actions) to Financial Statements.

Contractual Obligations

In addition to the contractual commitments and arrangements previously described, which, depending on the nature of the obligation, may or may not require use of our resources, we enter into other contractual obligations in the ordinary course of business, including debt issuances for the funding of operations and leases for premises and equipment.

Table 11 summarizes these contractual obligations at December 31, 2007, except obligations for short-term borrowing arrangements and pension and postretirement benefit plans. More information on those obligations is in Note 13 (Short-Term Borrowings) and Note 20 (Employee Benefits and Other Expenses) to Financial Statements. The table also excludes other commitments more fully described under “Off-Balance Sheet Arrangements, Variable Interest Entities, Guarantees and Other Commitments.”

We are subject to the income tax laws of the U.S., its states and municipalities, and those of the foreign jurisdictions in which we operate. We have various unrecognized tax obligations related to these operations which may require

future cash tax payments to various taxing authorities. Because of their uncertain nature, the expected timing and amounts of these payments are not reasonably estimable or determinable. See Note 21 (Income Taxes) to Financial Statements for more information.

We enter into derivatives, which create contractual obligations, as part of our interest rate risk management process, for our customers or for other trading activities. See “Asset/Liability and Market Risk Management” in this Report and Note 16 (Derivatives) to Financial Statements for more information.

Transactions with Related Parties

FAS 57, *Related Party Disclosures*, requires disclosure of material related party transactions, other than compensation arrangements, expense allowances and other similar items in the ordinary course of business. We had no related party transactions required to be reported under FAS 57 for the years ended December 31, 2007, 2006 and 2005.

Table 11: Contractual Obligations

(in millions)	Note(s) to Financial Statements	Less than 1 year	1-3 years	3-5 years	More than 5 years	Indeterminate maturity ⁽¹⁾	Total
Contractual payments by period:							
Deposits	12	\$ 95,893	\$ 3,459	\$ 1,205	\$ 343	\$243,560	\$344,460
Long-term debt ⁽²⁾	7, 14	18,397	27,221	22,015	31,760	—	99,393
Operating leases	7	618	976	681	1,408	—	3,683
Purchase obligations ⁽³⁾		386	539	317	254	—	1,496
Total contractual obligations		\$115,294	\$32,195	\$24,218	\$33,765	\$243,560	\$449,032

(1) Includes interest-bearing and noninterest-bearing checking, and market rate and other savings accounts.

(2) Includes obligations under capital leases of \$20 million.

(3) Represents agreements to purchase goods or services.

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 administration and allowance processes. In 2007, the credit policies related to residential real estate lending were updated to reflect the current economic conditions in the industry. Credit policy was tightened as we made decisions to exit certain poorly performing indirect channels.

Managing credit risk is a company-wide process. We have credit policies for all banking and nonbanking operations incurring credit risk with customers or counterparties that provide a prudent approach to credit risk management. We use detailed tracking and analysis to measure credit

performance and exception rates and we routinely review and modify credit policies as appropriate. We have corporate data integrity standards to ensure accurate and complete credit performance reporting for the consolidated company. We strive to identify problem loans early and have dedicated, specialized collection and work-out units.

The Chief Credit Officer provides company-wide credit oversight. Each business unit with direct credit risks has a senior credit officer and has the primary responsibility for managing its own credit risk. The Chief Credit Officer delegates authority, limits and other requirements to the business units. These delegations are routinely reviewed and amended if there are significant changes in personnel, credit performance or business requirements. The Chief Credit Officer is a member of the Company’s Management Committee. The Chief Credit Officer provides a quarterly credit review to the Credit Committee of the Board of Directors and meets with them periodically.

Our business units and the office of the Chief Credit Officer periodically review all credit risk portfolios to ensure that the risk identification processes are functioning properly and that credit standards are followed. Business units conduct quality assurance reviews to ensure that loans meet portfolio or investor credit standards. Our loan examiners in risk asset review and internal audit independently review portfolios with credit risk, monitor performance, sample credits, review and test adherence to credit policy and recommend/require corrective actions as necessary.

Our primary business focus on middle-market commercial, residential real estate, auto, credit card and small consumer lending, results in portfolio diversification. We assess loan portfolios for geographic, industry or other concentrations and use mitigation strategies, which may include loan sales, syndications or third party insurance, to minimize these concentrations, as we deem appropriate.

In our commercial loan, commercial real estate loan and lease financing portfolios, larger or more complex loans are individually underwritten and judgmentally risk rated. They are periodically monitored and prompt corrective actions are taken on deteriorating loans. Smaller, more homogeneous commercial small business loans are approved and monitored using statistical techniques.

Retail loans are typically underwritten with statistical decision-making tools and are managed throughout their life cycle on a portfolio basis. The Chief Credit Officer establishes corporate standards for model development and validation to ensure sound credit decisions and regulatory compliance and approves new model implementation and periodic validation.

Residential real estate mortgages are one of our core products. We offer a broad spectrum of first mortgage and junior lien loans that we consider mostly prime or near prime. These loans are almost entirely secured by a primary residence for the purpose of purchase money, refinance, debt consolidation, or home equity loans. We do not make or purchase option adjustable-rate mortgage products (option ARMs) or variable-rate mortgage products with fixed payment amounts, commonly referred to within the financial services industry as negative amortizing mortgage loans, as we believe these products rarely provide a benefit to our customers.

We originate mortgage loans through a variety of sources, including our retail sales force and licensed real estate brokers. We apply consistent credit policies, borrower documentation standards, Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) compliant appraisal requirements, and sound underwriting, regardless of application source. We perform quality control reviews for third party originated loans and actively manage or terminate sources that do not meet our credit standards. Specifically, during 2007 we stopped originating first and junior lien residential mortgages where credit performance had deteriorated beyond our expectations, especially recent vintages of high combined loan-to-value home equity loans sourced through third party channels.

We believe our underwriting process is well controlled and appropriate for the needs of our customers as well as

investors who purchase the loans or securities collateralized by the loans. We only approve applications and make loans if we believe the customer has the ability to repay the loan or line of credit according to all its terms. A small portion of borrower selected stated income loans originated from third party channels produced unacceptable performance in our Home Equity portfolio. We have tightened our bank-selected reduced documentation requirements as a precautionary measure and substantially reduced third party originations due to the negative trends experienced in these channels. Appraisals are used to support property values.

In the mortgage industry, it has been common for consumers, lenders, and servicers to purchase mortgage insurance, which can enhance the credit quality of the loan for investors and serves generally to expand the market for home ownership.

In our servicing portfolio, certain of the loans we service carry mortgage insurance, based largely on the requirements of investors, who bear the ultimate credit risk. Within our \$1.5 trillion servicing portfolio, we service approximately \$115 billion of loans that carry approximately \$25 billion of mortgage insurance coverage purchased from a group of mortgage insurance companies that are rated AA or higher by one or more of the major rating agencies. Should any of these companies experience a downgrade by one or more of the rating agencies, investors may be exposed to a higher level of credit risk. In this event, as servicer, we would work with the investors to determine if it is necessary to obtain replacement coverage with another insurer. Our mortgage servicing portfolio consists of over 90% prime loans and we continue to be among the highest rated loan servicers for residential real estate mortgage loans, based on various servicing criteria. The foreclosure rate in our mortgage servicing portfolio was only 0.88% at year-end 2007.

Similarly, we obtained approximately \$2 billion of mortgage insurance coverage for certain loans that we held for investment or for sale at December 31, 2007. In the event a mortgage insurer is unable to meet its obligations on defaulted loans in accordance with the insurance contract, we might be exposed to higher credit losses if replacement coverage on those loans cannot be obtained. However, approximately one-third of the coverage related to the debt consolidation nonprime real estate 1-4 family mortgage loans held by Wells Fargo Financial, which have had a low level of credit losses (0.31% loss rate (annualized) in fourth quarter 2007 for the entire debt consolidation portfolio). The remaining coverage primarily related to prime real estate 1-4 family mortgage loans, primarily high quality ARMs for our retail and wealth management customers, which also have had very low loss rates.

Each business unit regularly completes asset quality forecasts to quantify its intermediate-term outlook for loan losses and recoveries, nonperforming loans and market trends. To make sure our overall loss estimates and the allowance for credit losses is adequate, we conduct periodic stress tests. This includes a portfolio loss simulation model that simulates a range of possible losses for various sub-portfolios assuming various trends in loan quality, stemming from economic conditions or borrower performance.

We routinely review and evaluate risks that are not borrower specific but that may influence the behavior of a particular credit, group of credits or entire sub-portfolios. We also assess risk for particular industries, geographic locations such as states or Metropolitan Statistical Areas and specific macroeconomic trends.

LOAN PORTFOLIO CONCENTRATIONS

Loan concentrations may exist when there are borrowers engaged in similar activities or types of loans extended to a diverse group of borrowers that could cause those borrowers or portfolios to be similarly impacted by economic or other conditions.

The concentrations of real estate 1-4 family mortgage loans by state are presented in Table 12. Our real estate 1-4 family mortgage loans to borrowers in the state of California represented approximately 13% of total loans at December 31, 2007, compared with 11% at the end of 2006. These loans are mostly within several metropolitan areas in California, with no single area consisting of more than 3% of total loans. Changes in real estate values and underlying economic or market conditions for these areas are monitored continuously within the credit risk management process. In 2007, the residential real estate markets experienced significant declines in property values, and several markets in California, specifically the Central Valley and several Southern California metropolitan statistical areas, experienced more severe value adjustments.

Some of our real estate 1-4 family mortgage loans, including first mortgage and home equity products, include an interest-only feature as part of the loan terms. At December 31, 2007, these loans were approximately 20% of total loans, compared with 19% at the end of 2006. Substantially all of these loans are considered to be prime or near prime. We do not make or purchase option ARMs or negative amortizing mortgage loans. We have minimal ARM reset risk across our owned mortgage loan portfolios.

Table 12: Real Estate 1-4 Family Mortgage Loans by State

(in millions)	December 31, 2007			
	Real estate 1-4 family first mortgage	Real estate 1-4 family junior lien mortgage	Total real estate 1-4 family mortgage	% of total loans
California	\$20,782	\$28,234	\$ 49,016	13%
Minnesota	3,009	4,209	7,218	2
Arizona	2,986	3,451	6,437	2
Florida	3,127	2,851	5,978	2
Colorado	2,612	2,889	5,501	1
Washington	2,476	2,938	5,414	1
Texas	3,551	1,805	5,356	1
New York	2,200	2,275	4,475	1
Nevada	1,625	1,642	3,267	*
Illinois	1,616	1,444	3,060	*
Other ⁽¹⁾	<u>27,431</u>	<u>23,827</u>	<u>51,258</u>	<u>13</u>
Total	<u>\$71,415</u>	<u>\$75,565</u>	<u>\$146,980</u>	<u>38%</u>

* Less than 1%.

(1) Consists of 40 states; no state had loans in excess of \$2,959 million. Includes \$5,029 million in GNMA early pool buyouts.

The deterioration in specific segments of the National Home Equity Group (Home Equity) portfolio required a targeted approach to managing these assets. A liquidating portfolio, consisting of all home equity loans generated through the wholesale channel not behind a Wells Fargo first mortgage, and all home equity loans acquired through correspondents was identified. While the \$11.9 billion of loans in this liquidating portfolio represented about 3% of total loans outstanding at December 31, 2007, these loans represented the highest risk in the \$84.2 billion Home Equity portfolio, with a loss rate of 4.80% (December 2007, annualized) compared with 0.86% for the remaining 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 remaining portfolio consists of \$72.3 billion of loans in the Home Equity portfolio at December 31, 2007, of which \$70.9 billion were originated through the retail channel, with approximately \$11.4 billion of these retail originations in a first lien position. Retail originations in a second lien position included approximately \$38.1 billion behind a Wells Fargo first mortgage. Table 13 includes the credit attributes of these two portfolios.

Table 13: National Home Equity Group Portfolio

	December 31, 2007		
	Outstanding balance (in millions)	% 30 days past due	December 2007 loss rate (annualized)
Liquidating portfolio			
California	\$ 4,387	2.94%	7.34%
Florida	582	4.98	7.08
Arizona	274	2.67	5.84
Texas	221	0.83	0.78
Minnesota	141	3.18	4.09
Other	<u>6,296</u>	2.00	2.94
Total	<u>\$11,901</u>	2.50	4.80
Remaining portfolio			
California	\$25,991	1.63%	1.27%
Florida	2,614	2.92	2.57
Arizona	3,821	1.54	0.90
Texas	2,842	1.03	0.19
Minnesota	4,668	1.08	0.88
Other	<u>32,393</u>	1.43	0.44
Total	<u>\$72,329</u>	1.52	0.86

Home Equity Portfolios as of December 31, 2007

(\$ in billions)	Liquidating portfolio	Remaining portfolio
December 2007 loss rate (annualized)	4.80%	0.86%
CLTV > 90% ⁽¹⁾	55%	25%
Average FICO	725	735
Wells Fargo retail originated \$ in 1st lien	1%	98%
\$ in 2nd lien behind a Wells Fargo 1st lien	\$ 0.4	\$11.4
% in California	38%	36%

(1) Combined loan-to-value ratio greater than 90% based primarily on automated appraisal updates as of September 30, 2007.

For purposes of portfolio risk management, we aggregate commercial loans and lease financing according to market segmentation and standard industry codes. Commercial loans and lease financing are presented by industry in Table 14. These groupings contain a highly diverse mix of customer relationships throughout our target markets. Loan types and product offerings are carefully underwritten and monitored. Credit policies incorporate specific industry risks.

Table 14: Commercial Loans and Lease Financing by Industry

(in millions)	December 31, 2007	
	Commercial loans and lease financing	% of total loans
Small business loans	\$11,126	3%
Lessors and other real estate activities ⁽¹⁾	4,888	1
Oil and gas	4,718	1
Retailers	4,699	1
Financial institutions	4,479	1
Food and beverage	4,145	1
Industrial equipment	4,123	1
Securities firms	3,592	*
Technology	3,298	*
Healthcare	2,785	*
Other ⁽²⁾	<u>49,387</u>	<u>13</u>
Total	<u>\$97,240</u>	<u>25%</u>

* Less than 1%.

(1) Includes loans to lessors, appraisers, property managers, real estate agents and brokers.

(2) No other single category had loans in excess of \$2,748 million.

Other real estate mortgages and real estate construction loans that are diversified in terms of both the state where the property is located and by the type of property securing the loans are presented in Table 15. The composition of these portfolios was stable throughout 2007 and the distribution is consistent with our target markets and focus on customer relationships. Approximately 28% of other real estate and construction loans are loans to owner-occupants where more than 50% of the property is used in the conduct of their business. The largest group of loans in any one state is 5% of total loans and the largest group of loans secured by one type of property is 3% of total loans.

Table 15: Commercial Real Estate Loans by State and Property Type

(in millions)	December 31, 2007			
	Other real estate mortgage	Real estate construction	Total commercial real estate	% of total loans
By state:				
California	\$13,922	\$ 6,050	\$19,972	5%
Texas	2,934	1,135	4,069	1
Arizona	1,926	1,262	3,188	*
Colorado	1,669	873	2,542	*
Washington	1,441	652	2,093	*
Minnesota	1,319	382	1,701	*
Florida	636	913	1,549	*
Utah	719	581	1,300	*
New York	331	949	1,280	*
Oregon	803	441	1,244	*
Other ⁽¹⁾	<u>11,047</u>	<u>5,616</u>	<u>16,663</u>	<u>4</u>
Total ⁽²⁾	<u>\$36,747</u>	<u>\$18,854</u>	<u>\$55,601</u>	<u>15%</u>
By property type:				
Office buildings	\$ 9,435	\$ 1,500	\$10,935	3%
Industrial/warehouse	5,817	789	6,606	2
Land	1	5,236	5,237	1
Retail	4,183	400	4,583	1
Apartments	2,468	1,166	3,634	1
Shopping center	2,206	927	3,133	*
1-4 family land	1	3,037	3,038	*
1-4 family structure	16	3,014	3,030	*
Hotels/motels	1,843	830	2,673	*
Agricultural	1,620	27	1,647	*
Other	<u>9,157</u>	<u>1,928</u>	<u>11,085</u>	<u>3</u>
Total ⁽²⁾	<u>\$36,747</u>	<u>\$18,854</u>	<u>\$55,601</u>	<u>15%</u>

* Less than 1%.

(1) Consists of 40 states; no state had loans in excess of \$1,000 million.

(2) Includes owner-occupied real estate and construction loans of \$15,295 million.

NONACCRUAL LOANS AND OTHER ASSETS

Table 16 shows the five-year trend 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 describes our accounting policy for nonaccrual loans.

Nonperforming loans increased \$1.0 billion in 2007 from 2006, with the majority of the increase in the real estate 1-4 family first mortgage loan portfolio (including \$209 million in Home Mortgage and \$343 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. Additionally, a portion of the increase related to loan growth. The increase in the commercial and commercial real

estate portfolios was influenced by the deterioration of credits 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 \$226 million in 2007 (including \$128 million from Home Equity and \$52 million in Wells Fargo Financial real estate).

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. The performance of any one loan can be affected by external factors, such as economic or market conditions, or factors particular to a borrower, such as actions of a borrower's management.

If interest due on the book balances of all nonaccrual loans (including loans that were but are no longer on nonaccrual at year end) had been accrued under the original terms, approximately \$165 million of interest would have been recorded in 2007, compared with payments of \$47 million recorded as interest income.

Substantially all of the foreclosed assets at December 31, 2007, have been in the portfolio one year or less.

Table 16: Nonaccrual Loans and Other Assets

(in millions)	December 31,				
	2007	2006	2005	2004	2003
Nonaccrual loans:					
Commercial and commercial real estate:					
Commercial	\$ 432	\$ 331	\$ 286	\$ 345	\$ 592
Other real estate mortgage	128	105	165	229	285
Real estate construction	293	78	31	57	56
Lease financing	45	29	45	68	73
Total commercial and commercial real estate	898	543	527	699	1,006
Consumer:					
Real estate 1-4 family first mortgage ⁽¹⁾	1,272	688	471	386	274
Real estate 1-4 family junior lien mortgage	280	212	144	92	87
Other revolving credit and installment	184	180	171	160	88
Total consumer	1,736	1,080	786	638	449
Foreign	45	43	25	21	3
Total nonaccrual loans ⁽²⁾	2,679	1,666	1,338	1,358	1,458
As a percentage of total loans	0.70%	0.52%	0.43%	0.47%	0.58%
Foreclosed assets:					
GNMA loans ⁽³⁾	535	322	—	—	—
Other	649	423	191	212	198
Real estate and other nonaccrual investments ⁽⁴⁾	5	5	2	2	6
Total nonaccrual loans and other assets	<u>\$3,868</u>	<u>\$2,416</u>	<u>\$1,531</u>	<u>\$1,572</u>	<u>\$1,662</u>
As a percentage of total loans	<u>1.01%</u>	<u>0.76%</u>	<u>0.49%</u>	<u>0.55%</u>	<u>0.66%</u>

(1) Includes nonaccrual mortgages held for sale.

(2) Includes impaired loans of \$469 million, \$230 million, \$190 million, \$309 million and \$629 million at December 31, 2007, 2006, 2005, 2004 and 2003, respectively. (See Note 1 (Summary of Significant Accounting Policies) and Note 6 (Loans and Allowance for Credit Losses) to Financial Statements for further discussion of impaired loans.)

(3) Due to a change in regulatory reporting requirements effective January 1, 2006, foreclosed real estate securing GNMA loans has been 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.

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 \$6,393 million, \$5,073 million, \$3,606 million, \$2,578 million and \$2,337 million at December 31, 2007, 2006, 2005, 2004 and 2003, respectively. The total included \$4,834 million, \$3,913 million, \$2,923 million, \$1,820 million and \$1,641 million for the same periods, respectively, in advances pursuant to our servicing agreements to GNMA mortgage pools whose repayments are insured by the FHA or guaranteed by the Department of Veterans Affairs. Table 17 reflects loans 90 days or more past due and still accruing excluding the insured/guaranteed GNMA advances.

Table 17: Loans 90 Days or More Past Due and Still Accruing (Excluding Insured/Guaranteed GNMA Advances)

(in millions)	December 31,				
	2007	2006	2005	2004	2003
Commercial and commercial real estate:					
Commercial	\$ 32	\$ 15	\$ 18	\$ 26	\$ 87
Other real estate mortgage	10	3	13	6	9
Real estate construction	24	3	9	6	6
Total commercial and commercial real estate	66	21	40	38	102
Consumer:					
Real estate					
1-4 family first mortgage ⁽¹⁾	286	154	103	148	117
Real estate					
1-4 family junior lien mortgage	201	63	50	40	29
Credit card	402	262	159	150	134
Other revolving credit and installment	552	616	290	306	271
Total consumer	1,441	1,095	602	644	551
Foreign	52	44	41	76	43
Total	<u>\$1,559</u>	<u>\$1,160</u>	<u>\$683</u>	<u>\$758</u>	<u>\$696</u>

(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. Any loan with past due principal or interest that is not both well-secured and in the process of collection generally is charged off (to the extent that it exceeds the fair value of any related collateral) based on loan category after a defined period of time. Also, a loan is charged off when classified as a loss by

either internal loan examiners or regulatory examiners. The detail of the changes in the allowance for credit losses, including charge-offs and recoveries by loan category, is in Note 6 (Loans and Allowance for Credit Losses) to Financial Statements.

At December 31, 2007, the allowance for loan losses was \$5.31 billion (1.39% of total loans), compared with \$3.76 billion (1.18%), at December 31, 2006. The allowance for credit losses was \$5.52 billion (1.44% of total loans) at December 31, 2007, and \$3.96 billion (1.24%) at December 31, 2006. These ratios fluctuate from period to period and the increase in the ratios of the allowance for loan losses and the allowance for credit losses to total loans in 2007 was primarily due to the \$1.4 billion credit reserve build in 2007. Until 2007 we had historically experienced the lowest charge-offs on our residential real estate secured consumer loan portfolio. In 2007, net charge-offs in the Home Equity portfolio increased due to a severe decline in housing prices in several of our major geographic markets. The increased level of loss content in the Home Equity portfolio was the primary driver of the \$1.4 billion increase to the allowance for loan losses. The reserve for unfunded credit commitments was \$211 million at December 31, 2007, and \$200 million at December 31, 2006.

The ratio of the allowance for credit losses to total nonaccrual loans was 206% and 238% at December 31, 2007 and 2006, respectively. This ratio may fluctuate significantly from period to period due to such factors as the mix of loan types in the portfolio, borrower credit strength and the value and marketability of collateral. Over half of nonaccrual loans were home mortgages, auto and other consumer loans at December 31, 2007. Nonaccrual loans are generally written down to fair value less cost to sell at the time they are placed on nonaccrual and accounted for on a cost recovery basis.

The provision for credit losses totaled \$4.94 billion in 2007, \$2.20 billion in 2006 and \$2.38 billion in 2005. In 2007, the provision included \$1.4 billion in excess of net charge-offs, which was our estimate of the increase in incurred losses in our loan portfolio at year-end 2007, primarily related to the Home Equity portfolio.

Net charge-offs in 2007 were 1.03% of average total loans, compared with 0.73% in 2006 and 0.77% in 2005. Net charge-offs for 2007 in the Home Equity portfolio were \$595 million (0.73% of average loans), a \$485 million increase from \$110 million (0.14%) for 2006. The increase was primarily due to loans in geographic markets that have experienced the most abrupt and steepest declines in housing prices. Because the majority of the Home Equity net charge-offs were concentrated in the indirect or third party origination channels, which have a higher percentage of 90% or greater combined loan-to-value portfolios, we have discontinued third party activities not behind a Wells Fargo first mortgage and segregated these loans into a liquidating portfolio. As previously disclosed, while the \$11.9 billion of loans in this liquidating portfolio represented about 3% of total loans outstanding at December 31, 2007, these loans represent the highest risk in our \$84.2 billion Home Equity portfolio. The loans in the liquidating portfolio were primarily

sourced through wholesale (brokers) and correspondents. Our real estate 1-4 family first mortgage portfolio continued to perform well, with net charge-offs of \$87 million (0.14% of average loans) for 2007, up from \$77 million (0.13%) for 2006.

Because of our responsible lending and risk management practices, we have not faced many of the issues others have in the mortgage industry. We do not make or purchase any negative amortizing mortgages, including option ARMs. We have minimal ARM reset risk across our owned loan portfolios. While our disciplined underwriting standards have resulted in first mortgage delinquencies below industry levels, we continued to tighten our underwriting standards in the last half of 2007. Home Mortgage closed its nonprime wholesale channel early in third quarter, after closing its nonprime correspondent channel in second quarter 2007. Rates were increased for non-conforming mortgage loans during third quarter 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 does not 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 recent guidance issued by the federal financial regulatory agencies in June 2007, *Statement on Subprime Mortgage Lending*, which addresses issues relating to certain ARM products, will not have a significant impact on Wells Fargo Financial's operations, since many of those guidelines have long been part of our normal business practices.

Higher net charge-offs in non-real estate consumer loans (credit card and other revolving credit and installment) were primarily due to increases in the indirect auto portfolio, with auto net charge-offs for 2007 up \$164 million from 2006. The increase in all other consumer portfolios, including credit cards, was due to an overall weakening in the economy.

Credit performance in the commercial and commercial real estate portfolio remained strong, with net charge-offs of \$536 million (0.40% of average loans), compared with \$297 million (0.26%) in 2006. As is typical, the vast majority

of these charge-offs came from loans originated through our business direct channel. Business direct consists primarily of unsecured lines of credit to small firms and properties that tend to perform in a manner similar to credit cards. Because of our Wholesale Banking business model, focused primarily on business customers, we do not actively participate in certain higher-risk activities. Our capital market business was largely not impacted by the credit crunch or market dislocations in 2007, including industry problem areas of CDOs, CLOs and SIVs. On the investment side of this business, we operate within disciplined credit standards and regularly monitor and manage our securities portfolios. From an underwriting standpoint, we have not participated in a significant way in any of the large leveraged buyouts that were "covenant lite" and we have minimal direct exposure to hedge funds. Similarly, we have not made a market in subprime securities. Leveraged-buyout-related outstandings are diversified by business and borrower and totaled less than 2% of total Wells Fargo loans. Our residential real estate development portfolio of approximately \$6 billion, or 2% of total loans, continued to perform in a satisfactory manner.

Table 18 presents the allocation of the allowance for credit losses by type of loans. The \$1.55 billion increase in the allowance for credit losses from year-end 2006 to year-end 2007 was due to actions taken in 2007 primarily related to the Home Equity portfolio and approximately \$100 million acquired from bank acquisitions. The decrease of \$93 million in the allowance for credit losses from year-end 2005 to year-end 2006 was primarily due to the release of the remaining portion of the provision made for Hurricane Katrina in 2005. Changes in the allowance reflect changes in statistically derived loss estimates, historical loss experience, current trends in borrower risk and/or general economic activity on portfolio performance, and management's estimate for imprecision and uncertainty. Effective December 31, 2006, the entire allowance was assigned to individual portfolio types to better reflect our view of risk in these portfolios. The allowance for credit losses includes a combination of base-line loss estimates and a range of imprecision or uncertainty specific to each portfolio segment previously categorized as unallocated in prior years.

Table 18: Allocation of the Allowance for Credit Losses

(in millions)	December 31,									
	2007		2006		2005		2004		2003	
	Loans as % of total loans		Loans as % of total loans		Loans as % of total loans		Loans as % of total loans		Loans as % of total loans	
Commercial and commercial real estate:										
Commercial	\$1,137	24%	\$1,051	22%	\$ 926	20%	\$ 940	19%	\$ 917	19%
Other real estate mortgage	288	9	225	9	253	9	298	11	444	11
Real estate construction	156	5	109	5	115	4	46	3	63	3
Lease financing	51	2	40	2	51	2	30	2	40	2
Total commercial and commercial real estate	<u>1,632</u>	<u>40</u>	<u>1,425</u>	<u>38</u>	<u>1,345</u>	<u>35</u>	<u>1,314</u>	<u>35</u>	<u>1,464</u>	<u>35</u>
Consumer:										
Real estate 1-4 family first mortgage	415	19	186	17	229	25	150	31	176	33
Real estate 1-4 family junior lien mortgage	1,329	20	168	21	118	19	104	18	92	15
Credit card	834	5	606	5	508	4	466	4	443	3
Other revolving credit and installment	1,164	14	1,434	17	1,060	15	889	11	802	13
Total consumer	<u>3,742</u>	<u>58</u>	<u>2,394</u>	<u>60</u>	<u>1,915</u>	<u>63</u>	<u>1,609</u>	<u>64</u>	<u>1,513</u>	<u>64</u>
Foreign	144	2	145	2	149	2	139	1	95	1
Total allocated	<u>5,518</u>	<u>100%</u>	<u>3,964</u>	<u>100%</u>	<u>3,409</u>	<u>100%</u>	<u>3,062</u>	<u>100%</u>	<u>3,072</u>	<u>100%</u>
Unallocated component of allowance	—		—		648		888		819	
Total	<u>\$5,518</u>		<u>\$3,964</u>		<u>\$4,057</u>		<u>\$3,950</u>		<u>\$3,891</u>	

We consider the allowance for credit losses of \$5.52 billion adequate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, at December 31, 2007. Given that the majority of our loan portfolio is consumer loans, for which losses tend to emerge within a relatively short, predictable timeframe, and that a significant portion of the allowance for credit losses is related to estimated credit losses associated with consumer loans, management believes that the provision for credit losses for consumer loans, absent any significant credit event, severe decrease in collateral values, significant acceleration of losses or significant change in payment behavior, will closely track the level of related net charge-offs. In 2007, due to further deterioration in the outlook for the housing market, we recorded a credit reserve build, primarily for higher loss content that we estimated in the Home Equity portfolio. The process for determining the adequacy of the allowance for credit losses is critical to our financial results. It requires difficult, subjective and complex judgments, as a result of the need to make estimates about the effect of matters that are uncertain. (See “Financial Review – Critical Accounting Policies – Allowance for Credit Losses.”) Therefore, we cannot provide assurance that, in any particular period, we will not have sizeable credit losses in relation to the amount reserved. We may need to significantly adjust the allowance for credit losses, considering current factors at the time, including economic or market conditions and ongoing internal and external examination processes. Our process for determining the adequacy of the allowance for credit losses is discussed in “Financial Review – Critical Accounting Policies – Allowance for Credit Losses” and Note 6 (Loans and Allowance for Credit Losses) to Financial Statements.

Asset/Liability and Market Risk Management

Asset/liability management involves the evaluation, monitoring and management of interest rate risk, market risk, liquidity

and funding. The Corporate Asset/Liability Management Committee (Corporate ALCO)—which oversees these risks and reports periodically to the Finance Committee of the Board of Directors—consists of senior financial and business executives. Each of our principal business groups has individual asset/liability management committees and processes linked to the Corporate ALCO process.

INTEREST RATE RISK

Interest rate risk, which potentially can have a significant earnings impact, is an integral part of being a financial intermediary. We are subject to interest rate risk because:

- assets and liabilities may mature or reprice at different times (for example, if assets reprice faster than liabilities and interest rates are generally falling, earnings will initially decline);
- assets and liabilities may reprice at the same time but by different amounts (for example, when the general level of interest rates is falling, we may reduce rates paid on checking and savings deposit accounts by an amount that is less than the general decline in market interest rates);
- short-term and long-term market interest rates may change by different amounts (for example, the shape of the yield curve may affect new loan yields and funding costs differently); or
- the remaining maturity of various assets or liabilities may shorten or lengthen as interest rates change (for example, if long-term mortgage interest rates decline sharply, mortgage-backed securities held in the securities available-for-sale portfolio may prepay significantly earlier than anticipated—which could reduce portfolio income).

Interest rates may also have a direct or indirect effect on loan demand, credit losses, mortgage origination volume, the fair value of MSRs and other financial instruments, the value of the pension liability and other items affecting earnings.

We assess interest rate risk by comparing our most likely earnings plan with various earnings simulations using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, as of December 31, 2007, our most recent simulation indicated estimated earnings at risk of approximately 4% of our most likely earnings plan over the next 12 months using a scenario in which the federal funds rate rises 175 basis points to 6% and the 10-year Constant Maturity Treasury bond yield rises 300 basis points to 7%. Simulation estimates depend on, and will change with, the size and mix of our actual and projected balance sheet at the time of each simulation. Due to timing differences between the quarterly valuation of MSR's and the eventual impact of interest rates on mortgage banking volumes, earnings at risk in any particular quarter could be higher than the average earnings at risk over the 12-month simulation period, depending on the path of interest rates and on our hedging strategies for MSR's. See "Mortgage Banking Interest Rate and Market Risk" below.

We use exchange-traded and over-the-counter interest rate derivatives to hedge our interest rate exposures. The notional or contractual amount, credit risk amount and estimated net fair value of these derivatives as of December 31, 2007 and 2006, are presented in Note 16 (Derivatives) to Financial Statements. We use derivatives for asset/liability management in three main ways:

- to convert a major portion of our long-term fixed-rate debt, which we issue to finance the Company, from fixed-rate payments to floating-rate payments by entering into receive-fixed swaps;
- to convert the cash flows from selected asset and/or liability instruments/portfolios from fixed-rate payments to floating-rate payments or vice versa; and
- to hedge our mortgage origination pipeline, funded mortgage loans and MSR's using interest rate swaps, swaptions, futures, forwards and options.

MORTGAGE BANKING INTEREST RATE AND MARKET RISK

We originate, fund and service mortgage loans, which subjects us to various risks, including credit, liquidity and interest rate risks. We reduce unwanted credit and liquidity risks by selling or securitizing predominantly all of the long-term fixed-rate mortgage loans we originate and most of the ARM's we originate. From time to time, we hold originated ARM's in our loan portfolio as an investment for our growing base of core deposits. We determine whether the loans will be held for investment or held for sale at the time of commitment. We may subsequently change our intent to hold loans for investment and sell some or all of our ARM's as part of our corporate asset/liability management. We may also acquire and add to our securities available for sale a portion of the securities issued at the time we securitize mortgages held for sale.

2007 was a challenging year for the financial services industry with the downturn in the national housing market, deterioration in the capital markets, widening credit spreads and increases in market volatility, in addition to changes in interest rates discussed in the following sections. Notwithstanding

the sharp downturn in the housing sector, the widening of nonconforming credit spreads and the lack of liquidity in the nonconforming secondary markets, our mortgage banking revenue grew, reflecting the complementary origination and servicing strengths of the business. The secondary market for agency-conforming mortgages functioned well for most of the year. However, secondary market spreads widened during the second half of 2007. The mortgage warehouse and pipeline, which predominantly consists of prime mortgage loans, was written down by \$479 million in 2007 to reflect the unusual widening in nonconforming and conforming agency market spreads. In addition to the write-down associated with the mortgage warehouse and pipeline, we further reduced mortgage origination gains by \$324 million primarily to reflect a write-down of mortgage loans repurchased during the year, as well as an increase to the repurchase reserve for projected early payment defaults.

Interest rate and market risk can be substantial in the mortgage business. Changes in interest rates may potentially impact total origination and servicing fees, the value of our residential MSR's measured at fair value, the value of MHFS and the associated income and loss reflected in mortgage banking noninterest income, the income and expense associated with instruments (economic hedges) used to hedge changes in the fair value of MSR's and MHFS, and the value of derivative loan commitments (interest rate "locks") extended to mortgage applicants.

Interest rates impact the amount and timing of origination and servicing fees because consumer demand for new mortgages and the level of refinancing activity are sensitive to changes in mortgage interest rates. Typically, a decline in mortgage interest rates will lead to an increase in mortgage originations and fees and may also lead to an increase in servicing fee income, depending on the level of new loans added to the servicing portfolio and prepayments. Given the time it takes for consumer behavior to fully react to interest rate changes, as well as the time required for processing a new application, providing the commitment, and securitizing and selling the loan, interest rate changes will impact origination and servicing fees with a lag. The amount and timing of the impact on origination and servicing fees will depend on the magnitude, speed and duration of the change in interest rates.

Under FAS 159, which we adopted January 1, 2007, we elected to measure MHFS at fair value prospectively for new prime MHFS originations for which an active secondary market and readily available market prices currently exist to reliably support fair value pricing models used for these loans. We also elected to measure at fair value certain of our other interests held related to residential loan sales and securitizations. We believe that the election for new prime MHFS and other interests held (which are now hedged with free-standing derivatives (economic hedges) along with our MSR's) will reduce certain timing differences and better match changes in the value of these assets with changes in the value of derivatives used as economic hedges for these assets. Loan origination fees are recorded when earned, and related direct loan origination costs and fees are recognized when incurred.

Under FAS 156, which we adopted January 1, 2006, we elected to use the fair value measurement method to initially measure and carry our residential MSR, which represent substantially all of our MSR. Under this method, the MSR are recorded at fair value at the time we sell or securitize the related mortgage loans. The carrying value of MSR reflects changes in fair value at the end of each quarter and changes are included in net servicing income, a component of mortgage banking noninterest income. If the fair value of the MSR increases, income is recognized; if the fair value of the MSR decreases, a loss is recognized. We use a dynamic and sophisticated model to estimate the fair value of our MSR and periodically benchmark our estimates to independent appraisals. While the valuation of MSR can be highly subjective and involve complex judgments by management about matters that are inherently unpredictable, changes in interest rates influence a variety of significant assumptions included in the periodic valuation of MSR. Assumptions affected include prepayment speed, expected returns and potential risks on the servicing asset portfolio, the value of escrow balances and other servicing valuation elements impacted by interest rates.

A decline in interest rates generally increases the propensity for refinancing, reduces the expected duration of the servicing portfolio and therefore reduces the estimated fair value of MSR. This reduction in fair value causes a charge to income (net of any gains on free-standing derivatives (economic hedges) used to hedge MSR). We may choose to not fully hedge all of the potential decline in the value of our MSR resulting from a decline in interest rates because the potential increase in origination/servicing fees in that scenario provides a partial "natural business hedge." In 2007, the decrease in the fair value of our MSR net of the gains on free-standing derivatives used to hedge the MSR increased income by \$583 million.

Hedging the various sources of interest rate risk in mortgage banking is a complex process that requires sophisticated modeling and constant monitoring. While we attempt to balance these various aspects of the mortgage business, there are several potential risks to earnings:

- MSR valuation changes associated with interest rate changes are recorded in earnings immediately within the accounting period in which those interest rate changes occur, whereas the impact of those same changes in interest rates on origination and servicing fees occur with a lag and over time. Thus, the mortgage business could be protected from adverse changes in interest rates over a period of time on a cumulative basis but still display large variations in income from one accounting period to the next.
- The degree to which the "natural business hedge" offsets changes in MSR valuations is imperfect, varies at different points in the interest rate cycle, and depends not just on the direction of interest rates but on the pattern of quarterly interest rate changes.
- Origination volumes, the valuation of MSR and hedging results and associated costs are also impacted by many factors. Such factors include the mix of new business

between ARMs and fixed-rated mortgages, the relationship between short-term and long-term interest rates, the degree of volatility in interest rates, the relationship between mortgage interest rates and other interest rate markets, and other interest rate factors. Many of these factors are hard to predict and we may not be able to directly or perfectly hedge their effect.

- While our hedging activities are designed to balance our mortgage banking interest rate risks, the financial instruments we use may not perfectly correlate with the values and income being hedged. For example, the change in the value of ARMs production held for sale from changes in mortgage interest rates may or may not be fully offset by Treasury and LIBOR index-based financial instruments used as economic hedges for such ARMs.

The total carrying value of our residential and commercial MSR was \$17.2 billion at December 31, 2007, and \$18.0 billion at December 31, 2006. The weighted-average note rate on the owned servicing portfolio was 6.01% at December 31, 2007, and 5.92% at December 31, 2006. Our total MSR were 1.20% of mortgage loans serviced for others at December 31, 2007, compared with 1.41% at December 31, 2006.

As part of our mortgage banking activities, we enter into commitments to fund residential mortgage loans at specified times in the future. A mortgage loan commitment is an interest rate lock that binds us to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock. These loan commitments are derivative loan commitments if the loans that will result from the exercise of the commitments will be held for sale. These derivative loan commitments are recognized at fair value in the balance sheet with changes in their fair values recorded as part of mortgage banking noninterest income. We record no value for the loan commitment at inception. Subsequent to inception, we recognize the fair value of the derivative loan commitment based on estimated changes in the fair value of the underlying loan that would result from the exercise of that commitment and on changes in the probability that the loan will not fund within the terms of the commitment (referred to as a fall-out factor). The value of the underlying loan is affected primarily by changes in interest rates and the passage of time.

Outstanding derivative loan commitments expose us to the risk that the price of the mortgage loans underlying the commitments might decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. To minimize this risk, we utilize forwards and options, Eurodollar futures, and Treasury futures, forwards and options contracts as economic hedges against the potential decreases in the values of the loans. We expect that these derivative financial instruments will experience changes in fair value that will either fully or partially offset the changes in fair value of the derivative loan commitments. However, changes in investor demand, such as concerns about credit risk, can also cause changes in the spread relationships between underlying loan value and the derivative financial instruments that cannot be hedged.

MARKET RISK – TRADING ACTIVITIES

From a market risk perspective, our net income is exposed to changes in interest rates, credit spreads, foreign exchange rates, equity and commodity prices and their implied volatilities. The primary purpose of our trading businesses is to accommodate customers in the management of their market price risks. Also, we take positions based on market expectations or to benefit from price differences between financial instruments and markets, subject to risk limits established and monitored by Corporate ALCO. All securities, foreign exchange transactions, commodity transactions and derivatives used in our trading businesses are carried at fair value. The Institutional Risk Committee establishes and monitors counterparty risk limits. The notional or contractual amount, credit risk amount and estimated net fair value of all customer accommodation derivatives at December 31, 2007 and 2006, are included in Note 16 (Derivatives) to Financial Statements. Open, “at risk” positions for all trading business are monitored by Corporate ALCO.

The standardized approach for monitoring and reporting market risk for the trading activities is the value-at-risk (VAR) metrics complemented with factor analysis and stress testing. VAR measures the worst expected loss over a given time interval and within a given confidence interval. We measure and report daily VAR at a 99% confidence interval based on actual changes in rates and prices over the past 250 trading days. The analysis captures all financial instruments that are considered trading positions. The average one-day VAR throughout 2007 was \$18 million, with a lower bound of \$9 million and an upper bound of \$93 million.

MARKET RISK – EQUITY MARKETS

We are directly and indirectly affected by changes in the equity markets. We make and manage direct equity investments in start-up businesses, emerging growth companies, management buy-outs, acquisitions and corporate recapitalizations. We also invest in non-affiliated funds that make similar private equity investments. These private equity investments are made within capital allocations approved by management and the Board of Directors (the Board). The Board’s policy is to review business developments, key risks and historical returns for the private equity investment portfolio at least annually. Management reviews these investments at least quarterly and assesses them for possible other-than-temporary impairment. For nonmarketable investments, the analysis is based on facts and circumstances of each individual investment and the expectations for that investment’s cash flows and capital needs, the viability of its business model and our exit strategy. Private equity investments totaled \$2.02 billion at December 31, 2007, and \$1.67 billion at December 31, 2006.

We also have marketable equity securities in the securities available-for-sale portfolio, including securities relating to our venture capital activities. We manage these investments within capital risk limits approved by management and the Board and monitored by Corporate ALCO. Gains and losses on these securities are recognized in net income when realized and other-than-temporary impairment may be periodically recorded when identified. The initial indicator of impairment

for marketable equity securities is a sustained decline in market price below the amount recorded for that investment. We consider a variety of factors, such as: the length of time and the extent to which the market value has been less than cost; the issuer’s financial condition, capital strength, and near-term prospects; any recent events specific to that issuer and economic conditions of its industry; and our investment horizon in relationship to an anticipated near-term recovery in the stock price, if any. The fair value of marketable equity securities was \$2.78 billion and cost was \$2.88 billion at December 31, 2007, and \$796 million and \$592 million, respectively, at December 31, 2006. The increase in marketable equity securities was primarily due to our adoption of Topic D-109 effective July 1, 2007, which resulted in the transfer of approximately \$1.2 billion of securities, consisting of investments in preferred stock callable by the issuer, from trading assets to securities available for sale.

Changes in equity market prices may also indirectly affect our net income by affecting (1) the value of third party assets under management and, hence, fee income, (2) particular borrowers, whose ability to repay principal and/or interest may be affected by the stock market, or (3) brokerage activity, related commission income and other business activities. Each business line monitors and manages these indirect risks.

LIQUIDITY AND FUNDING

The objective of effective liquidity management is to ensure that we can meet customer loan requests, customer deposit maturities/withdrawals and other cash commitments efficiently under both normal operating conditions and under unpredictable circumstances of industry or market stress. To achieve this objective, Corporate ALCO establishes and monitors liquidity guidelines that require sufficient asset-based liquidity to cover potential funding requirements and to avoid over-dependence on volatile, less reliable funding markets. We set these guidelines for both the consolidated balance sheet and for the Parent to ensure that the Parent is a source of strength for its regulated, deposit-taking banking subsidiaries.

Debt securities in the securities available-for-sale portfolio provide asset liquidity, in addition to the immediately liquid resources of cash and due from banks and federal funds sold, securities purchased under resale agreements and other short-term investments. The weighted-average expected remaining maturity of the debt securities within this portfolio was 5.9 years at December 31, 2007. Of the \$69.4 billion (cost basis) of debt securities in this portfolio at December 31, 2007, \$12.0 billion (17%) is expected to mature or be prepaid in 2008 and an additional \$7.8 billion (11%) in 2009. Asset liquidity is further enhanced by our ability to sell or securitize loans in secondary markets through whole-loan sales and securitizations. In 2007, we sold mortgage loans of \$224 billion, including home mortgage loans and commercial mortgage loans of \$48 billion that we securitized. The amount of mortgage loans, home equity loans and other consumer loans available to be sold or securitized was approximately \$160 billion at December 31, 2007.

Core customer deposits have historically provided a sizeable source of relatively stable and low-cost funds. Average core deposits funded 58.2% and 55.3% of average total assets in 2007 and 2006, respectively.

The remaining assets were funded by long-term debt (including trust preferred securities), other foreign deposits, and short-term borrowings (federal funds purchased, securities sold under repurchase agreements, commercial paper and other short-term borrowings). Long-term debt averaged \$93.2 billion in 2007 and \$84.0 billion in 2006. Short-term borrowings averaged \$25.9 billion in 2007 and \$21.5 billion in 2006.

We anticipate making capital expenditures of approximately \$1 billion in 2008 for our stores, relocation and remodeling of our facilities, and routine replacement of furniture, equipment and servers. We fund expenditures from various sources, including cash flows from operations and borrowings.

Liquidity is also available through our ability to raise funds in a variety of domestic and international money and capital markets. We access capital markets for long-term funding by issuing registered debt, private placements and asset-backed secured funding. Rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix and level and quality of earnings. Material changes in these factors could result in a different debt rating; however, a change in debt rating would not cause us to violate any of our debt covenants. Moody's Investors Service rates Wells Fargo Bank, N.A. as "Aaa," its highest investment grade, and rates the Company's senior debt as "Aa1." In February 2007, Standard & Poor's Ratings Services raised Wells Fargo Bank, N.A.'s credit rating to "AAA" from "AA+," and raised the Company's senior debt rating to "AA+" from "AA." Wells Fargo Bank, N.A. is now the only U.S. bank to have the highest possible credit rating from both Moody's and S&P.

Table 19 provides the credit ratings of the Company and Wells Fargo Bank, N.A. as of December 31, 2007.

Table 19: Credit Ratings

	Wells Fargo & Company			Wells Fargo Bank, N.A.	
	Senior debt	Subordinated debt	Commercial paper	Long-term deposits	Short-term borrowings
Moody's	Aa1	Aa2	P-1	Aaa	P-1
S&P	AA+	AA	A-1+	AAA	A-1+
Fitch, Inc.	AA	AA-	F1+	AA+	F1+
Dominion Bond Rating Service	AA	AA*	R-1**	AA***	R-1***

* low ** middle *** high

PARENT. Under SEC rules, the Parent is classified as a "well-known seasoned issuer," which allows it to file a registration statement that does not have a limit on issuance capacity. "Well-known seasoned issuers" generally include those

companies with a public float of common equity of at least \$700 million or those companies that have issued at least \$1 billion in aggregate principal amount of non-convertible securities, other than common equity, in the last three years. In June 2006, the Parent's registration statement with the SEC for issuance of senior and subordinated notes, preferred stock and other securities became effective. However, the Parent's ability to issue debt and other securities under this registration statement is limited by the debt issuance authority granted by the Board. The Parent is currently authorized by the Board to issue \$30 billion in outstanding short-term debt and \$105 billion in outstanding long-term debt, subject to a total outstanding debt limit of \$135 billion. During 2007, the Parent issued a total of \$21.6 billion of registered senior notes, including \$1.5 billion (denominated in pounds sterling) sold primarily in the United Kingdom. The Parent also issued \$1 billion in junior subordinated debt in connection with the issuance of trust preferred securities by a statutory business trust formed by the Parent. Also, in 2007, the Parent issued \$413 million in private placements (denominated in Australian dollars) under the Parent's Australian debt issuance program. We used the proceeds from securities issued in 2007 for general corporate purposes and expect that the proceeds in the future will also be used for general corporate purposes. In January 2008, the Parent issued \$5.5 billion of registered senior notes. The Parent also issues commercial paper from time to time, subject to its short-term debt limit.

WELLS FARGO BANK, N.A. Wells Fargo Bank, N.A. is authorized by its board of directors to issue \$50 billion in outstanding short-term debt and \$50 billion in outstanding long-term debt. In December 2007, Wells Fargo Bank, N.A. established a \$100 billion bank note program under which, subject to any other debt outstanding under the limits described above, it may issue \$50 billion in outstanding short-term senior notes and \$50 billion in long-term senior or subordinated notes. Securities are issued under this program as private placements in accordance with Office of the Comptroller of the Currency (OCC) regulations. During 2007, Wells Fargo Bank, N.A. issued \$26.1 billion in short-term senior notes.

WELLS FARGO FINANCIAL. In January 2006, Wells Fargo Financial Canada Corporation (WFFCC), an indirect wholly-owned Canadian subsidiary of the Parent, qualified with the Canadian provincial securities commissions CAD\$7.0 billion of medium-term notes for distribution from time to time in Canada. During 2007, WFFCC issued CAD\$1.4 billion in senior notes under its 2006 short form base shelf prospectus, which expired in February 2008. In February 2008, WFFCC filed a new short form base shelf prospectus qualifying an additional CAD\$7.0 billion of issuance authority and issued CAD\$500 million of medium-term notes, leaving CAD\$6.5 billion available for future issuance. All medium-term notes issued by WFFCC are unconditionally guaranteed by the Parent.

Capital Management

We have an active program for managing stockholder capital. We use capital to fund organic growth, acquire banks and other financial services companies, pay dividends and repurchase our shares. Our objective is to produce above-market long-term returns by opportunistically using capital when returns are perceived to be high and issuing/accumulating capital when the costs of doing so are perceived to be low.

From time to time the Board of Directors authorizes the Company to repurchase shares of our common stock. Although we announce when the Board authorizes share repurchases, we typically do not give any public notice before we repurchase our shares. Various factors determine the amount and timing of our share repurchases, including our capital requirements, the number of shares we expect to issue for acquisitions and employee benefit plans, market conditions (including the trading price of our stock), and legal considerations. These factors can change at any time, and there can be no assurance as to the number of shares we will repurchase or when we will repurchase them.

Historically, our policy has been to repurchase shares under the “safe harbor” conditions of Rule 10b-18 of the Securities Exchange Act of 1934 including a limitation on the daily volume of repurchases. Rule 10b-18 imposes an additional daily volume limitation on share repurchases during a pending merger or acquisition in which shares of our stock will constitute some or all of the consideration. Our management may determine that during a pending stock merger or acquisition when the safe harbor would otherwise be available, it is in our best interest to repurchase shares in excess of this additional daily volume limitation. In such cases, we intend to repurchase shares in compliance with the

other conditions of the safe harbor, including the standing daily volume limitation that applies whether or not there is a pending stock merger or acquisition.

In March, August and November 2007, the Board authorized the repurchase of up to 75 million, 50 million and 75 million additional shares of our outstanding common stock, respectively. During 2007, we repurchased 220 million shares of our common stock. In 2007, we issued approximately 82 million shares of common stock (including shares issued for our ESOP plan) under various employee benefit and director plans and under our dividend reinvestment and direct stock purchase programs and approximately 58 million shares for acquisitions. At December 31, 2007, the total remaining common stock repurchase authority was 42 million shares.

Our potential sources of capital include retained earnings and issuances of common and preferred stock. In 2007, retained earnings increased \$3.8 billion, predominantly as a result of net income of \$8.1 billion less dividends of \$4.0 billion. In 2007, we issued \$2.3 billion of common stock under various employee benefit and director plans and \$2.1 billion of common stock for acquisitions.

The Company and each of our subsidiary banks are subject to various regulatory capital adequacy requirements administered by the Federal Reserve Board and the OCC. Risk-based capital guidelines establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures. At December 31, 2007, the Company and each of our covered subsidiary banks were “well capitalized” under applicable regulatory capital adequacy guidelines. See Note 26 (Regulatory and Agency Capital Requirements) to Financial Statements for additional information.

Comparison of 2006 with 2005

Net income in 2006 increased 10% to a record \$8.4 billion in 2006 from \$7.7 billion in 2005. Diluted earnings per common share increased 10% to a record \$2.47 in 2006 from \$2.25 in 2005.

Our 10% growth in earnings per share was driven by revenue growth. Revenue grew 8% to a record \$35.7 billion in 2006 from \$32.9 billion in 2005. The breadth and depth of our business model resulted in very strong and balanced growth across product sources (net interest income up 8%, noninterest income up 9%) and across businesses (double-digit revenue and/or profit growth in regional banking, business direct, wealth management, credit and debit card, corporate trust, commercial banking, asset-based lending, asset management, real estate brokerage, insurance, international, commercial real estate, corporate banking and specialized financial services).

We continued to make investments in 2006 by opening 109 regional banking stores and growing our sales and service force by adding 4,497 team members (full-time equivalents)

in 2006, including 1,914 retail platform bankers. In 2006, we continued to be #1 in many categories of financial services nationally, including retail mortgage originations, home equity lending, small business lending, agricultural lending, internet banking, and provider of financial services to middle-market companies in the western U.S.

Our core products grew in 2006 from 2005:

- Average loans grew by 4% (up 14% excluding real estate 1-4 family first mortgages);
- Average core deposits grew by 10%; and
- Assets managed and administered were up 26%.

Return on average total assets was 1.73% and return on average stockholders' equity was 19.52% in 2006, compared with 1.72% and 19.59%, respectively, in 2005.

Net interest income on a taxable-equivalent basis was \$20.1 billion in 2006, compared with \$18.6 billion a year ago, reflecting solid loan growth (excluding ARMs) and a relatively stable net interest margin. With short-term interest

rates above 5% at year-end 2006, our cumulative sales of ARMs and debt securities from mid-2004 to mid-2006 had a positive impact on our net interest margin and net interest income. We completed our sales of over \$90 billion of ARMs since mid-2004 with the sales of \$26 billion of ARMs in second quarter 2006. Average earning assets grew 8% from 2005, or 17% excluding 1-4 family first mortgages (the loan category that includes ARMs). Our net interest margin was 4.83% for 2006, compared with 4.86% in 2005.

Noninterest income increased 9% to \$15.7 billion in 2006 from \$14.4 billion in 2005. Growth in noninterest income was driven by growth across our businesses, with particular strength in trust and investment fees (up 12%), card fees (up 20%), insurance fees (up 10%) and gains on equity investments (up 44%).

Revenue, the sum of net interest income and noninterest income, increased 8% to a record \$35.7 billion in 2006 from \$32.9 billion in 2005. Home Mortgage revenue decreased \$704 million (15%) to \$4.2 billion in 2006 from \$4.9 billion in 2005. Combined revenue in businesses other than Home Mortgage grew 12% from 2005 to 2006, with double-digit revenue growth in virtually every major business line other than Home Mortgage.

Noninterest expense was \$20.8 billion in 2006, up 10% from \$19.0 billion in 2005, primarily due to continued investments in new stores and additional sales and service-related team members. We began expensing stock options on January 1, 2006. Total stock option expense reduced 2006 earnings by approximately \$0.025 per share.

During 2006, net charge-offs were \$2.25 billion (0.73% of average total loans), compared with \$2.28 billion (0.77%) during 2005. Net charge-offs for auto loans increased \$160 million in 2006 partially due to growth and seasoning, but largely due to collection capacity constraints and restrictive

payment extension practices that occurred when Wells Fargo Financial integrated its prime and nonprime auto loan businesses during 2006. Net charge-offs for 2005 included \$171 million of incremental fourth quarter bankruptcy losses and increased net charge-offs of \$163 million in first quarter 2005 to conform Wells Fargo Financial's charge-off practices to more stringent Federal Financial Institutions Examination Council guidelines. The provision for credit losses was \$2.20 billion in 2006, down \$179 million from \$2.38 billion in 2005. The 2005 provision for credit losses also included \$100 million for estimated charge-offs related to Hurricane Katrina. We subsequently realized approximately \$50 million of Katrina-related losses. Because we no longer anticipated further credit losses attributable to Katrina, we released the remaining \$50 million reserve in 2006. The allowance for credit losses, which consists of the allowance for loan losses and the reserve for unfunded credit commitments, was \$3.96 billion, or 1.24% of total loans, at December 31, 2006, compared with \$4.06 billion (1.31%) at December 31, 2005.

At December 31, 2006, total nonaccrual loans were \$1.67 billion (0.52% of total loans), up from \$1.34 billion (0.43%) at December 31, 2005. Total nonperforming assets were \$2.42 billion (0.76% of total loans) at December 31, 2006, compared with \$1.53 billion (0.49%) at December 31, 2005. Foreclosed assets were \$745 million at December 31, 2006, compared with \$191 million at December 31, 2005. Foreclosed assets, a component of total nonperforming assets, included an additional \$322 million of foreclosed real estate securing GNMA loans at December 31, 2006, due to a change in regulatory reporting requirements effective January 1, 2006. The foreclosed real estate securing GNMA loans of \$322 million represented 10 basis points of the ratio of nonperforming assets to loans at December 31, 2006.

Risk Factors

An investment in the Company has risk. We discuss below and elsewhere in this Report and in other documents we file with the SEC various risk factors that could cause our financial results and condition to vary significantly from period to period. We refer you to the Financial Review section and Financial Statements and related Notes in this Report for more information about credit, interest rate and market risks and to the "Regulation and Supervision" section of our 2007 Form 10-K for more information about legislative and regulatory risks. Any factor described below or elsewhere in this Report or in our 2007 Form 10-K could, by itself or together with other factors, have a material negative effect on our financial results and condition and on the value of an investment in Wells Fargo. Refer to our quarterly reports on Form 10-Q that we will file with the SEC in 2008 for material changes to the discussion of risk factors.

In accordance with the Private Securities Litigation Reform Act of 1995, we caution you that one or more of the factors discussed below, in the Financial Review section of this Report, in the Financial Statements and related Notes included in this Report, in the 2007 Form 10-K, or in other documents we file with the SEC from time to time could cause us to fall short of expectations for our future financial and business performance that we may express in forward-looking statements. We make forward-looking statements when we use words such as "believe," "expect," "anticipate," "estimate," "will," "may," "can" and similar expressions. Do not unduly rely on forward-looking statements. Actual results may differ significantly from expectations. Forward-looking statements speak only as of the date made. We do not undertake to update them to reflect changes or events that occur after that date.

In this Report we make forward-looking statements that we expect or believe:

- net charge-offs will be higher in 2008, particularly in the Home Equity portfolio;
- there is minimal additional loss content in nonaccrual loans;
- the provision for credit losses for consumer loans, absent a significant credit event, severe decrease in collateral values, significant acceleration of losses or significant change in payment behavior, will closely track the level of related net charge-offs;
- FIN 48 will cause more volatility in our effective tax rate from quarter to quarter;
- our investments in affordable housing and sustainable energy projects will be recovered over time through realization of federal tax credits;
- the amount of any additional consideration that may be payable in connection with previous acquisitions will not be significant to our financial statements;
- 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;
- recent guidance issued by federal financial regulatory agencies for nonprime mortgage lending will not have a significant impact on Wells Fargo Financial's operations;
- the election to measure at fair value new prime residential MHFS and other interests held will reduce certain timing differences and better match changes in the value of these assets with changes in the value of derivatives used as economic hedges for these assets;
- changes in the fair value of derivative financial instruments used as economic hedges of derivative loan commitments will fully or partially offset changes in the fair value of such commitments to the extent changes in value are due to interest rate changes;
- capital expenditures of approximately \$1 billion will be made in 2008 for our stores, relocation and remodeling of our facilities, and routine replacement of furniture, equipment and servers;
- proceeds of securities issued in the future will be used for general corporate purposes;
- the outcome of pending and threatened legal actions will not have a material adverse effect on our results of operations or stockholders' equity;
- \$63 million of net deferred gains on derivatives in other comprehensive income at December 31, 2007, will be reclassified as earnings in the next 12 months;
- \$126 million of unrecognized compensation cost related to stock options will be recognized over a weighted-average period of 2.1 years;
- a contribution to the Cash Balance Plan will not be required in 2008; and
- our unrecognized tax benefits could decrease by approximately \$100 to \$200 million during the next 12 months primarily related to statute expirations.

This Report also includes various statements about the estimated impact on our earnings from simulated changes in interest rates and on expected losses in our loan portfolio from assumed changes in loan credit quality. As described in more detail below and elsewhere in this Report, changes in the estimate of the allowance for credit losses and the related provision expense could have a material negative effect on net income.

OUR ABILITY TO GROW REVENUE AND EARNINGS WILL SUFFER IF WE ARE UNABLE TO CROSS-SELL MORE PRODUCTS TO CUSTOMERS. Selling more products to our customers—"cross-selling"—is the foundation of our business model and key to our ability to grow revenue and earnings. Many of our competitors also focus on cross-selling, especially in retail banking and mortgage lending.

This can put pressure on us to sell our products at lower prices, reducing our net interest income and revenue from our fee-based products. It could also affect our ability to keep existing customers. New technologies could require us to spend more to modify or adapt our products to attract and retain customers. Increasing our cross-sell ratio—or the average number of products sold to existing customers—may become more challenging, especially given that our cross-sell ratio is already high, and we might not attain our goal of selling an average of eight products to each customer.

AN ECONOMIC RECESSION OR EVEN A MODEST SLOWDOWN COULD REDUCE DEMAND FOR OUR PRODUCTS AND SERVICES AND LEAD TO LOWER REVENUE AND LOWER EARNINGS. We earn revenue from the interest and fees we charge on the loans and other products and services we sell. When the economy slows, the demand for those products and services can fall, reducing our interest and fee income and our earnings. An economic downturn can also hurt the ability of our borrowers to repay their loans, causing us to incur higher credit losses. Several factors could cause the economy to slow down or even recede, including higher energy costs, higher interest rates, reduced consumer or corporate spending, a slowdown in housing, declining home values, natural disasters, terrorist activities, military conflicts, and the normal cyclical nature of the economy.

CHANGES IN STOCK MARKET PRICES COULD REDUCE FEE INCOME FROM OUR BROKERAGE AND ASSET MANAGEMENT BUSINESSES. We earn fee income from managing assets for others and providing brokerage services. Because investment management fees are often based on the value of assets under management, a fall in the market prices of those assets could reduce our fee income. Changes in stock market prices could affect the trading activity of investors, reducing commissions and other fees we earn from our brokerage business.

For more information, refer to "Risk Management – Asset/Liability and Market Risk Management – Market Risk – Equity Markets" in the Financial Review section of this Report.

CHANGES IN INTEREST RATES COULD REDUCE OUR NET INTEREST INCOME AND EARNINGS. Our net interest income is the interest we earn on loans, debt securities and other assets we hold less the interest we pay on our deposits, long-term and short-term debt, and other liabilities. Net interest income is a measure of both our net interest margin—the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding—and the amount of earning assets we hold. As a result, changes in either our net interest margin or the amount of earning assets we hold could affect our net interest income and our earnings.

Changes in interest rates—up or down—could adversely affect our net interest margin. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract until the yield catches up.

Changes in the slope of the "yield curve"—or the spread between short-term and long-term interest rates—could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets.

The interest we earn on our loans may be tied to U.S.-denominated interest rates such as the federal funds rate while the interest we pay on our debt may be based on international rates such as LIBOR. If the federal funds rate were to fall without a corresponding decrease in LIBOR, we might earn less on our loans without any offsetting decrease in our funding costs. This could lower our net interest margin and our net interest income.

We assess our interest rate risk by estimating the effect on our earnings under various scenarios that differ based on assumptions about the direction, magnitude and speed of interest rate changes and the slope of the yield curve. We hedge some of that interest rate risk with interest rate derivatives. We also rely on the “natural hedge” that our loan originations and servicing rights can provide.

We do not hedge all of our interest rate risk. There is always the risk that changes in interest rates could reduce our net interest income and our earnings in material amounts, especially if actual conditions turn out to be materially different than what we assumed. For example, if interest rates rise or fall faster than we assumed or the slope of the yield curve changes, we may incur significant losses on debt securities we hold as investments. To reduce our interest rate risk, we may rebalance our investment and loan portfolios, refinance our debt and take other strategic actions. We may incur losses or expenses when we take such actions.

For more information, refer to “Risk Management – Asset/Liability and Market Risk Management – Interest Rate Risk” in the Financial Review section of this Report.

CHANGES IN INTEREST RATES COULD ALSO REDUCE THE VALUE OF OUR MORTGAGE SERVICING RIGHTS AND MORTGAGES HELD FOR SALE, REDUCING OUR EARNINGS. We have a sizeable portfolio of mortgage servicing rights. A mortgage servicing right (MSR) is the right to service a mortgage loan—collect principal, interest, escrow amounts, etc.—for a fee. We acquire MSRs when we keep the servicing rights after we sell or securitize the loans we have originated or when we purchase the servicing rights to mortgage loans originated by other lenders. Effective January 1, 2006, upon adoption of FAS 156, we elected to initially measure and carry our residential MSRs using the fair value measurement method. Fair value is the present value of estimated future net servicing income, calculated based on a number of variables, including assumptions about the likelihood of prepayment by borrowers.

Changes in interest rates can affect prepayment assumptions and thus fair value. When interest rates fall, borrowers are more likely to prepay their mortgage loans by refinancing them at a lower rate. As the likelihood of prepayment increases, the fair value of our MSRs can decrease. Each quarter we evaluate the fair value of our MSRs, and any decrease in fair value reduces earnings in the period in which the decrease occurs.

Effective January 1, 2007, we elected to measure at fair value new prime mortgages held for sale (MHFS) for which an active secondary market and readily available market prices exist. We also measure at fair value certain other interests we hold related to residential loan sales and securitizations. Similar to other interest-bearing securities, the value of these MHFS and other interests held may be negatively affected by changes in interest rates. For example, if market interest rates increase relative to the yield on these MHFS and other interests held, their fair value may fall. We may not hedge this risk, and even if we do hedge the risk with derivatives and other instruments we may still incur significant losses from changes in the value of these MHFS and other interests or from changes in the value of the hedging instruments.

For more information, refer to “Critical Accounting Policies” and “Risk Management – Asset/Liability and Market Risk Management – Mortgage Banking Interest Rate and Market Risk” in the Financial Review section of this Report.

MARKET ILLIQUIDITY AND INCREASED COMPETITION FOR FUNDING COULD INCREASE OUR FUNDING COSTS. We sell most of the mortgage loans we originate in order to reduce our credit risk and provide funding for additional loans. We rely on Fannie Mae and Freddie Mac to purchase loans that meet their conforming loan requirements and on other capital market investors to purchase loans that do not meet those requirements – referred to as “nonconforming” loans. In 2007, investor demand for nonconforming loans began to fall sharply, increasing credit spreads and reducing the liquidity for those loans. In response to the reduced liquidity in the capital markets, we may retain more nonconforming loans. When we retain a loan not only do we keep the credit risk associated with the loan but we also do not receive any sale proceeds that could be used to generate new loans. Continued lack of liquidity could limit our ability to fund—and thus originate—new mortgage loans, reducing the fees we earn from originating and servicing loans. In addition, we cannot assure that Fannie Mae and Freddie Mac will not materially limit their purchases of conforming loans due to capital requirements, or changes in criteria for conforming loans (e.g., maximum loan amount or borrower eligibility).

We rely on bank deposits to be a low cost and stable source of funding for the loans we make. We compete with banks and other financial services companies for deposits. If our competitors raise the rates they pay on deposits our funding costs may increase, either because we raise our rates to avoid losing deposits or because we lose deposits and must rely on more expensive sources of funding. Higher funding costs reduce our net interest margin and net interest income.

WE MAY ELECT TO PROVIDE CAPITAL SUPPORT TO OUR MUTUAL FUNDS RELATING TO INVESTMENTS IN STRUCTURED CREDIT PRODUCTS. Our money market mutual funds are allowed to hold investments in structured investment vehicles (SIVs) in accordance with approved investment parameters for the respective funds and, therefore, we may have indirect exposure to collateralized debt obligations (CDOs). Although we generally are not responsible for investment losses incurred by our mutual funds, we may from time to time elect to provide support to a fund even though we are not contractually obligated to do so. For example, in February 2008, to maintain an investment rating of AAA for certain non-government money market mutual funds, we elected to enter into a capital support agreement for up to \$130 million related to one SIV held by those funds.

For more information, refer to “Off-Balance Sheet Arrangements and Aggregate Contractual Obligations – Off-Balance Sheet Arrangements, Variable Interest Entities, Guarantees and Other Commitments” in the Financial Review section of this Report.

HIGHER CREDIT LOSSES COULD REQUIRE US TO INCREASE OUR ALLOWANCE FOR CREDIT LOSSES THROUGH A CHARGE TO EARNINGS. When we loan money or commit to loan money we incur credit risk, or the risk of losses if our borrowers do not repay their loans. We reserve for credit losses by establishing an allowance through a charge to earnings. The amount of this allowance is based on our assessment of credit losses inherent in our loan portfolio (including unfunded credit commitments). The process for determining the amount of the allowance is critical to our financial results and condition. It requires difficult, subjective and complex judgments about the future, including forecasts of economic or market conditions that might impair the ability of our borrowers to repay their loans.

We might underestimate the credit losses inherent in our loan portfolio and have credit losses in excess of the amount reserved. We might increase the allowance because of changing economic conditions. For example, in a rising interest rate environment, borrowers with adjustable-rate loans could see their payments increase. There may be a significant increase in the number of borrowers who are unable or unwilling to repay their loans, resulting in our charging off more loans and increasing our allowance. In addition, when home values decline, the potential severity of loss on a real estate-secured loan can increase significantly, especially in the case of loans with high combined loan-to-value ratios. In fourth quarter 2007, we recorded a special provision of \$1.4 billion to build credit reserves, primarily for home equity losses incurred at December 31, 2007, expected to be realized in 2008, and incurred higher net charge-offs. We believe that we will incur higher charge-offs in 2008 than in 2007. There is no assurance that our allowance for credit losses at December 31, 2007, will be sufficient to cover future credit losses. We may be required to build reserves in 2008, thus reducing earnings.

For more information, refer to “Critical Accounting Policies – Allowance for Credit Losses” and “Risk Management – Credit Risk Management Process” in the Financial Review section of this Report.

WE MAY HAVE MORE CREDIT RISK AND HIGHER CREDIT LOSSES TO THE EXTENT OUR LOANS ARE CONCENTRATED BY LOAN TYPE, INDUSTRY SEGMENT, BORROWER TYPE, OR LOCATION OF THE BORROWER OR COLLATERAL. Our credit risk and credit losses can increase if our loans are concentrated to borrowers engaged in the same or similar activities or to borrowers who as a group may be uniquely or disproportionately affected by economic or market conditions. We experienced the effect of concentration risk in 2007 when we incurred greater than expected losses in our Home Equity loan portfolio due to a housing slowdown and greater than expected deterioration in residential real estate values in many markets, including the Central Valley California market and several Southern California metropolitan statistical areas. As California is our largest banking state in terms of loans and deposits, continued deterioration in real estate values and underlying economic conditions in those markets or elsewhere in California could result in materially higher credit losses. In addition, deterioration in housing conditions and real estate values in other areas and generally across the country could result in materially higher credit losses.

For more information, refer to “Risk Management – Credit Risk Management Process – Loan Portfolio Concentrations” in the Financial Review section of this Report and Note 9 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

FINANCIAL DIFFICULTIES OR CREDIT DOWNGRADES OF MORTGAGE AND BOND INSURERS MAY NEGATIVELY AFFECT OUR SERVICING AND INVESTMENT PORTFOLIOS. Our servicing portfolio includes certain mortgage loans that carry some level of insurance from one or more mortgage insurance companies. To the extent that any of these companies experience financial difficulties or credit downgrades, we may be required, as servicer of the insured loan on behalf of the investor, to obtain replacement coverage with another provider, possibly at a higher cost than current coverage. We may be responsible for some or all of the incremental cost of the new coverage for certain loans depending on the terms of our servicing agreement with the investor and other circumstances. Similarly, some of the mortgage loans we hold for investment or for sale carry mortgage insurance. If a mortgage insurer is unable to meet its credit obligations with respect to an insured loan, we might incur higher credit losses if replacement coverage is not obtained. We also have investments in municipal

bonds that are guaranteed against loss by bond insurers. The value of these bonds and the payment of principal and interest on them may be negatively affected by financial difficulties or credit downgrades experienced by the bond insurers.

For more information, refer to “Earnings Performance – Balance Sheet Analysis – Securities Available for Sale” and “Risk Management – Credit Risk Management Process” in the Financial Review section of this Report.

OUR MORTGAGE BANKING REVENUE CAN BE VOLATILE FROM QUARTER TO QUARTER. We earn revenue from fees we receive for originating mortgage loans and for servicing mortgage loans. When rates rise, the demand for mortgage loans tends to fall, reducing the revenue we receive from loan originations. At the same time, revenue from our MSRMs can increase through increases in fair value. When rates fall, mortgage originations tend to increase and the value of our MSRMs tends to decline, also with some offsetting revenue effect. Even though they can act as a “natural hedge,” the hedge is not perfect, either in amount or timing. For example, the negative effect on revenue from a decrease in the fair value of residential MSRMs is immediate, but any offsetting revenue benefit from more originations and the MSRMs relating to the new loans would accrue over time. It is also possible that, because of a slowing economy and a deterioration of the housing market, even if interest rates were to fall, mortgage originations may also fall or any increase in mortgage originations may not be enough to offset the decrease in the MSR value caused by the lower rates.

We typically use derivatives and other instruments to hedge our mortgage banking interest rate risk. We generally do not hedge all of our risk, and the fact that we attempt to hedge any of the risk does not mean we will be successful. Hedging is a complex process, requiring sophisticated models and constant monitoring, and is not a perfect science. We may use hedging instruments tied to U.S. Treasury rates, LIBOR or Eurodollars that may not perfectly correlate with the value or income being hedged. We could incur significant losses from our hedging activities. There may be periods where we elect not to use derivatives and other instruments to hedge mortgage banking interest rate risk.

For more information, refer to “Risk Management – Asset/Liability and Market Risk Management – Mortgage Banking Interest Rate and Market Risk” in the Financial Review section of this Report.

OUR BANK CUSTOMERS COULD TAKE THEIR MONEY OUT OF THE BANK AND PUT IT IN ALTERNATIVE INVESTMENTS, CAUSING US TO LOSE A LOWER COST SOURCE OF FUNDING. Checking and savings account balances and other forms of customer deposits can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. When customers move money out of bank deposits and into other investments, we can lose a relatively low cost source of funds, increasing our funding costs and reducing our net interest income.

OUR VENTURE CAPITAL BUSINESS CAN ALSO BE VOLATILE FROM QUARTER TO QUARTER. Earnings from our venture capital investments can be volatile and hard to predict and can have a significant effect on our earnings from period to period. When—and if—we recognize gains can depend on a number of factors, including general economic conditions, the prospects of the companies in which we invest, when these companies go public, the size of our position relative to the public float, and whether we are subject to any resale restrictions. Our venture capital investments could result in significant losses.

We assess our private and public equity portfolio at least quarterly for other-than-temporary impairment based on a number

of factors, including the then current market value of each investment compared to its carrying value. Our venture capital investments tend to be in technology and other volatile industries globally, so the value of our public and private equity portfolios can fluctuate widely. If we determine there is other-than-temporary impairment for an investment, we will write-down the carrying value of the investment, resulting in a charge to earnings. The amount of this charge could be significant, especially if under accounting rules we were required previously to write-up the value because of higher market prices.

For more information, refer to “Risk Management – Asset/Liability and Market Risk Management – Market Risk – Equity Markets” in the Financial Review section of this Report.

WE RELY ON DIVIDENDS FROM OUR SUBSIDIARIES FOR REVENUE, AND FEDERAL AND STATE LAW CAN LIMIT THOSE DIVIDENDS. Wells Fargo & Company, the parent holding company, is a separate and distinct legal entity from its subsidiaries. It receives a significant portion of its revenue from dividends from its subsidiaries. We use these dividends to pay dividends on our common and preferred stock and interest and principal on our debt. Federal and state laws limit the amount of dividends that our bank and some of our nonbank subsidiaries may pay to us. Also, our right to participate in a distribution of assets upon a subsidiary’s liquidation or reorganization is subject to the prior claims of the subsidiary’s creditors.

For more information, refer to “Regulation and Supervision – Dividend Restrictions” and “– Holding Company Structure” in our 2007 Form 10-K and to Notes 3 (Cash, Loan and Dividend Restrictions) and 26 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report.

CHANGES IN ACCOUNTING POLICIES OR ACCOUNTING STANDARDS, AND CHANGES IN HOW ACCOUNTING STANDARDS ARE INTERPRETED OR APPLIED, COULD MATERIALLY AFFECT HOW WE REPORT OUR FINANCIAL RESULTS AND CONDITION. Our accounting policies are fundamental to determining and understanding our financial results and condition. Some of these policies require use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Five of our accounting 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. For a description of these policies, refer to “Critical Accounting Policies” in the Financial Review section of this Report.

From time to time the FASB and the SEC change the financial accounting and reporting standards that govern the preparation of our external financial statements. In addition, accounting standard setters and those who interpret the accounting standards (such as the FASB, SEC, banking regulators and our outside auditors) may change or even reverse their previous interpretations or positions on how these standards should be applied. Changes in financial accounting and reporting standards and changes in current interpretations may be beyond our control, can be hard to predict and could materially impact how we report our financial results and condition. We could be required to apply a new or revised standard retroactively or apply an existing standard differently, also retroactively, in each case resulting in our potentially restating prior period financial statements in material amounts.

ACQUISITIONS COULD REDUCE OUR STOCK PRICE UPON ANNOUNCEMENT AND REDUCE OUR EARNINGS IF WE OVERPAY OR HAVE DIFFICULTY INTEGRATING THEM. We regularly explore opportunities to acquire companies in the financial services industry. We cannot predict the frequency, size or timing of our acquisitions, and we typically do not comment publicly on a possible acquisition until we have

signed a definitive agreement. When we do announce an acquisition, our stock price may fall depending on the size of the acquisition, the purchase price and the potential dilution to existing stockholders. It is also possible that an acquisition could dilute earnings per share.

We generally must receive federal regulatory approval before we can acquire a bank or bank holding company. In deciding whether to approve a proposed bank acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, financial condition, and future prospects including current and projected capital ratios and levels, the competence, experience, and integrity of management and record of compliance with laws and regulations, the convenience and needs of the communities to be served, including the acquiring institution’s record of compliance under the Community Reinvestment Act, and the effectiveness of the acquiring institution in combating money laundering. Also, we cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. We might be required to sell banks, branches and/or business units as a condition to receiving regulatory approval.

Difficulty in integrating an acquired company may cause us not to realize expected revenue increases, cost savings, increases in geographic or product presence, and other projected benefits from the acquisition. The integration could result in higher than expected deposit attrition (run-off), loss of key employees, disruption of our business or the business of the acquired company, or otherwise harm our ability to retain customers and employees or achieve the anticipated benefits of the acquisition. Time and resources spent on integration may also impair our ability to grow our existing businesses. Also, the negative effect of any divestitures required by regulatory authorities in acquisitions or business combinations may be greater than expected.

FEDERAL AND STATE REGULATIONS CAN RESTRICT OUR BUSINESS, AND NON-COMPLIANCE COULD RESULT IN PENALTIES, LITIGATION AND DAMAGE TO OUR REPUTATION. Our parent company, our subsidiary banks and many of our nonbank subsidiaries are heavily regulated at the federal and/or state levels. This regulation is to protect depositors, federal deposit insurance funds, consumers and the banking system as a whole, not our stockholders. Federal and state regulations can significantly restrict our businesses, and we could be fined or otherwise penalized if we are found to be out of compliance.

The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) limits the types of non-audit services our outside auditors may provide to us in order to preserve their independence from us. If our auditors were found not to be “independent” of us under SEC rules, we could be required to engage new auditors and file new financial statements and audit reports with the SEC. We could be out of compliance with SEC rules until new financial statements and audit reports were filed, limiting our ability to raise capital and resulting in other adverse consequences.

Sarbanes-Oxley also requires our management to evaluate the Company’s disclosure controls and procedures and its internal control over financial reporting and requires our auditors to issue a report on our internal control over financial reporting. We are required to disclose, in our annual report on Form 10-K filed with the SEC, the existence of any “material weaknesses” in our internal control. We cannot assure that we will not find one or more material weaknesses as of the end of any given year, nor can we predict the effect on our stock price of disclosure of a material weakness.

The Patriot Act, which was enacted in the wake of the September 2001 terrorist attacks, requires us to implement new or revised policies and procedures relating to anti-money laundering, compliance, suspicious activities, and currency transaction reporting and due diligence on customers. The Patriot Act

also requires federal bank regulators to evaluate the effectiveness of an applicant in combating money laundering in determining whether to approve a proposed bank acquisition.

A number of states have recently challenged the position of the OCC as the sole regulator of national banks and their subsidiaries. If these challenges are successful or if Congress acts to give greater effect to state regulation, the impact on us could be significant, not only because of the potential additional restrictions on our businesses but also from having to comply with potentially 50 different sets of regulations.

From time to time Congress considers legislation that could significantly change our regulatory environment, potentially increasing our cost of doing business, limiting the activities we may pursue or affecting the competitive balance among banks, savings associations, credit unions, and other financial institutions. As an example, our business model depends on sharing information among the family of Wells Fargo businesses to better satisfy our customers' needs. Laws that restrict the ability of our companies to share information about customers could limit our ability to cross-sell products and services, reducing our revenue and earnings. For example, federal financial regulators have issued regulations under the Fair and Accurate Credit Transactions Act which have the effect of increasing the length of the waiting period, after privacy disclosures are provided to new customers, before information can be shared among Wells Fargo companies for the purpose of cross-selling Wells Fargo's products and services. This may result in certain cross-sell programs being less effective than they have been in the past. Wells Fargo must comply with these regulations not later than October 1, 2008.

For more information, refer to "Regulation and Supervision" in our 2007 Form 10-K and to "Report of Independent Registered Public Accounting Firm" in this Report.

WE MAY INCUR FINES, PENALTIES AND OTHER NEGATIVE CONSEQUENCES FROM REGULATORY VIOLATIONS, POSSIBLY EVEN INADVERTENT OR UNINTENTIONAL VIOLATIONS. We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations. However, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there was in place at the time systems and procedures designed to ensure compliance. For example, we are subject to regulations issued by the Office of Foreign Assets Control (OFAC) that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain foreign countries and designated nationals of those countries. OFAC may impose penalties for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. Therefore, the establishment and maintenance of systems and procedures reasonably designed to ensure compliance cannot guarantee that we will be able to avoid a fine or penalty for noncompliance. For example, in April 2003 and January 2005 OFAC reported settlements with Wells Fargo Bank, N.A. in amounts of \$5,500 and \$42,833, respectively. These settlements related to transactions involving inadvertent acts or human error alleged to have violated OFAC regulations. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage our reputation (see below) and could restrict the ability of institutional investment managers to invest in our securities.

NEGATIVE PUBLICITY COULD DAMAGE OUR REPUTATION. Reputation risk, or the risk to our earnings and capital from negative public opinion, is inherent in our business. Negative public opinion could adversely affect our ability to keep and attract customers and expose us to adverse legal and regulatory consequences. Negative public opinion could result from our actual or alleged conduct in any number of activities, including lending practices,

corporate governance, regulatory compliance, mergers and acquisitions, and disclosure, sharing or inadequate protection of customer information, and from actions taken by government regulators and community organizations in response to that conduct. Because we conduct most of our businesses under the "Wells Fargo" brand, negative public opinion about one business could affect our other businesses.

WE DEPEND ON THE ACCURACY AND COMPLETENESS OF INFORMATION ABOUT CUSTOMERS AND COUNTERPARTIES. In deciding whether to extend credit or enter into other transactions, we rely on the accuracy and completeness of information about our customers, including financial statements and other financial information and reports of independent auditors. For example, in deciding whether to extend credit, we may assume that a customer's audited financial statements conform with U.S. GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We also may rely on the audit report covering those financial statements. If that information is incorrect or incomplete, we may incur credit losses or other charges to earnings.

WE RELY ON OTHERS TO HELP US WITH OUR OPERATIONS. We rely on outside vendors to provide key components of our business operations such as internet connections and network access. Disruptions in communication services provided by a vendor or any failure of a vendor to handle current or higher volumes of use could hurt our ability to deliver products and services to our customers and otherwise to conduct our business. Financial or operational difficulties of an outside vendor could also hurt our operations if those difficulties interfere with the vendor's ability to serve us.

FEDERAL RESERVE BOARD POLICIES CAN SIGNIFICANTLY IMPACT BUSINESS AND ECONOMIC CONDITIONS AND OUR FINANCIAL RESULTS AND CONDITION. The Federal Reserve Board (FRB) regulates the supply of money and credit in the United States. Its policies determine in large part our cost of funds for lending and investing and the return we earn on those loans and investments, both of which affect our net interest margin. They also can materially affect the value of financial instruments we hold, such as debt securities and MSRs. Its policies also can affect our borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in FRB policies are beyond our control and can be hard to predict.

OUR STOCK PRICE CAN BE VOLATILE DUE TO OTHER FACTORS. Our stock price can fluctuate widely in response to a variety of factors, in addition to those described above, including:

- general business and economic conditions;
- recommendations by securities analysts;
- new technology used, or services offered, by our competitors;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry;
- changes in government regulations;
- natural disasters; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

Controls and Procedures

Disclosure Controls and Procedures

As required by SEC rules, the Company's management evaluated the effectiveness, as of December 31, 2007, of the Company's disclosure controls and procedures. The Company's chief executive officer and chief financial officer participated in the evaluation. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2007.

Internal Control over Financial Reporting

Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles (GAAP) and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. No change occurred during any quarter in 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Management's report on internal control over financial reporting is set forth below, and should be read with these limitations in mind.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on this assessment, management concluded that as of December 31, 2007, the Company's internal control over financial reporting was effective.

KPMG LLP, the independent registered public accounting firm that audited the Company's financial statements included in this Annual Report, issued an audit report on the Company's internal control over financial reporting. KPMG's audit report appears on the following page.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Wells Fargo & Company:

We have audited Wells Fargo & Company and Subsidiaries' ("the Company") internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 25, 2008, expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

San Francisco, California
February 25, 2008

Financial Statements

Wells Fargo & Company and Subsidiaries

Consolidated Statement of Income

(in millions, except per share amounts)

	Year ended December 31,		
	2007	2006	2005
INTEREST INCOME			
Trading assets	\$ 173	\$ 225	\$ 190
Securities available for sale	3,451	3,278	1,921
Mortgages held for sale	2,150	2,746	2,213
Loans held for sale	70	47	146
Loans	29,040	25,611	21,260
Other interest income	293	332	232
Total interest income	<u>35,177</u>	<u>32,239</u>	<u>25,962</u>
INTEREST EXPENSE			
Deposits	8,152	7,174	3,848
Short-term borrowings	1,245	992	744
Long-term debt	4,806	4,122	2,866
Total interest expense	<u>14,203</u>	<u>12,288</u>	<u>7,458</u>
NET INTEREST INCOME	20,974	19,951	18,504
Provision for credit losses	4,939	2,204	2,383
Net interest income after provision for credit losses	<u>16,035</u>	<u>17,747</u>	<u>16,121</u>
NONINTEREST INCOME			
Service charges on deposit accounts	3,050	2,690	2,512
Trust and investment fees	3,149	2,737	2,436
Card fees	2,136	1,747	1,458
Other fees	2,292	2,057	1,929
Mortgage banking	3,133	2,311	2,422
Operating leases	703	783	812
Insurance	1,530	1,340	1,215
Net gains (losses) on debt securities available for sale	209	(19)	(120)
Net gains from equity investments	734	738	511
Other	1,480	1,356	1,270
Total noninterest income	<u>18,416</u>	<u>15,740</u>	<u>14,445</u>
NONINTEREST EXPENSE			
Salaries	7,762	7,007	6,215
Incentive compensation	3,284	2,885	2,366
Employee benefits	2,322	2,035	1,874
Equipment	1,294	1,252	1,267
Net occupancy	1,545	1,405	1,412
Operating leases	561	630	635
Other	6,056	5,623	5,249
Total noninterest expense	<u>22,824</u>	<u>20,837</u>	<u>19,018</u>
INCOME BEFORE INCOME TAX EXPENSE	11,627	12,650	11,548
Income tax expense	3,570	4,230	3,877
NET INCOME	<u>\$ 8,057</u>	<u>\$ 8,420</u>	<u>\$ 7,671</u>
EARNINGS PER COMMON SHARE	\$ 2.41	\$ 2.50	\$ 2.27
DILUTED EARNINGS PER COMMON SHARE	\$ 2.38	\$ 2.47	\$ 2.25
DIVIDENDS DECLARED PER COMMON SHARE	\$ 1.18	\$ 1.08	\$ 1.00
Average common shares outstanding	3,348.5	3,368.3	3,372.5
Diluted average common shares outstanding	3,382.8	3,410.1	3,410.9

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheet

(in millions, except shares)	December 31,	
	2007	2006
ASSETS		
Cash and due from banks	\$ 14,757	\$ 15,028
Federal funds sold, securities purchased under resale agreements and other short-term investments	2,754	6,078
Trading assets	7,727	5,607
Securities available for sale	72,951	42,629
Mortgages held for sale (includes \$24,998 carried at fair value at December 31, 2007)	26,815	33,097
Loans held for sale	948	721
Loans	382,195	319,116
Allowance for loan losses	(5,307)	(3,764)
Net loans	<u>376,888</u>	<u>315,352</u>
Mortgage servicing rights:		
Measured at fair value (residential MSRs)	16,763	17,591
Amortized	466	377
Premises and equipment, net	5,122	4,698
Goodwill	13,106	11,275
Other assets	<u>37,145</u>	<u>29,543</u>
Total assets	<u>\$575,442</u>	<u>\$481,996</u>
LIABILITIES		
Noninterest-bearing deposits	\$ 84,348	\$ 89,119
Interest-bearing deposits	<u>260,112</u>	<u>221,124</u>
Total deposits	344,460	310,243
Short-term borrowings	53,255	12,829
Accrued expenses and other liabilities	30,706	25,965
Long-term debt	<u>99,393</u>	<u>87,145</u>
Total liabilities	<u>527,814</u>	<u>436,182</u>
STOCKHOLDERS' EQUITY		
Preferred stock	450	384
Common stock – \$1 ² / ₃ par value, authorized 6,000,000,000 shares; issued 3,472,762,050 shares	5,788	5,788
Additional paid-in capital	8,212	7,739
Retained earnings	38,970	35,215
Cumulative other comprehensive income	725	302
Treasury stock – 175,659,842 shares and 95,612,189 shares	(6,035)	(3,203)
Unearned ESOP shares	<u>(482)</u>	<u>(411)</u>
Total stockholders' equity	<u>47,628</u>	<u>45,814</u>
Total liabilities and stockholders' equity	<u>\$575,442</u>	<u>\$481,996</u>

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income

(in millions, except shares)	Number of common shares	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Cumulative other comprehensive income	Treasury stock	Unearned ESOP shares	Total stockholders' equity
BALANCE DECEMBER 31, 2004	<u>3,389,183,274</u>	<u>\$ 270</u>	<u>\$ 5,788</u>	<u>\$ 6,912</u>	<u>\$ 26,482</u>	<u>\$ 950</u>	<u>\$ (2,247)</u>	<u>\$ (289)</u>	<u>\$ 37,866</u>
Comprehensive income:									
Net income – 2005					7,671				7,671
Other comprehensive income, net of tax:									
Translation adjustments						5			5
Net unrealized losses on securities available for sale and other interests held						(298)			(298)
Net unrealized gains on derivatives and hedging activities						8			8
Total comprehensive income									7,386
Common stock issued	57,528,986			(52)	(198)		1,617		1,367
Common stock issued for acquisitions	3,909,004			12			110		122
Common stock repurchased	(105,597,728)						(3,159)		(3,159)
Preferred stock (363,000) issued to ESOP		362		25				(387)	—
Preferred stock released to ESOP				(21)				328	307
Preferred stock (307,100) converted to common shares	10,142,528	(307)		21			286		—
Common stock dividends					(3,375)				(3,375)
Tax benefit upon exercise of stock options				143					143
Other, net							3		3
Net change	<u>(34,017,210)</u>	<u>55</u>	<u>—</u>	<u>128</u>	<u>4,098</u>	<u>(285)</u>	<u>(1,143)</u>	<u>(59)</u>	<u>2,794</u>
BALANCE DECEMBER 31, 2005	<u>3,355,166,064</u>	<u>325</u>	<u>5,788</u>	<u>7,040</u>	<u>30,580</u>	<u>665</u>	<u>(3,390)</u>	<u>(348)</u>	<u>40,660</u>
Cumulative effect from adoption of FAS 156					101				101
BALANCE JANUARY 1, 2006	<u>3,355,166,064</u>	<u>325</u>	<u>5,788</u>	<u>7,040</u>	<u>30,681</u>	<u>665</u>	<u>(3,390)</u>	<u>(348)</u>	<u>40,761</u>
Comprehensive income:									
Net income – 2006					8,420				8,420
Other comprehensive income, net of tax:									
Net unrealized losses on securities available for sale and other interests held						(31)			(31)
Net unrealized gains on derivatives and hedging activities						70			70
Total comprehensive income									8,459
Common stock issued	70,063,930			(67)	(245)		2,076		1,764
Common stock repurchased	(58,534,072)						(1,965)		(1,965)
Preferred stock (414,000) issued to ESOP		414		29				(443)	—
Preferred stock released to ESOP				(25)				380	355
Preferred stock (355,659) converted to common shares	10,453,939	(355)		41			314		—
Common stock dividends					(3,641)				(3,641)
Tax benefit upon exercise of stock options				229					229
Stock option compensation expense				134					134
Net change in deferred compensation and related plans				50			(27)		23
Reclassification of share-based plans				308			(211)		97
Adoption of FAS 158						(402)			(402)
Net change	<u>21,983,797</u>	<u>59</u>	<u>—</u>	<u>699</u>	<u>4,534</u>	<u>(363)</u>	<u>187</u>	<u>(63)</u>	<u>5,053</u>
BALANCE DECEMBER 31, 2006	<u>3,377,149,861</u>	<u>384</u>	<u>5,788</u>	<u>7,739</u>	<u>35,215</u>	<u>302</u>	<u>(3,203)</u>	<u>(411)</u>	<u>45,814</u>
Cumulative effect from adoption of FSP 13-2					(71)				(71)
BALANCE JANUARY 1, 2007	<u>3,377,149,861</u>	<u>384</u>	<u>5,788</u>	<u>7,739</u>	<u>35,144</u>	<u>302</u>	<u>(3,203)</u>	<u>(411)</u>	<u>45,743</u>
Comprehensive income:									
Net income – 2007					8,057				8,057
Other comprehensive income, net of tax:									
Translation adjustments						23			23
Net unrealized losses on securities available for sale and other interests held						(164)			(164)
Net unrealized gains on derivatives and hedging activities						322			322
Defined benefit pension plans:									
Amortization of net actuarial loss and prior service cost included in net income						242			242
Total comprehensive income									8,480
Common stock issued	69,894,448			(132)	(276)		2,284		1,876
Common stock issued for acquisitions	58,058,813			190			1,935		2,125
Common stock repurchased	(220,327,473)						(7,418)		(7,418)
Preferred stock (484,000) issued to ESOP		484		34				(518)	—
Preferred stock released to ESOP				(29)				447	418
Preferred stock (418,000) converted to common shares	12,326,559	(418)		13			405		—
Common stock dividends					(3,955)				(3,955)
Tax benefit upon exercise of stock options				210					210
Stock option compensation expense				129					129
Net change in deferred compensation and related plans				58			(38)		20
Net change	<u>(80,047,653)</u>	<u>66</u>	<u>—</u>	<u>473</u>	<u>3,826</u>	<u>423</u>	<u>(2,832)</u>	<u>(71)</u>	<u>1,885</u>
BALANCE DECEMBER 31, 2007	<u>3,297,102,208</u>	<u>\$450</u>	<u>\$5,788</u>	<u>\$8,212</u>	<u>\$38,970</u>	<u>\$ 725</u>	<u>\$ (6,035)</u>	<u>\$ (482)</u>	<u>\$47,628</u>

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows

(in millions)	Year ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income	\$ 8,057	\$ 8,420	\$ 7,671
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Provision for credit losses	4,939	2,204	2,383
Change in fair value of MSR (residential) and MHFS carried at fair value	2,611	2,453	—
Reversal of provision for MSR in excess of fair value	—	—	(378)
Depreciation and amortization	1,532	3,221	4,161
Other net gains	(1,407)	(1,701)	(1,200)
Preferred shares released to ESOP	418	355	307
Stock option compensation expense	129	134	—
Excess tax benefits related to stock option payments	(196)	(227)	—
Originations of MHFS	(223,266)	(237,841)	(230,897)
Proceeds from sales of and principal collected on mortgages originated for sale	216,270	238,800	213,514
Net change in:			
Trading assets	(3,388)	5,271	(1,905)
Loans originated for sale	(222)	(109)	683
Deferred income taxes	(31)	593	813
Accrued interest receivable	(407)	(291)	(796)
Accrued interest payable	(87)	455	311
Other assets, net	(365)	3,570	(10,237)
Other accrued expenses and liabilities, net	4,491	2,669	3,585
Net cash provided (used) by operating activities	<u>9,078</u>	<u>27,976</u>	<u>(11,985)</u>
Cash flows from investing activities:			
Net change in:			
Federal funds sold, securities purchased under resale agreements and other short-term investments	3,331	(717)	(281)
Securities available for sale:			
Sales proceeds	47,990	53,304	19,059
Prepayments and maturities	8,505	7,321	6,972
Purchases	(75,129)	(62,462)	(28,634)
Loans:			
Increase in banking subsidiaries' loan originations, net of collections	(48,615)	(37,730)	(42,309)
Proceeds from sales (including participations) of loans originated for investment by banking subsidiaries	3,369	38,343	42,239
Purchases (including participations) of loans by banking subsidiaries	(8,244)	(5,338)	(8,853)
Principal collected on nonbank entities' loans	21,476	23,921	22,822
Loans originated by nonbank entities	(25,284)	(26,974)	(33,675)
Net cash acquired from (paid for) acquisitions	(2,811)	(626)	66
Proceeds from sales of foreclosed assets	1,405	593	444
Changes in MSR from purchases and sales	791	(3,539)	(1,943)
Other, net	(4,099)	(2,678)	(3,324)
Net cash used by investing activities	<u>(77,315)</u>	<u>(16,582)</u>	<u>(27,417)</u>
Cash flows from financing activities:			
Net change in:			
Deposits	27,058	(4,452)	38,961
Short-term borrowings	39,827	(11,156)	1,878
Long-term debt:			
Proceeds from issuance	29,360	20,255	26,473
Repayment	(18,250)	(12,609)	(18,576)
Common stock:			
Proceeds from issuance	1,876	1,764	1,367
Repurchased	(7,418)	(1,965)	(3,159)
Cash dividends paid	(3,955)	(3,641)	(3,375)
Excess tax benefits related to stock option payments	196	227	—
Other, net	(728)	(186)	(1,673)
Net cash provided (used) by financing activities	<u>67,966</u>	<u>(11,763)</u>	<u>41,896</u>
Net change in cash and due from banks	(271)	(369)	2,494
Cash and due from banks at beginning of year	<u>15,028</u>	<u>15,397</u>	<u>12,903</u>
Cash and due from banks at end of year	\$ 14,757	\$ 15,028	\$ 15,397
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 14,290	\$ 11,833	\$ 7,769
Income taxes	3,719	3,084	3,584
Noncash investing and financing activities:			
Transfers from trading assets to securities available for sale	\$ 1,268	\$ —	\$ —
Net transfers from loans held for sale to loans	—	—	7,444
Transfers from MHFS to securities available for sale	7,949	—	5,490
Transfers from MHFS to loans	2,133	—	—
Transfers from MHFS to MSR	3,720	4,118	2,652
Transfers from loans to MHFS	—	32,383	41,270
Transfers from loans to foreclosed assets	2,666	1,918	567

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Wells Fargo & Company is a diversified financial services company. We provide 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. In this Annual Report, when we refer to “the Company,” “we,” “our” or “us” we mean Wells Fargo & Company and Subsidiaries (consolidated). Wells Fargo & Company (the Parent) is a financial holding company and a bank holding company.

Our accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Management has made significant estimates in several areas, including the allowance for credit losses (Note 6), valuing residential mortgage servicing rights (MSRs) (Notes 8 and 9) and financial instruments (Note 17), pension accounting (Note 20) and income taxes (Note 21). Actual results could differ from those estimates.

In the Financial Statements and related Notes, all common share and per share disclosures reflect a two-for-one stock split in the form of a 100% stock dividend distributed August 11, 2006.

On January 1, 2007, we adopted the following new accounting pronouncements:

- FIN 48 – Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*;
- FSP 13-2 – FASB Staff Position 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*;
- FAS 155 – Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140*;
- FAS 157 – *Fair Value Measurements*; and
- FAS 159 – *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*.

The adoption of FIN 48, FAS 155, FAS 157 and FAS 159 did not have any effect on our financial statements at the date of adoption. For additional information, see Note 17 and Note 21.

FSP 13-2 relates to the accounting for leveraged lease transactions for which there have been cash flow estimate changes based on when income tax benefits are recognized. Certain of our leveraged lease transactions have been challenged by the Internal Revenue Service (IRS). We have paid

the IRS the contested income tax associated with these transactions. However, we are continuing to vigorously defend our initial filing position as to the timing of the tax benefits associated with these transactions. Upon adoption of FSP 13-2, we recorded a cumulative effect of change in accounting principle to reduce the beginning balance of 2007 retained earnings by \$71 million after tax (\$115 million pre tax). Since this adjustment changes only the timing of income tax cash flows and not the total net income for these leases, this amount will be recognized back into income over the remaining terms of the affected leases.

On July 1, 2007, we adopted Emerging Issues Task Force (EITF) Topic D-109, *Determining the Nature of a Host Contract Related to a Hybrid Financial Instrument Issued in the Form of a Share under FASB Statement No. 133* (Topic D-109), which provides clarifying guidance as to whether certain hybrid financial instruments are more akin to debt or equity, for purposes of evaluating whether the embedded derivative financial instrument requires separate accounting under FAS 133, *Accounting for Derivative Instruments and Hedging Activities*. In accordance with the transition provisions of Topic D-109, we transferred \$1.2 billion of securities, consisting of investments in preferred stock callable by the issuer, from trading assets to securities available for sale. Because the securities were carried at fair value, the adoption of Topic D-109 did not have any effect on our total stockholders' equity.

IMMATERIAL ADJUSTMENTS

We obtained concurrence from the staff of the Securities and Exchange Commission (the SEC) subsequent to the filing of our third quarter 2007 Form 10-Q concerning our accounting for the Visa restructuring transactions, including judgment sharing agreements previously executed among Wells Fargo, Visa Inc. and its predecessors (collectively Visa) and certain other member banks of the Visa USA network. We recorded an immaterial adjustment to the previously filed 2006 Statement of Income associated with indemnification obligations related to agreements entered into during second quarter 2006. Based on our proportionate membership share of Visa USA, a litigation liability and corresponding expense of \$95 million was recorded for second quarter 2006, which was included in Community Banking for management reporting. This adjustment was estimated based upon our share of an actual settlement reached in November 2007. The impact of this adjustment to the 2006 Statement of Income was to reduce net income by \$62 million and diluted earnings per share by \$0.02.

In 2006 and 2005, our consolidated statement of cash flows reflected mortgage servicing rights (MSRs) from securitizations and asset transfers, as separately detailed in Note 9, of \$4,118 million and \$2,652 million, respectively, as an increase to cash flows from operating activities with a corresponding decrease to cash flows from investing activities.

We have revised our consolidated statement of cash flows to appropriately reflect the proceeds from sales of mortgages held for sale (MHFS) and the related investment in MSRs as noncash transfers from MHFS to MSRs. The impact of the adjustments was to decrease net cash provided by operating activities from \$32,094 million to \$27,976 million in 2006, increase net cash used by operating activities from \$9,333 million to \$11,985 million in 2005, decrease net cash used by investing activities from \$20,700 million to \$16,582 million in 2006, and decrease net cash used by investing activities from \$30,069 million to \$27,417 million in 2005. These revisions to the historical financial statements were not considered to be material.

The following is a description of our significant accounting policies.

Consolidation

Our consolidated financial statements include the accounts of the Parent and our majority-owned subsidiaries and variable interest entities (VIEs) (defined below) in which we are the primary beneficiary. Significant intercompany accounts and transactions are eliminated in consolidation. If we own at least 20% of an entity, we generally account for the investment using the equity method. If we own less than 20% of an entity, we generally carry the investment at cost, except marketable equity securities, which we carry at fair value with changes in fair value included in other comprehensive income. Assets accounted for under the equity or cost method are included in other assets.

We are a variable interest holder in certain special-purpose entities in which we do not have a controlling financial interest or do not have enough equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Our variable interest arises from contractual, ownership or other monetary interests in the entity, which change with fluctuations in the entity's net asset value. We consolidate a VIE if we are the primary beneficiary because we will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

Trading Assets

Trading assets are primarily securities, including corporate debt, U.S. government agency obligations and other securities that we acquire for short-term appreciation or other trading purposes, and the fair value of derivatives held for customer accommodation purposes or proprietary trading. Trading assets are carried at fair value, with realized and unrealized gains and losses recorded in noninterest income. Noninterest income from trading assets was \$544 million in 2007 and 2006, and \$571 million in 2005.

Securities

SECURITIES AVAILABLE FOR SALE Debt securities that we might not hold until maturity and marketable equity securities are classified as securities available for sale and reported at estimated fair value. Unrealized gains and losses, after applicable taxes, are reported in cumulative other comprehensive income. Fair value measurement is based upon quoted prices, if available.

If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

We reduce the asset value when we consider the declines in the value of debt securities and marketable equity securities to be other than temporary and record the estimated loss in noninterest income. We conduct other-than-temporary impairment analysis on a quarterly basis. The initial indicator of other-than-temporary impairment for both debt and equity securities is a decline in market value below the amount recorded for an investment, and the severity and duration of the decline. In determining whether an impairment is other than temporary, we consider the length of time and the extent to which market value has been less than cost, any recent events specific to the issuer and economic conditions of its industry, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

For marketable equity securities, we also consider the issuer's financial condition, capital strength, and near-term prospects.

For debt securities we also consider:

- the cause of the price decline—general level of interest rates and industry and issuer-specific factors;
- the issuer's financial condition, near term prospects and current ability to make future payments in a timely manner;
- the issuer's ability to service debt; and
- any change in agencies' ratings at evaluation date from acquisition date and any likely imminent action.

The securities portfolio is an integral part of our asset/liability management process. We manage these investments to provide liquidity, manage interest rate risk and maximize portfolio yield within capital risk limits approved by management and the Board of Directors and monitored by the Corporate Asset/Liability Management Committee (Corporate ALCO). We recognize realized gains and losses on the sale of these securities in noninterest income using the specific identification method.

Unamortized premiums and discounts are recognized in interest income over the contractual life of the security using the interest method. As principal repayments are received on securities (i.e., primarily mortgage-backed securities) a pro-rata portion of the unamortized premium or discount is recognized in interest income.

NONMARKETABLE EQUITY SECURITIES Nonmarketable equity securities include venture capital equity securities that are not publicly traded and securities acquired for various purposes, such as to meet regulatory requirements (for example, Federal Reserve Bank and Federal Home Loan Bank stock). We review these assets at least quarterly for possible other-than-temporary impairment. Our review typically includes an analysis of the facts and circumstances of each investment, the expectations for the investment's cash flows and capital needs, the viability of its business model and our exit

strategy. These securities are accounted for under the cost or equity method and are included in other assets. We reduce the asset value when we consider declines in value to be other than temporary. We recognize the estimated loss as a loss from equity investments in noninterest income.

Mortgages Held for Sale

Mortgages held for sale (MHFS) include commercial and residential mortgages originated for sale and securitization in the secondary market, which is our principal market, or for sale as whole loans. Effective January 1, 2007, we elected to measure new prime residential MHFS at fair value.

Nonprime residential and commercial MHFS continue to be held at the lower of cost or market value. For these loans, gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income. Direct loan origination costs and fees are deferred at origination of the loan. The deferred costs and fees are recognized in mortgage banking noninterest income upon sale of the loan.

At origination, our lines of business are authorized to originate held for investment loans that meet or exceed established loan product profitability criteria, including minimum positive net interest margin spreads in excess of funding costs. When a determination is made at the time of commitment to originate loans as held for investment, it is our intent to hold these loans to maturity or for the “foreseeable future,” subject to periodic review under our corporate asset/liability management process. In determining the “foreseeable future” for these loans, management considers 1) the current economic environment and market conditions, 2) our business strategy and current business plans, 3) the nature and type of the loan receivable, including its expected life, and 4) our current financial condition and liquidity demands. Consistent with our core banking business of managing the spread between the yield on our assets and the cost of our funds, loans are periodically reevaluated to determine if our minimum net interest margin spreads continue to meet our profitability objectives. If subsequent changes in interest rates significantly impact the ongoing profitability of certain loan products, we may subsequently change our intent to hold these loans and we would take actions to sell such loans in response to the Corporate ALCO directives to reposition our balance sheet because of the changes in interest rates. Such Corporate ALCO directives identify both the type of loans (for example 3/1, 5/1, 10/1 and relationship adjustable-rate mortgages (ARMs), as well as specific fixed-rate loans) to be sold and the weighted-average coupon rate of such loans no longer meeting our ongoing investment criteria. Upon the issuance of such directives, we immediately transfer these loans to the MHFS portfolio at the lower of cost or market value.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or market value. Gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income. Direct loan origination costs and fees are deferred at origination of the loan. These deferred costs and fees are recognized in

noninterest income upon sale of the loan.

Loans

Loans are reported at their outstanding principal balances net of any unearned income, charge-offs, unamortized deferred fees and costs on originated loans and premiums or discounts on purchased loans, except for certain purchased loans, which are recorded at fair value on their purchase date. Unearned income, deferred fees and costs, and discounts and premiums are amortized to income over the contractual life of the loan using the interest method.

We offer a portfolio product known as relationship ARMs that provides interest rate reductions to reward eligible banking customers who have an existing relationship or establish a new relationship with Wells Fargo. Accordingly, this product offering is generally underwritten to certain Company guidelines rather than secondary market standards and is typically originated for investment. At December 31, 2007 and 2006, we had \$15.4 billion and \$3.4 billion, respectively, of relationship ARMs in loans held for investment and \$2 million and \$163 million, respectively, in mortgages held for sale. Originations, net of collections and proceeds from the sale of these loans are reflected as investing cash flows consistent with their original classification.

Lease financing assets include aggregate lease rentals, net of related unearned income, which includes deferred investment tax credits, and related nonrecourse debt. Leasing income is recognized as a constant percentage of outstanding lease financing balances over the lease terms.

Loan commitment fees are generally deferred and amortized into noninterest income on a straight-line basis over the commitment period.

From time to time, we pledge loans, primarily 1-4 family mortgage loans, to secure borrowings from the Federal Home Loan Bank.

NONACCRUAL LOANS 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.

Generally, consumer loans not secured by real estate or autos are placed on nonaccrual status only when part of the principal has been charged off. These loans are charged off or charged down to the net realizable value of the collateral when deemed uncollectible, due to bankruptcy or other factors, or when they reach a defined number of days past due based on loan product, industry practice, country, terms and other factors.

When we place a loan on nonaccrual status, we reverse the accrued and unpaid interest receivable against interest income and account for the loan on the cash or cost recovery method, until it qualifies for return to accrual status. Generally, we return a loan to accrual status when (a) all delinquent interest and principal becomes current under the terms of the

loan agreement or (b) the loan is both well-secured and in the process of collection and collectibility is no longer doubtful.

IMPAIRED LOANS We consider a loan to be impaired when, based on current information and events, we determine that we will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. We assess and account for as impaired certain nonaccrual commercial and commercial real estate loans that are over \$3 million and certain consumer, commercial and commercial real estate loans whose terms have been modified in a troubled debt restructuring.

When we identify a loan as impaired, we measure the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases we use an observable market price or the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows.

If we determine that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), we recognize impairment through an allowance estimate or a charge-off to the allowance.

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.

Transfers and Servicing of Financial Assets

We account for a transfer of financial assets as a sale when we surrender control of the transferred assets. Effective January 1, 2006, upon adoption of FAS 156, *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140*, servicing rights resulting from the sale or securitization of loans we originate (asset transfers), are initially measured at fair value at the date of transfer. We recognize the rights to service mortgage loans for others, or mortgage servicing rights (MSRs), as assets whether we purchase the MSRs or the MSRs result from an asset transfer. We determine the fair value of servicing rights at the date of transfer using the present value of estimated future net servicing income, using assumptions that market participants use in their estimates of values. We use quoted market prices when available to determine the value of other interests held. Gain or loss on sale of loans depends on (a) proceeds received and (b) the previous carrying amount of the financial assets transferred and any interests we continue to hold (such as interest-only strips) based on relative fair value at the date of transfer.

To determine the fair value of MSRs, we use a valuation model that calculates the present value of estimated future net servicing income. We use assumptions in the valuation model that market participants use in estimating future net servicing income, including estimates of prepayment speeds (including housing price volatility), discount rate, default rates, cost to service (including delinquency and foreclosure costs), escrow

account earnings, contractual servicing fee income, ancillary income and late fees. This model is validated by an independent internal model validation group operating in accordance with a model validation policy approved by Corporate ALCO.

MORTGAGE SERVICING RIGHTS MEASURED AT FAIR VALUE

Effective January 1, 2006, upon adoption of FAS 156, we elected to initially measure and carry our MSRs related to residential mortgage loans (residential MSRs) using the fair value method. Under the fair value method, residential MSRs are carried in the balance sheet at fair value and the changes in fair value, primarily due to changes in valuation inputs and assumptions and to the collection/realization of expected cash flows, are reported in earnings in the period in which the change occurs.

Effective January 1, 2006, upon the remeasurement of our residential MSRs at fair value, we recorded a cumulative effect adjustment to increase the 2006 beginning balance of retained earnings by \$101 million after tax (\$158 million pre tax) in stockholders' equity.

AMORTIZED MORTGAGE SERVICING RIGHTS

Amortized MSRs, which include commercial MSRs and, prior to January 1, 2006, residential MSRs, are carried at the lower of cost or market value. These MSRs are amortized in proportion to, and over the period of, estimated net servicing income. The amortization of MSRs is analyzed monthly and is adjusted to reflect changes in prepayment speeds, as well as other factors.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Capital leases are included in premises and equipment at the capitalized amount less accumulated amortization.

We primarily use the straight-line method of depreciation and amortization. Estimated useful lives range up to 40 years for buildings, up to 10 years for furniture and equipment, and the shorter of the estimated useful life or lease term for leasehold improvements. We amortize capitalized leased assets on a straight-line basis over the lives of the respective leases.

Goodwill and Identifiable Intangible Assets

Goodwill is recorded when the purchase price is higher than the fair value of net assets acquired in business combinations under the purchase method of accounting.

We assess goodwill for impairment annually, and more frequently in certain circumstances. We assess goodwill for impairment on a reporting unit level by applying a fair-value-based test using discounted estimated future net cash flows. Impairment exists when the carrying amount of the goodwill exceeds its implied fair value. We recognize impairment losses as a charge to noninterest expense (unless related to discontinued operations) and an adjustment to the carrying value of the goodwill asset. Subsequent reversals of goodwill impairment are prohibited.

We amortize core deposit intangibles on an accelerated basis based on useful lives of 10 to 15 years. We review core deposit intangibles for impairment whenever events

or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment is indicated if the sum of undiscounted estimated future net cash flows is less than the carrying value of the asset. Impairment is permanently recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value.

Operating Lease Assets

Operating lease rental income for leased assets, generally autos, is recognized in other income on a straight-line basis over the lease term. Related depreciation expense is recorded on a straight-line basis over the life of the lease, taking into account the estimated residual value of the leased asset. On a periodic basis, leased assets are reviewed for impairment. Impairment loss is recognized if the carrying amount of leased assets exceeds fair value and is not recoverable. The carrying amount of leased assets is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the lease payments and the estimated residual value upon the eventual disposition of the equipment. Leased assets are written down to the fair value of the collateral less cost to sell when 120 days past due.

Pension Accounting

We account for our defined benefit pension plans using an actuarial model required by FAS 87, *Employers' Accounting for Pensions*, as amended by FAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. This model allocates pension costs over the service period of employees in the plan. The underlying principle is that employees render service ratably over this period and, therefore, the income statement effects of pensions should follow a similar pattern.

FAS 158 was issued on September 29, 2006, and became effective for us on December 31, 2006. FAS 158 requires us to recognize the funded status of our pension and postretirement benefit plans on our balance sheet. Additionally, FAS 158 will require us to use a year-end measurement date beginning in 2008. We conformed our pension asset and our pension and postretirement liabilities to FAS 158 and recorded a corresponding reduction of \$402 million (after tax) to the December 31, 2006, balance of cumulative other comprehensive income in stockholders' equity. The adoption of FAS 158 did not change the amount of net periodic benefit expense recognized in our income statement.

One of the principal components of the net periodic pension expense calculation is the expected long-term rate of return on plan assets. The use of an expected long-term rate of return on plan assets may cause us to recognize pension income returns that are greater or less than the actual returns of plan assets in any given year.

The expected long-term rate of return is designed to approximate the actual long-term rate of return over time and is not expected to change significantly. Therefore, the pattern of income/expense recognition should closely match the stable pattern of services provided by our employees over the life of our pension obligation. To determine if the expected

rate of return is reasonable, we consider such factors as (1) long-term historical return experience for major asset class categories (for example, large cap and small cap domestic equities, international equities and domestic fixed income), and (2) forward-looking return expectations for these major asset classes. Differences in each year, if any, between expected and actual returns are included in our net actuarial gain or loss amount, which is recognized in other comprehensive income. We generally amortize any net actuarial gain or loss in excess of a 5% corridor (as defined in FAS 87) in net periodic pension expense calculations over the next five years.

We use a discount rate to determine the present value of our future benefit obligations. The discount rate reflects the rates available at the measurement date on long-term high-quality fixed-income debt instruments and is reset annually on the measurement date (November 30). In 2008, we will use December 31 as our measurement date as required under FAS 158.

Income Taxes

We file a consolidated federal income tax return and, in certain states, combined state tax returns.

We account for income taxes in accordance with FAS 109, *Accounting for Income Taxes*, as interpreted by FIN 48, resulting in two components of income tax expense: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the current period and includes income tax expense related to our uncertain tax positions. We determine deferred income taxes using the balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and recognizes enacted changes in tax rates and laws in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. A tax position that meets the "more likely than not" recognition threshold is measured to determine the amount of benefit to recognize. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. Foreign taxes paid are generally applied as credits to reduce federal income taxes payable. Interest and penalties are recognized as a component of income tax expense.

Stock-Based Compensation

We have stock-based employee compensation plans, as more fully discussed in Note 19. Prior to January 1, 2006, we accounted for stock options and stock awards under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations, as permitted by FAS 123, *Accounting for Stock-Based Compensation*. Under this guidance, no stock option expense was recognized in our income statement for periods prior to January 1, 2006, as all options granted under our plans had an exercise price equal to the market value of the underlying common stock on the

date of grant. Effective January 1, 2006, we adopted FAS 123(R), *Share-Based Payment*, using the “modified prospective” transition method. Accordingly, compensation cost recognized in 2006 and 2007 includes (1) compensation cost for share-based payments granted prior to, but not yet vested as of the adoption date of January 1, 2006, based on the grant date fair value estimated in accordance with FAS 123, and (2) compensation cost for all share-based awards granted on or after January 1, 2006. Results for prior periods have not been restated. In calculating the common stock equivalents for purposes of diluted earnings per share, we selected the transition method provided by FASB Staff Position FAS 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*.

As a result of adopting FAS 123(R) on January 1, 2006, income before income taxes of \$11.6 billion and net income of \$8.1 billion for 2007 was \$129 million and \$80 million lower, respectively, than if we had continued to account for share-based compensation under APB 25, and, for 2006, income before income taxes of \$12.7 billion and net income of \$8.4 billion was \$134 million and \$84 million lower, respectively. Basic and diluted earnings per share for 2007 of \$2.41 and \$2.38, respectively, were both \$0.025 per share lower than if we had not adopted FAS 123(R), and, for 2006, basic and diluted earnings per share of \$2.50 and \$2.47, respectively, were also both \$0.025 per share lower.

Pro forma net income and earnings per common share information are provided in the following table as if we accounted for employee stock option plans under the fair value method of FAS 123 in 2005.

(in millions, except per share amounts)	Year ended December 31, 2005
Net income, as reported	\$7,671
Add: Stock-based employee compensation expense included in reported net income, net of tax	1
Less: Total stock-based employee compensation expense under the fair value method for all awards, net of tax	(188)
Net income, pro forma	<u>\$7,484</u>
Earnings per common share	
As reported	\$ 2.27
Pro forma	2.22
Diluted earnings per common share	
As reported	\$ 2.25
Pro forma	2.19

Stock options granted in each of our February 2005 and February 2004 annual grants, under our Long-Term Incentive Compensation Plan (the Plan), fully vested upon grant, resulting in full recognition of stock-based compensation expense for both grants in the year of the grant under the fair value method in the table above. Stock options granted in our 2003 annual grant under the Plan vest over a three-year period, and expense reflected in the table for this grant is recognized over the vesting period.

Earnings Per Common Share

We present earnings per common share and diluted earnings per common share. We compute earnings per common share by dividing net income (after deducting dividends on preferred stock) by the average number of common shares outstanding during the year. We compute diluted earnings per common share by dividing net income (after deducting dividends on preferred stock) by the average number of common shares outstanding during the year, plus the effect of common stock equivalents (for example, stock options, restricted share rights and convertible debentures) that are dilutive.

Derivatives and Hedging Activities

We recognize all derivatives in the balance sheet at fair value. On the date we enter into a derivative contract, we designate the derivative as (1) a hedge of the fair value of a recognized asset or liability, including hedges of foreign currency exposure (“fair value” hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow” hedge), or (3) held for trading, customer accommodation or asset/liability risk management purposes, including economic hedges not qualifying under FAS 133, *Accounting for Derivative Instruments and Hedging Activities* (“free-standing derivative”). For a fair value hedge, we record changes in the fair value of the derivative and, to the extent that it is effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk, in current period earnings in the same financial statement category as the hedged item. For a cash flow hedge, we record changes in the fair value of the derivative to the extent that it is effective in other comprehensive income, with any ineffectiveness recorded in current period earnings. We subsequently reclassify these changes in fair value to net income in the same period(s) that the hedged transaction affects net income in the same financial statement category as the hedged item. For free-standing derivatives, we report changes in the fair values in current period noninterest income.

For fair value and cash flow hedges qualifying under FAS 133, we formally document at inception the relationship between hedging instruments and hedged items, our risk management objective, strategy and our evaluation of effectiveness for our hedge transactions. This includes linking all derivatives designated as fair value or cash flow hedges to specific assets and liabilities in the balance sheet or to specific forecasted transactions. Periodically, as required, we also formally assess whether the derivative we designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in fair values or cash flows of the hedged item using the regression analysis method or, in limited cases, the dollar offset method.

We discontinue hedge accounting prospectively when (1) a derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item, (2) a derivative expires or is sold, terminated, or exercised, (3) a derivative is de-designated as a hedge, because it is unlikely that a forecasted transaction will occur, or (4) we determine that designation of a derivative as a hedge is no longer appropriate.

When we discontinue hedge accounting because a derivative no longer qualifies as an effective fair value hedge, we continue to carry the derivative in the balance sheet at its fair value with changes in fair value included in earnings, and no longer adjust the previously hedged asset or liability for changes in fair value. Previous adjustments to the hedged item are accounted for in the same manner as other components of the carrying amount of the asset or liability.

When we discontinue cash flow hedge accounting because the hedging instrument is sold, terminated, or no longer designated (de-designated), the amount reported in other comprehensive income up to the date of sale, termination or de-designation continues to be reported in other comprehensive income until the forecasted transaction affects earnings.

When we discontinue cash flow hedge accounting because it is probable that a forecasted transaction will not occur, we continue to carry the derivative in the balance sheet at its fair value with changes in fair value included in earnings, and immediately recognize gains and losses that were accumulated in other comprehensive income in earnings.

In all other situations in which we discontinue hedge accounting, the derivative will be carried at its fair value in

the balance sheet, with changes in its fair value recognized in current period earnings.

We occasionally purchase or originate financial instruments that contain an embedded derivative. At inception of the financial instrument, we assess (1) if the economic characteristics of the embedded derivative are not clearly and closely related to the economic characteristics of the financial instrument (host contract), (2) if the financial instrument that embodies both the embedded derivative and the host contract is not measured at fair value with changes in fair value reported in earnings, and (3) if a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative. If the embedded derivative meets all of these conditions, we separate it from the host contract by recording the bifurcated derivative at fair value and the remaining host contract at the difference between the basis of the hybrid instrument and the fair value of the bifurcated derivative. The bifurcated derivative is carried as a free-standing derivative at fair value with changes recorded in current period earnings.

Note 2: Business Combinations

We regularly explore opportunities to acquire financial services companies and businesses. Generally, we do not make a public announcement about an acquisition opportunity until a definitive agreement has been signed.

Business combinations completed in 2007, 2006 and 2005 are presented below.

For information on additional consideration related to acquisitions, which is considered to be a guarantee, see Note 15.

(in millions)	Date	Assets
2007		
Placer Sierra Bancshares, Sacramento, California	June 1	\$ 2,644
Certain assets of The CIT Group/Equipment Financing, Inc., Tempe, Arizona	June 29	2,888
Greater Bay Bancorp, East Palo Alto, California	October 1	8,204
Certain Illinois branches of National City Bank, Cleveland, Ohio	December 7	61
Other ⁽¹⁾	Various	<u>61</u>
		<u>\$13,858</u>
2006		
Secured Capital Corp/Secured Capital LLC, Los Angeles, California	January 18	\$ 132
Martinius Corporation, Rogers, Minnesota	March 1	91
Commerce Funding Corporation, Vienna, Virginia	April 17	82
Fremont National Bank of Canon City/Centennial Bank of Pueblo, Canon City and Pueblo, Colorado	June 7	201
Certain assets of the Reilly Mortgage Companies, McLean, Virginia	August 1	303
Barrington Associates, Los Angeles, California	October 2	65
EFC Partners LP (Evergreen Funding), Dallas, Texas	December 15	93
Other ⁽²⁾	Various	<u>20</u>
		<u>\$ 987</u>
2005		
Certain branches of PlainsCapital Bank, Amarillo, Texas	July 22	\$ 190
First Community Capital Corporation, Houston, Texas	July 31	644
Other ⁽³⁾	Various	<u>40</u>
		<u>\$ 874</u>

(1) Consists of six acquisitions of insurance brokerage and third party health care payment processing businesses.

(2) Consists of seven acquisitions of insurance brokerage businesses.

(3) Consists of eight acquisitions of insurance brokerage and lockbox processing businesses.

Note 3: Cash, Loan and Dividend Restrictions

Federal Reserve Board regulations require that each of our subsidiary banks maintain reserve balances on deposits with the Federal Reserve Banks. The average required reserve balance was \$2.0 billion in 2007 and \$1.7 billion in 2006.

Federal law restricts the amount and the terms of both credit and non-credit transactions between a bank and its nonbank affiliates. They may not exceed 10% of the bank's capital and surplus (which for this purpose represents Tier 1 and Tier 2 capital, as calculated under the risk-based capital guidelines, plus the balance of the allowance for credit losses excluded from Tier 2 capital) with any single nonbank affiliate and 20% of the bank's capital and surplus with all its nonbank affiliates. Transactions that are extensions of credit may require collateral to be held to provide added security to the bank. (For further discussion of risk-based capital, see Note 26.)

Dividends paid by our subsidiary banks are subject to various federal and state regulatory limitations. Dividends that may be paid by a national bank without the express

approval of the Office of the Comptroller of the Currency (OCC) are limited to that bank's retained net profits for the preceding two calendar years plus retained net profits up to the date of any dividend declaration in the current calendar year. Retained net profits, as defined by the OCC, consist of net income less dividends declared during the period. We also have state-chartered subsidiary banks that are subject to state regulations that limit dividends. Under those provisions, our national and state-chartered subsidiary banks could have declared additional dividends of \$2.2 billion at December 31, 2007, without obtaining prior regulatory approval. Our nonbank subsidiaries are also limited by certain federal and state statutory provisions and regulations covering the amount of dividends that may be paid in any given year. Based on retained earnings at December 31, 2007, our nonbank subsidiaries could have declared additional dividends of \$3.7 billion at December 31, 2007, without obtaining prior approval.

Note 4: Federal Funds Sold, Securities Purchased under Resale Agreements and Other Short-Term Investments

The table below provides the detail of federal funds sold, securities purchased under resale agreements and other short-term investments.

(in millions)	December 31,	
	2007	2006
Federal funds sold and securities purchased under resale agreements	\$1,700	\$5,024
Interest-earning deposits	460	413
Other short-term investments	594	641
Total	<u>\$2,754</u>	<u>\$6,078</u>

For resale agreements, which represent collateralized financing transactions, we hold collateral in the form of securities that we have the right to sell or repledge of \$1.1 billion at December 31, 2007, and \$1.8 billion at December 31, 2006, of which we sold or repledged \$705 million and \$1.4 billion, respectively.

Note 5: Securities Available for Sale

The following table provides the cost and fair value for the major categories of securities available for sale carried at fair value. The net unrealized gains (losses) are reported on an

after-tax basis as a component of cumulative other comprehensive income. There were no securities classified as held to maturity as of the periods presented.

(in millions)	2007				December 31, 2006			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Securities of U.S. Treasury and federal agencies	\$ 962	\$ 20	\$ —	\$ 982	\$ 774	\$ 2	\$ (8)	\$ 768
Securities of U.S. states and political subdivisions	6,128	135	(111)	6,152	3,387	148	(5)	3,530
Mortgage-backed securities:								
Federal agencies	34,092	898	(3)	34,987	26,981	497	(15)	27,463
Private collateralized mortgage obligations ⁽¹⁾	20,026	82	(126)	19,982	3,989	63	(6)	4,046
Total mortgage-backed securities	54,118	980	(129)	54,969	30,970	560	(21)	31,509
Other	8,185	45	(165)	8,065	5,980	67	(21)	6,026
Total debt securities	69,393	1,180	(405)	70,168	41,111	777	(55)	41,833
Marketable equity securities	2,878	172	(267)	2,783	592	210	(6)	796
Total ⁽²⁾	<u>\$72,271</u>	<u>\$1,352</u>	<u>\$(672)</u>	<u>\$72,951</u>	<u>\$41,703</u>	<u>\$987</u>	<u>\$(61)</u>	<u>\$42,629</u>

(1) Most of the private collateralized mortgage obligations are AAA-rated bonds collateralized by 1-4 family residential first mortgages.

(2) At December 31, 2007, we held no securities of any single issuer (excluding the U.S. Treasury and federal agencies) with a book value that exceeded 10% of stockholders' equity.

The following table shows the gross unrealized losses and fair value of securities in the securities available-for-sale portfolio at December 31, 2007 and 2006, by length of time

that individual securities in each category had been in a continuous loss position.

(in millions)	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
December 31, 2007						
Securities of U.S. Treasury and federal agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Securities of U.S. states and political subdivisions	(98)	1,957	(13)	70	(111)	2,027
Mortgage-backed securities:						
Federal agencies	(1)	39	(2)	150	(3)	189
Private collateralized mortgage obligations	(124)	7,722	(2)	54	(126)	7,776
Total mortgage-backed securities	(125)	7,761	(4)	204	(129)	7,965
Other	(140)	2,425	(25)	491	(165)	2,916
Total debt securities	(363)	12,143	(42)	765	(405)	12,908
Marketable equity securities	(266)	1,688	(1)	36	(267)	1,724
Total	<u>\$(629)</u>	<u>\$13,831</u>	<u>\$(43)</u>	<u>\$ 801</u>	<u>\$(672)</u>	<u>\$14,632</u>
December 31, 2006						
Securities of U.S. Treasury and federal agencies	\$ (1)	\$ 164	\$ (7)	\$ 316	\$ (8)	\$ 480
Securities of U.S. states and political subdivisions	(4)	203	(1)	90	(5)	293
Mortgage-backed securities:						
Federal agencies	(10)	342	(5)	213	(15)	555
Private collateralized mortgage obligations	(5)	67	(1)	68	(6)	135
Total mortgage-backed securities	(15)	409	(6)	281	(21)	690
Other	(6)	365	(15)	558	(21)	923
Total debt securities	(26)	1,141	(29)	1,245	(55)	2,386
Marketable equity securities	(6)	75	—	—	(6)	75
Total	<u>\$(32)</u>	<u>\$ 1,216</u>	<u>\$(29)</u>	<u>\$1,245</u>	<u>\$(61)</u>	<u>\$ 2,461</u>

The decline in fair value for the debt securities that had been in a continuous loss position for 12 months or more at December 31, 2007, was due to changes in market interest rates and not due to the credit quality of the securities. We believe that the principal and interest on these securities are fully collectible and we have the intent and ability to retain our investment for a period of time to allow for any anticipated recovery in market value. We have reviewed these securities in accordance with our policy and do not consider them to be other-than-temporarily impaired.

Securities pledged where the secured party has the right to sell or repledge totaled \$5.8 billion at December 31, 2007 and \$5.3 billion at December 31, 2006. Securities pledged where the secured party does not have the right to sell or repledge totaled \$44.9 billion at December 31, 2007, and \$29.3 billion at December 31, 2006, primarily to secure trust and public deposits and for other purposes as required or permitted by law.

The following table shows the net realized gains on the sales of securities from the securities available-for-sale portfolio, including marketable equity securities.

(in millions)	Year ended December 31,		
	2007	2006	2005
Gross realized gains	\$ 472	\$ 621	\$ 355
Gross realized losses ⁽¹⁾	<u>(127)</u>	<u>(295)</u>	<u>(315)</u>
Net realized gains	<u>\$ 345</u>	<u>\$ 326</u>	<u>\$ 40</u>

(1) Includes other-than-temporary impairment of \$50 million, \$22 million and \$45 million for 2007, 2006 and 2005, respectively.

The following table shows the remaining contractual principal maturities and contractual yields of debt securities available for sale. The remaining contractual principal maturities for mortgage-backed securities were allocated assuming no prepayments. Remaining expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations before the underlying mortgages mature.

(in millions)	Total amount	Weighted-average yield	December 31, 2007							
			Remaining contractual principal maturity							
			Within one year		After one year through five years		After five years through ten years		After ten years	
Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield			
Securities of U.S. Treasury and federal agencies	\$ 982	4.25%	\$ 87	3.78%	\$ 666	4.14%	\$ 227	4.73%	\$ 2	7.25%
Securities of U.S. states and political subdivisions	6,152	7.14	301	6.52	881	6.86	1,386	6.93	3,584	7.34
Mortgage-backed securities:										
Federal agencies	34,987	5.92	1	6.27	128	8.25	160	7.00	34,698	5.91
Private collateralized mortgage obligations	<u>19,982</u>	6.04	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>318</u>	6.01	<u>19,664</u>	6.04
Total mortgage-backed securities	54,969	5.96	1	6.27	128	8.25	478	6.34	54,362	5.95
Other	<u>8,065</u>	6.65	<u>860</u>	6.25	<u>4,982</u>	6.32	<u>1,021</u>	7.31	<u>1,202</u>	7.71
Total debt securities at fair value ⁽¹⁾	<u>\$70,168</u>	<u>6.12%</u>	<u>\$1,249</u>	<u>6.14%</u>	<u>\$6,657</u>	<u>6.21%</u>	<u>\$3,112</u>	<u>6.81%</u>	<u>\$59,150</u>	<u>6.07%</u>

(1) The weighted-average yield is computed using the contractual life amortization method.

Note 6: Loans and Allowance for Credit Losses

A summary of the major categories of loans outstanding is shown in the following table. Outstanding loan balances reflect unearned income, net deferred loan fees, and unamortized discount and premium totaling \$4,083 million and \$3,113 million at December 31, 2007 and 2006, respectively.

Loan concentrations may exist when there are amounts loaned to borrowers engaged in similar activities or similar types of loans extended to a diverse group of borrowers that would cause them to be similarly impacted by economic or other conditions. At December 31, 2007 and 2006, we did not have concentrations representing 10% or more of our total loan portfolio in commercial loans and lease financing by industry or commercial real estate loans (other real estate mortgage and real estate construction) by state or property type. Our real estate 1-4 family mortgage loans to borrowers in the state of California represented approximately 13% of total loans at December 31, 2007, compared with 11% at December 31, 2006. These loans are generally diversified among the larger metropolitan areas in California, with no

single area consisting of more than 3% of total loans. Changes in real estate values and underlying economic conditions for these areas are monitored continuously within our credit risk management process. In 2007, the residential real estate markets experienced significant declines in property values, and several markets in California, specifically the Central Valley and several Southern California metropolitan statistical areas, experienced more severe value adjustments.

Some of our real estate 1-4 family mortgage loans, including first mortgage and home equity products, include an interest-only feature as part of the loan terms. At December 31, 2007, such loans were approximately 20% of total loans, compared with 19% at December 31, 2006. Substantially all of these loans are considered to be prime or near prime. We do not make or purchase option adjustable-rate mortgage products, nor do we make or purchase variable-rate mortgage products with fixed payment amounts, commonly referred to within the financial services industry as negative amortizing mortgage loans.

(in millions)	December 31,				
	2007	2006	2005	2004	2003
Commercial and commercial real estate:					
Commercial	\$ 90,468	\$ 70,404	\$ 61,552	\$ 54,517	\$ 48,729
Other real estate mortgage	36,747	30,112	28,545	29,804	27,592
Real estate construction	18,854	15,935	13,406	9,025	8,209
Lease financing	6,772	5,614	5,400	5,169	4,477
Total commercial and commercial real estate	<u>152,841</u>	<u>122,065</u>	<u>108,903</u>	<u>98,515</u>	<u>89,007</u>
Consumer:					
Real estate 1-4 family first mortgage	71,415	53,228	77,768	87,686	83,535
Real estate 1-4 family junior lien mortgage	75,565	68,926	59,143	52,190	36,629
Credit card	18,762	14,697	12,009	10,260	8,351
Other revolving credit and installment	56,171	53,534	47,462	34,725	33,100
Total consumer	<u>221,913</u>	<u>190,385</u>	<u>196,382</u>	<u>184,861</u>	<u>161,615</u>
Foreign	7,441	6,666	5,552	4,210	2,451
Total loans	<u>\$382,195</u>	<u>\$319,116</u>	<u>\$310,837</u>	<u>\$287,586</u>	<u>\$253,073</u>

For certain extensions of credit, we may require collateral, based on our assessment of a customer's credit risk. We hold various types of collateral, including accounts receivable, inventory, land, buildings, equipment, autos, financial instruments, income-producing commercial properties and residential real estate. Collateral requirements for each customer may vary according to the specific credit underwriting, terms and structure of loans funded immediately or under a commitment to fund at a later date.

A commitment to extend credit is a legally binding agreement to lend funds to a customer, usually at a stated interest rate and for a specified purpose. These commitments have fixed expiration dates and generally require a fee. When we make such a commitment, we have credit risk. The liquidity requirements or credit risk will be lower than the contractual

amount of commitments to extend credit because a significant portion of these commitments are expected to expire without being used. Certain commitments are subject to loan agreements with covenants regarding the financial performance of the customer or borrowing base formulas that must be met before we are required to fund the commitment. We use the same credit policies in extending credit for unfunded commitments and letters of credit that we use in making loans. For information on standby letters of credit, see Note 15.

In addition, we manage the potential risk in credit commitments by limiting the total amount of arrangements, both by individual customer and in total, by monitoring the size and maturity structure of these portfolios and by applying the same credit standards for all of our credit activities.

The total of our unfunded loan commitments, net of all funds lent and all standby and commercial letters of credit issued under the terms of these commitments, is summarized by loan category in the following table:

(in millions)	December 31,	
	2007	2006
Commercial and commercial real estate:		
Commercial	\$ 89,480	\$ 79,879
Other real estate mortgage	2,911	2,612
Real estate construction	<u>9,986</u>	<u>9,600</u>
Total commercial and commercial real estate	102,377	92,091
Consumer:		
Real estate 1-4 family first mortgage	11,861	9,708
Real estate 1-4 family junior lien mortgage	47,763	44,179
Credit card	62,680	55,010
Other revolving credit and installment	<u>16,220</u>	<u>14,679</u>
Total consumer	138,524	123,576
Foreign	<u>980</u>	<u>824</u>
Total unfunded loan commitments	<u>\$241,881</u>	<u>\$216,491</u>

We have an established process to determine the adequacy of the allowance for credit losses that assesses the risks and losses inherent in our portfolio. We combine estimates of the allowances needed for loans analyzed on a pooled basis and loans analyzed individually (including impaired loans) to determine the adequacy of the total allowance.

A significant portion of the allowance is estimated at a pooled level for consumer loans and some segments of commercial small business loans. We use forecasting models to measure the losses inherent in these portfolios. We validate and update these models periodically to capture recent behavioral characteristics of the portfolios, such as updated credit bureau information, actual changes in underlying economic or market conditions and changes in our loss mitigation strategies. The increase in provision for 2007 was a significant credit event where home equity credit losses emerged in excess of previous estimates and the allowance was increased primarily to reflect this increase in inherent losses.

The remaining portion of the allowance is for commercial loans, commercial real estate loans and lease financing. We initially estimate this portion of the allowance by applying historical loss factors statistically derived from tracking losses associated with actual portfolio movements over a specified period of time, using a standardized loan grading process. Based on this process, we assign loss factors to each pool of graded loans and a loan equivalent amount for unfunded loan commitments and letters of credit. These estimates are then adjusted or supplemented where necessary from additional analysis of long-term average loss experience, external loss data, or other risks identified from current conditions and trends in selected portfolios, including management's judgment for imprecision and uncertainty.

We assess and account for as impaired certain nonaccrual commercial and commercial real estate loans that are over \$3 million and certain consumer, commercial and commercial real estate loans whose terms have been modified in a troubled debt restructuring. We include the impairment on these nonperforming loans in the allowance unless it has already been recognized as a loss.

The potential risk from unfunded loan commitments and letters of credit for wholesale loan portfolios is considered along with the loss analysis of loans outstanding. Unfunded commercial loan commitments and letters of credit are converted to a loan equivalent factor as part of the analysis. The reserve for unfunded credit commitments was \$211 million at December 31, 2007, and \$200 million at December 31, 2006.

Reflected in the two portions of the allowance previously described is an amount for imprecision or uncertainty that incorporates the range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This amount is the result of our judgment of risks inherent in the portfolios, economic uncertainties, historical loss experience and other subjective factors, including industry trends, calculated to better reflect our view of risk in each loan portfolio.

Like all national banks, our subsidiary national banks continue to be subject to examination by their primary regulator, the OCC, and some have OCC examiners in residence. The OCC examinations occur throughout the year and target various activities of our subsidiary national banks, including both the loan grading system and specific segments of the loan portfolio (for example, commercial real estate and shared national credits). The Parent and our nonbank subsidiaries are examined by the Federal Reserve Board.

We consider the allowance for credit losses of \$5.52 billion adequate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, at December 31, 2007.

Nonaccrual loans were \$2,679 million and \$1,666 million at December 31, 2007 and 2006, respectively. Loans past due 90 days or more as to interest or principal and still accruing interest were \$6,393 million at December 31, 2007, and \$5,073 million at December 31, 2006. The 2007 and 2006 balances included \$4,834 million and \$3,913 million, respectively, in advances pursuant to our servicing agreements to the Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded credit commitments. Changes in the allowance for credit losses were:

(in millions)	Year ended December 31,				
	2007	2006	2005	2004	2003
Balance, beginning of year	\$ 3,964	\$ 4,057	\$ 3,950	\$ 3,891	\$ 3,819
Provision for credit losses	4,939	2,204	2,383	1,717	1,722
Loan charge-offs:					
Commercial and commercial real estate:					
Commercial	(629)	(414)	(406)	(424)	(597)
Other real estate mortgage	(6)	(5)	(7)	(25)	(33)
Real estate construction	(14)	(2)	(6)	(5)	(11)
Lease financing	(33)	(30)	(35)	(62)	(41)
Total commercial and commercial real estate	<u>(682)</u>	<u>(451)</u>	<u>(454)</u>	<u>(516)</u>	<u>(682)</u>
Consumer:					
Real estate 1-4 family first mortgage	(109)	(103)	(111)	(53)	(47)
Real estate 1-4 family junior lien mortgage	(648)	(154)	(136)	(107)	(77)
Credit card	(832)	(505)	(553)	(463)	(476)
Other revolving credit and installment	(1,913)	(1,685)	(1,480)	(919)	(827)
Total consumer	<u>(3,502)</u>	<u>(2,447)</u>	<u>(2,280)</u>	<u>(1,542)</u>	<u>(1,427)</u>
Foreign	(265)	(281)	(298)	(143)	(105)
Total loan charge-offs	<u>(4,449)</u>	<u>(3,179)</u>	<u>(3,032)</u>	<u>(2,201)</u>	<u>(2,214)</u>
Loan recoveries:					
Commercial and commercial real estate:					
Commercial	119	111	133	150	177
Other real estate mortgage	8	19	16	17	11
Real estate construction	2	3	13	6	11
Lease financing	17	21	21	26	8
Total commercial and commercial real estate	<u>146</u>	<u>154</u>	<u>183</u>	<u>199</u>	<u>207</u>
Consumer:					
Real estate 1-4 family first mortgage	22	26	21	6	10
Real estate 1-4 family junior lien mortgage	53	36	31	24	13
Credit card	120	96	86	62	50
Other revolving credit and installment	504	537	365	220	196
Total consumer	<u>699</u>	<u>695</u>	<u>503</u>	<u>312</u>	<u>269</u>
Foreign	65	76	63	24	19
Total loan recoveries	<u>910</u>	<u>925</u>	<u>749</u>	<u>535</u>	<u>495</u>
Net loan charge-offs	<u>(3,539)</u>	<u>(2,254)</u>	<u>(2,283)</u>	<u>(1,666)</u>	<u>(1,719)</u>
Allowances related to business combinations/other	154	(43)	7	8	69
Balance, end of year	\$ 5,518	\$ 3,964	\$ 4,057	\$ 3,950	\$ 3,891
Components:					
Allowance for loan losses	\$ 5,307	\$ 3,764	\$ 3,871	\$ 3,762	\$ 3,891
Reserve for unfunded credit commitments ⁽¹⁾	211	200	186	188	—
Allowance for credit losses	<u>\$ 5,518</u>	<u>\$ 3,964</u>	<u>\$ 4,057</u>	<u>\$ 3,950</u>	<u>\$ 3,891</u>
Net loan charge-offs as a percentage of average total loans	1.03%	0.73%	0.77%	0.62%	0.81%
Allowance for loan losses as a percentage of total loans	1.39%	1.18%	1.25%	1.31%	1.54%
Allowance for credit losses as a percentage of total loans	1.44	1.24	1.31	1.37	1.54

(1) In 2004, we transferred the portion of the allowance for loan losses related to commercial lending commitments and letters of credit to other liabilities.

The recorded investment in impaired loans included in nonaccrual loans and the methodology used to measure impairment was:

(in millions)	December 31,	
	2007	2006
Impairment measurement based on:		
Collateral value method	\$285	\$122
Discounted cash flow method	184	108
Total ⁽¹⁾	<u>\$469</u>	<u>\$230</u>

(1) Includes \$369 million and \$146 million of impaired loans with a related allowance of \$50 million and \$29 million at December 31, 2007 and 2006, respectively.

The average recorded investment in these impaired loans during 2007, 2006 and 2005 was \$313 million, \$173 million and \$260 million, respectively.

When the ultimate collectibility of the total principal of an impaired loan is in doubt, all payments are applied to principal, under the cost recovery method. When the ultimate collectibility of the total principal of an impaired loan is not in doubt, contractual interest is credited to interest income when received, under the cash basis method. Total interest income recognized for impaired loans in 2007, 2006 and 2005 under the cash basis method was not significant.

Note 7: Premises, Equipment, Lease Commitments and Other Assets

(in millions)	December 31,	
	2007	2006
Land	\$ 707	\$ 657
Buildings	4,088	3,891
Furniture and equipment	4,526	3,786
Leasehold improvements	1,258	1,117
Premises and equipment leased under capital leases	67	60
Total premises and equipment	10,646	9,511
Less: Accumulated depreciation and amortization	5,524	4,813
Net book value, premises and equipment	<u>\$ 5,122</u>	<u>\$4,698</u>

Depreciation and amortization expense for premises and equipment was \$828 million, \$737 million and \$810 million in 2007, 2006 and 2005, respectively.

Net gains on dispositions of premises and equipment, included in noninterest expense, were \$3 million, \$13 million and \$56 million in 2007, 2006 and 2005, respectively.

We have obligations under a number of noncancelable operating leases for premises and equipment. The terms of these leases are predominantly up to 15 years, with the longest up to 72 years, and many provide for periodic adjustment of rentals based on changes in various economic indicators. Some leases also include a renewal option. The following table provides the future minimum payments under capital leases and noncancelable operating leases, net of sublease rentals, with terms greater than one year as of December 31, 2007.

(in millions)	Operating leases	Capital leases
Year ended December 31,		
2008	\$ 618	\$ 4
2009	533	5
2010	443	5
2011	365	2
2012	316	1
Thereafter	1,408	14
Total minimum lease payments	<u>\$3,683</u>	31
Executory costs		(2)
Amounts representing interest		(9)
Present value of net minimum lease payments		<u>\$20</u>

Operating lease rental expense (predominantly for premises), net of rental income, was \$673 million, \$631 million and \$583 million in 2007, 2006 and 2005, respectively.

The components of other assets were:

(in millions)	December 31,	
	2007	2006
Nonmarketable equity investments:		
Private equity investments	\$ 2,024	\$ 1,671
Federal bank stock	1,925	1,326
All other	2,981	2,240
Total nonmarketable equity investments ⁽¹⁾	6,930	5,237
Operating lease assets	2,218	3,091
Accounts receivable	10,913	7,522
Interest receivable	2,977	2,570
Core deposit intangibles	435	383
Foreclosed assets:		
GNMA loans ⁽²⁾	535	322
Other	649	423
Due from customers on acceptances	62	103
Other	12,426	9,892
Total other assets	<u>\$37,145</u>	<u>\$29,543</u>

(1) At December 31, 2007 and 2006, \$5.9 billion and \$4.5 billion, respectively, of nonmarketable equity investments, including all federal bank stock, were accounted for at cost.

(2) Consistent with regulatory reporting requirements, foreclosed assets include foreclosed real estate securing GNMA loans. 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 or guaranteed by the Department of Veterans Affairs.

Income related to nonmarketable equity investments was:

(in millions)	Year ended December 31,		
	2007	2006	2005
Net gains from private equity investments	\$598	\$393	\$351
Net gains from all other nonmarketable equity investments	4	20	43
Net gains from nonmarketable equity investments	<u>\$602</u>	<u>\$413</u>	<u>\$394</u>

Note 8: Securitizations and Variable Interest Entities

We routinely originate, securitize and sell into the secondary market home mortgage loans and, from time to time, other financial assets, including student loans, commercial mortgages and auto receivables. We typically retain the servicing rights from these sales and may continue to hold other interests. Through these securitizations, which are structured without recourse to us and with no restrictions on the other interests held, we may be exposed to a liability under standard representations and warranties we make to purchasers and issuers. The amount recorded for this liability was not material to our consolidated financial statements at year-end 2007 or 2006. In response to the reduced liquidity in the capital markets, for certain sales and securitizations of non-conforming mortgage loans, we retained the subordinate bonds on these securitizations. At December 31, 2007, the total book value of these other interests held (subordinate bonds) was \$486 million.

We recognized net gains of \$10 million and \$399 million from sales of financial assets in securitizations in 2007 and 2006, respectively. Additionally, we had the following cash flows with our securitization trusts.

(in millions)	Year ended December 31,			
	2007		2006	
	Mortgage loans	Other financial assets	Mortgage loans	Other financial assets
Sales proceeds from securitizations	\$38,971	\$—	\$50,767	\$103
Servicing fees	300	—	229	—
Cash flows on other interests held	496	6	259	3

In the normal course of creating securities to sell to investors, we may sponsor special-purpose entities that hold, for the benefit of the investors, financial instruments that are the source of payment to the investors. Special-purpose entities are consolidated unless they meet the criteria for a qualifying special-purpose entity in accordance with FAS 140 or are not required to be consolidated under existing accounting guidance.

For securitizations completed in 2007 and 2006, we used the following assumptions to determine the fair value of mortgage servicing rights and other interests held at the date of securitization.

Key economic assumptions and the sensitivity of the current fair value to immediate adverse changes in those assumptions at December 31, 2007, for residential and commercial mortgage servicing rights, and other interests held related to residential mortgage loan securitizations are presented in the following table.

(\$ in millions)	Mortgage servicing rights	Other interests held	Other interests held – subordinate bonds
Fair value of interests held	\$17,336	\$420	\$486
Expected weighted-average life (in years)	5.4	5.3	6.9
Prepayment speed assumption (annual CPR)	12.9%	14.3%	13.1%
Decrease in fair value from:			
10% adverse change	\$ 603	\$ 20	\$ 1
25% adverse change	1,403	48	4
Discount rate assumption	9.5%	11.4%	6.9%
MSRs and other interests held			
Decrease in fair value from:			
100 basis point adverse change	\$ 664	\$ 16	
200 basis point adverse change	1,277	31	
Other interests held – subordinate bonds			
Decrease in fair value from:			
50 basis point adverse change			\$ 13
100 basis point adverse change			27
Credit loss assumption			1.1%
Decrease in fair value from:			
10% higher losses			\$ 11
25% higher losses			29

	Mortgage servicing rights		Other interests held		Other interests held – subordinate bonds
	2007	2006	2007	2006	2007
Prepayment speed (annual CPR) ⁽¹⁾ ⁽²⁾	13.5%	15.7%	14.1%	13.9%	24.3%
Life (in years) ⁽²⁾	6.8	5.8	7.2	7.0	4.4
Discount rate ⁽²⁾	9.8%	10.5%	10.2%	10.0%	6.9%
Life of loan losses					0.8%

(1) Constant prepayment rate.

(2) Represents weighted averages for all other interests held resulting from securitizations completed in 2007 and 2006.

The sensitivities in the table to the left are hypothetical and should be relied on with caution. Changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, in the table to the left, the effect of a variation in a particular assumption on the fair value of the other interests held is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, changes in prepayment speed estimates could result in changes in the discount rates), which might magnify or counteract the sensitivities.

We also retained some AAA-rated floating-rate mortgage-backed securities. The fair value at the date of securitization was determined using quoted market prices. The key

economic assumptions at December 31, 2007, for these securities related to residential mortgage loan securitizations are presented in the following table.

(\$ in millions)	Other interests held – AAA mortgage-backed securities
Fair value of interests held	\$7,423
Expected weighted-average life (in years)	10.3
Prepayment speed assumption (annual CPR)	26.7%

The table below presents information about the principal balances of owned and securitized loans.

(in millions)	December 31,				Year ended December 31,	
	Total loans ⁽¹⁾		Delinquent loans ⁽²⁾		Net charge-offs (recoveries)	
	2007	2006	2007	2006	2007	2006
Commercial and commercial real estate:						
Commercial	\$ 91,186	\$ 70,779	\$ 464	\$ 346	\$ 510	\$ 303
Other real estate mortgage	75,642	44,834	179	178	7	(33)
Real estate construction	18,854	15,935	317	81	12	(1)
Lease financing	6,772	5,614	45	29	16	9
Total commercial and commercial real estate	<u>192,454</u>	<u>137,162</u>	<u>1,005</u>	<u>634</u>	<u>545</u>	<u>278</u>
Consumer:						
Real estate 1-4 family first mortgage	146,997	114,676	1,745	929	87	77
Real estate 1-4 family junior lien mortgage	75,974	68,926	495	275	597	118
Credit card	18,762	14,697	402	262	712	409
Other revolving credit and installment	56,521	54,036	744	804	1,409	1,148
Total consumer	<u>298,254</u>	<u>252,335</u>	<u>3,386</u>	<u>2,270</u>	<u>2,805</u>	<u>1,752</u>
Foreign	7,647	6,983	104	94	206	210
Total loans owned and securitized	<u>498,355</u>	<u>396,480</u>	<u>\$4,495</u>	<u>\$2,998</u>	<u>\$3,556</u>	<u>\$2,240</u>
Less:						
Securitized loans	88,397	43,546				
Mortgages held for sale	26,815	33,097				
Loans held for sale	948	721				
Total loans held	<u>\$382,195</u>	<u>\$319,116</u>				

(1) Represents loans in the balance sheet or that have been securitized, but excludes securitized loans that we continue to service but as to which we have no other continuing involvement.

(2) Includes nonaccrual loans and loans 90 days or more past due and still accruing.

We are a primary beneficiary in certain special-purpose entities that are consolidated because we absorb a majority of each entity's expected losses, receive a majority of each entity's expected returns or both. We do not hold a majority voting interest in these entities. Our consolidated variable interest entities, substantially all of which were formed to invest in securities and to securitize real estate investment trust securities, had approximately \$3.5 billion and \$3.4 billion in total assets at December 31, 2007 and 2006, respectively. The primary activities of these entities consist of acquiring and disposing of, and investing and reinvesting in securities, and issuing beneficial interests secured by those securities to investors. The creditors of a significant portion of these consolidated entities have no recourse against us.

We also hold variable interests greater than 20% but less than 50% in certain special-purpose entities predominantly formed to invest in affordable housing and sustainable energy projects, and to securitize corporate debt that had approximately \$5.8 billion and \$2.9 billion in total assets at December 31, 2007 and 2006, respectively. We are not required to consolidate these entities. Our maximum exposure to loss as a result of our involvement with these unconsolidated variable interest entities was approximately \$2.0 billion and \$980 million at December 31, 2007 and 2006, respectively, primarily representing investments in entities formed to invest in affordable housing and sustainable energy projects. However, we expect to recover our investment in these entities over time, primarily through realization of federal tax credits.

Note 9: Mortgage Banking Activities

Mortgage banking activities, included in the Community Banking and Wholesale Banking operating segments, consist of residential and commercial mortgage originations and servicing.

Effective January 1, 2006, upon adoption of FAS 156, we remeasured our residential mortgage servicing rights (MSRs) at fair value and recognized a pre-tax adjustment of \$158 million to residential MSRs and recorded a corresponding cumulative effect adjustment of \$101 million (after tax) to increase the 2006 beginning balance of retained earnings in stockholders' equity. The table below reconciles the December 31, 2005, and the January 1, 2006, balance of MSRs.

(in millions)	Residential MSRs	Commercial MSRs	Total MSRs
Balance at December 31, 2005	\$12,389	\$122	\$12,511
Remeasurement upon adoption of FAS 156	<u>158</u>	<u>—</u>	<u>158</u>
Balance at January 1, 2006	<u>\$12,547</u>	<u>\$122</u>	<u>\$12,669</u>

The changes in residential MSRs measured using the fair value method were:

(in millions)	Year ended December 31,	
	2007	2006
Fair value, beginning of year	\$17,591	\$12,547
Purchases	803	3,859
Servicing from securitizations or asset transfers	3,680	4,107
Sales	<u>(1,714)</u>	<u>(469)</u>
Net additions	2,769	7,497
Changes in fair value:		
Due to changes in valuation model inputs or assumptions ⁽¹⁾	(571)	(9)
Other changes in fair value ⁽²⁾	<u>(3,026)</u>	<u>(2,444)</u>
Total changes in fair value	<u>(3,597)</u>	<u>(2,453)</u>
Fair value, end of year	<u>\$16,763</u>	<u>\$17,591</u>

(1) Principally reflects changes in discount rates and prepayment speed assumptions, mostly due to changes in interest rates.

(2) Represents changes due to collection/realization of expected cash flows over time.

The changes in amortized MSRs were:

(in millions)	Year ended December 31,		
	2007	2006	2005
Balance, beginning of year	\$377	\$122	\$ 9,466
Purchases ⁽¹⁾	120	278	2,683
Servicing from securitizations or asset transfers ⁽¹⁾	40	11	2,652
Amortization	(71)	(34)	(1,991)
Other (includes changes due to hedging)	<u>—</u>	<u>—</u>	<u>888</u>
Balance, end of year	<u>\$466</u>	<u>\$377</u>	<u>\$13,698</u>
Valuation allowance:			
Balance, beginning of year	\$ —	\$ —	\$ 1,565
Reversal of provision for MSRs in excess of fair value	<u>—</u>	<u>—</u>	<u>(378)</u>
Balance, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,187</u>
Amortized MSRs, net	<u>\$466</u>	<u>\$377</u>	<u>\$12,511</u>
Fair value of amortized MSRs:			
Beginning of year	\$457	\$146	\$ 7,913
End of year	573	457	12,693

(1) Based on December 31, 2007, assumptions, the weighted-average amortization period for MSRs added during the year was approximately 10.8 years.

The components of our managed servicing portfolio were:

(in billions)	December 31,	
	2007	2006
Loans serviced for others ⁽¹⁾	\$1,430	\$1,280
Owned loans serviced ⁽²⁾	98	86
Total owned servicing	1,528	1,366
Sub-servicing	23	19
Total managed servicing portfolio	<u>\$1,551</u>	<u>\$1,385</u>
Ratio of MSRs to related loans serviced for others	<u>1.20%</u>	<u>1.41%</u>

(1) Consists of 1-4 family first mortgage and commercial mortgage loans.

(2) Consists of mortgages held for sale and 1-4 family first mortgage loans.

The components of mortgage banking noninterest income were:

(in millions)	Year ended December 31,		
	2007	2006	2005
Servicing income, net:			
Servicing fees ⁽¹⁾	\$ 4,025	\$ 3,525	\$ 2,457
Changes in fair value of residential MSRs:			
Due to changes in valuation model inputs or assumptions ⁽²⁾	(571)	(9)	—
Other changes in fair value ⁽³⁾	<u>(3,026)</u>	<u>(2,444)</u>	<u>—</u>
Total changes in fair value of residential MSRs	<u>(3,597)</u>	<u>(2,453)</u>	<u>—</u>
Amortization	(71)	(34)	(1,991)
Reversal of provision for MSRs in excess of fair value	—	—	378
Net derivative gains (losses):			
Fair value accounting hedges ⁽⁴⁾	—	—	(46)
Economic hedges ⁽⁵⁾	<u>1,154</u>	<u>(145)</u>	<u>189</u>
Total servicing income, net	<u>1,511</u>	<u>893</u>	<u>987</u>
Net gains on mortgage loan origination/sales activities	<u>1,289</u>	<u>1,116</u>	<u>1,085</u>
All other	<u>333</u>	<u>302</u>	<u>350</u>
Total mortgage banking noninterest income	<u>\$ 3,133</u>	<u>\$ 2,311</u>	<u>\$ 2,422</u>
Market-related valuation changes to MSRs, net of hedge results ^{(2) + (5)}	<u>\$ 583</u>	<u>\$ (154)</u>	

(1) Includes contractually specified servicing fees, late charges and other ancillary revenues. Also includes impairment write-downs on other interests held of \$26 million for 2006. There were no impairment write-downs for 2007 or 2005.

(2) Principally reflects changes in discount rates and prepayment speed assumptions, mostly due to changes in interest rates.

(3) Represents changes due to collection/realization of expected cash flows over time.

(4) Results related to MSRs fair value hedging activities under FAS 133, *Accounting for Derivative Instruments and Hedging Activities* (as amended), consist of gains and losses excluded from the evaluation of hedge effectiveness and the ineffective portion of the change in the value of these derivatives. Gains and losses excluded from the evaluation of hedge effectiveness are those caused by market conditions (volatility) and the spread between spot and forward rates priced into the derivative contracts (the passage of time). See Note 16 – Fair Value Hedges for additional discussion and detail.

(5) Represents results from free-standing derivatives (economic hedges) used to hedge the risk of changes in fair value of MSRs. See Note 16 – Free-Standing Derivatives for additional discussion and detail.

Note 10: Intangible Assets

The gross carrying amount of intangible assets and accumulated amortization was:

(in millions)	December 31,			
	2007		2006	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Amortized intangible assets:				
MSRs (commercial) ⁽¹⁾	\$ 617	\$ 151	\$ 457	\$ 80
Core deposit intangibles	2,539	2,104	2,374	1,991
Credit card and other intangibles	<u>731</u>	<u>426</u>	<u>581</u>	<u>378</u>
Total intangible assets	<u>\$ 3,887</u>	<u>\$ 2,681</u>	<u>\$ 3,412</u>	<u>\$ 2,449</u>
MSRs (fair value) ⁽¹⁾	\$ 16,763		\$ 17,591	
Trademark	14		14	

(1) See Note 9 for additional information on MSRs.

The following table provides the current year and estimated future amortization expense for amortized intangible assets.

(in millions)	Core deposit intangibles	Other ⁽¹⁾	Total
Year ended			
December 31, 2007	<u>\$113</u>	<u>\$116</u>	<u>\$229</u>
Estimate for year ended			
December 31,			
2008	\$ 122	\$ 134	\$ 256
2009	110	116	226
2010	97	103	200
2011	37	90	127
2012	17	79	96

(1) Includes amortized commercial MSRs and credit card and other intangibles.

We based our projections of amortization expense shown above on existing asset balances at December 31, 2007. Future amortization expense may vary based on additional core deposit or other intangibles acquired through business combinations.

Note 11: Goodwill

The changes in the carrying amount of goodwill as allocated to our operating segments for goodwill impairment analysis were:

(in millions)	Community Banking	Wholesale Banking	Wells Fargo Financial	Consolidated Company
December 31, 2005	\$ 7,374	\$ 3,047	\$ 366	\$ 10,787
Goodwill from business combinations	30	458	—	488
Realignment of businesses (primarily insurance)	(19)	19	—	—
December 31, 2006	7,385	3,524	366	11,275
Goodwill from business combinations	1,224	550	49	1,823
Foreign currency translation adjustments	—	—	8	8
December 31, 2007	<u>\$8,609</u>	<u>\$4,074</u>	<u>\$423</u>	<u>\$13,106</u>

For goodwill impairment testing, enterprise-level goodwill acquired in business combinations is allocated to reporting units based on the relative fair value of assets acquired and recorded in the respective reporting units. Through this allocation, we assigned enterprise-level goodwill to the reporting units that are expected to benefit from the synergies of the combination. We used discounted estimated future net cash flows to evaluate goodwill reported at all reporting units.

For our goodwill impairment analysis, we allocate all of the goodwill to the individual operating segments. For management reporting we do not allocate all of the goodwill to the individual operating segments; some is allocated at the enterprise level. See Note 24 for further information on management reporting. The balances of goodwill for management reporting were:

(in millions)	Community Banking	Wholesale Banking	Wells Fargo Financial	Enterprise	Consolidated Company
December 31, 2006	\$ 3,538	\$ 1,574	\$ 366	\$ 5,797	\$ 11,275
December 31, 2007	4,762	2,124	423	5,797	13,106

Note 12: Deposits

The total of time certificates of deposit and other time deposits issued by domestic offices was \$46,351 million and \$51,188 million at December 31, 2007 and 2006, respectively. Substantially all of these deposits were interest bearing. The contractual maturities of these deposits follow.

(in millions)	December 31, 2007
2008	\$41,364
2009	2,394
2010	1,045
2011	735
2012	470
Thereafter	<u>343</u>
Total	<u>\$46,351</u>

Of these deposits, the amount of time deposits with a denomination of \$100,000 or more was \$16,890 million and \$26,522 million at December 31, 2007 and 2006, respectively. The contractual maturities of these deposits follow.

(in millions)	December 31, 2007
Three months or less	\$10,120
After three months through six months	4,812
After six months through twelve months	1,085
After twelve months	<u>873</u>
Total	<u>\$16,890</u>

Time certificates of deposit and other time deposits issued by foreign offices with a denomination of \$100,000 or more represent a major portion of all of our foreign deposit liabilities of \$54,549 million and \$26,200 million at December 31, 2007 and 2006, respectively.

Demand deposit overdrafts of \$845 million and \$673 million were included as loan balances at December 31, 2007 and 2006, respectively.

Note 13: Short-Term Borrowings

The table below shows selected information for short-term borrowings, which generally mature in less than 30 days.

(in millions)	2007		2006		2005	
	Amount	Rate	Amount	Rate	Amount	Rate
As of December 31,						
Commercial paper and other short-term borrowings	\$30,427	4.45%	\$ 1,122	4.06%	\$ 3,958	3.80%
Federal funds purchased and securities sold under agreements to repurchase	<u>22,828</u>	2.94	<u>11,707</u>	4.88	<u>19,934</u>	3.99
Total	<u>\$53,255</u>	3.80	<u>\$12,829</u>	4.81	<u>\$23,892</u>	3.96
Year ended December 31,						
Average daily balance						
Commercial paper and other short-term borrowings	\$ 8,765	4.96%	\$ 7,701	4.61%	\$ 9,548	3.09%
Federal funds purchased and securities sold under agreements to repurchase	<u>17,089</u>	4.74	<u>13,770</u>	4.62	<u>14,526</u>	3.09
Total	<u>\$25,854</u>	4.81	<u>\$21,471</u>	4.62	<u>\$24,074</u>	3.09
Maximum month-end balance						
Commercial paper and other short-term borrowings ⁽¹⁾	\$30,427	N/A	\$14,580	N/A	\$15,075	N/A
Federal funds purchased and securities sold under agreements to repurchase ⁽²⁾	23,527	N/A	16,910	N/A	22,315	N/A

N/A – Not applicable.

(1) Highest month-end balance in each of the last three years was in December 2007, February 2006 and January 2005.

(2) Highest month-end balance in each of the last three years was in September 2007, May 2006 and August 2005.

Note 14: Long-Term Debt

Following is a summary of our long-term debt based on original maturity (reflecting unamortized debt discounts and premiums, where applicable):

(in millions)	Maturity date(s)	Stated interest rate(s)	December 31,	
			2007	2006
Wells Fargo & Company (Parent only)				
Senior				
Fixed-Rate Notes ⁽¹⁾	2008-2035	2.70-6.75%	\$25,105	\$21,225
Floating-Rate Notes ⁽²⁾	2008-2047	Varies	31,679	21,917
Extendable Notes ⁽³⁾	2008-2015	Varies	5,369	10,000
FixFloat Notes ⁽¹⁾	2010	5.51% through mid-2008, varies	2,200	—
Market-Linked Notes ⁽⁴⁾	2008-2018	2.89-5.57%	871	372
Convertible Debenture ⁽⁵⁾	2033	Varies	3,000	3,000
Total senior debt – Parent			<u>68,224</u>	<u>56,514</u>
Subordinated				
Fixed-Rate Notes ⁽¹⁾	2011-2023	4.625-6.65%	4,550	4,560
FixFloat Notes	2012	4.00% through mid-2007, varies	—	300
Total subordinated debt – Parent			<u>4,550</u>	<u>4,860</u>
Junior Subordinated				
Fixed-Rate Notes ⁽¹⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾	2031-2067	5.625-7.00%	4,342	4,022
Total junior subordinated debt – Parent			<u>4,342</u>	<u>4,022</u>
Total long-term debt – Parent			<u>77,116</u>	<u>65,396</u>
Wells Fargo Bank, N.A. and its subsidiaries (WFB, N.A.)				
Senior				
Fixed-Rate Notes ⁽¹⁾	2008-2019	1.16-4.24%	34	173
Floating-Rate Notes	2008-2012	Varies	504	2,174
FHLB Notes and Advances	2012	5.20%	203	203
Market-Linked Notes ⁽⁴⁾	2008-2026	0.53-5.75%	658	985
Obligations of subsidiaries under capital leases (Note 7)			20	12
Total senior debt – WFB, N.A.			<u>\$ 1,419</u>	<u>\$ 3,547</u>

(1) We entered into interest rate swap agreements for substantially all of these notes, whereby we receive fixed-rate interest payments approximately equal to interest on the notes and make interest payments based on an average one-month or three-month London Interbank Offered Rate (LIBOR).

(2) We entered into interest rate swap agreements for a significant portion of these notes, whereby we receive variable-rate interest payments and make interest payments based on a fixed rate.

(3) The extendable notes are floating-rate securities with an initial maturity of 13 or 24 months, which can be extended on a rolling monthly or quarterly basis, respectively, to a final maturity of five years at the investor's option.

(4) Consists of long-term notes where the performance of the note is linked to an embedded equity, commodity, or currency index, or basket of indices accounted for separately from the note as a free-standing derivative. For information on embedded derivatives, see Note 16 – Free-standing derivatives.

(5) On April 15, 2003, we issued \$3 billion of convertible senior debentures as a private placement. In November 2004, we amended the indenture under which the debentures were issued to eliminate a provision in the indenture that prohibited us from paying cash upon conversion of the debentures if an event of default as defined in the indenture exists at the time of conversion. We then made an irrevocable election under the indenture on December 15, 2004, that upon conversion of the debentures, we must satisfy the accreted value of the obligation (the amount accrued to the benefit of the holder exclusive of the conversion spread) in cash and may satisfy the conversion spread (the excess conversion value over the accreted value) in either cash or stock. All or some of the convertible debt securities may be redeemed in certain circumstances for cash at any time on or after May 5, 2008, at their principal amount plus accrued interest, if any.

(6) Effective December 31, 2003, as a result of the adoption of FIN 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FIN 46(R)), we deconsolidated certain wholly-owned trusts formed for the sole purpose of issuing trust preferred securities (the Trusts). The junior subordinated debentures held by the Trusts are included in the Company's long-term debt.

(7) On December 5, 2006, Wells Fargo Capital X issued 5.95% Capital Securities and used the proceeds to purchase from the Parent 5.95% Capital Efficient Notes (the Notes) due 2086 (scheduled maturity 2036). When it issued the Notes, the Parent entered into a Replacement Capital Covenant (the Covenant) in which it agreed for the benefit of the holders of the Parent's 5.625% Junior Subordinated Debentures due 2034 that it will not repay, redeem or repurchase, and that none of its subsidiaries will purchase, any part of the Notes or the Capital Securities on or before December 1, 2066, unless the repayment, redemption or repurchase is made from the net cash proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the Covenant. For more information, refer to the Covenant, which was filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed December 5, 2006.

(8) On May 25, 2007, Wells Fargo Capital XI issued 6.25% Enhanced Trust Preferred Securities (Enhanced TruPS[®]) (the 2007 Capital Securities) and used the proceeds to purchase from the Parent 6.25% Junior Subordinated Deferrable Interest Debentures due 2067 (the 2007 Notes). When it issued the 2007 Notes, the Parent entered into a Replacement Capital Covenant (the 2007 Covenant) in which it agreed for the benefit of the holders of the Parent's 5.625% Junior Subordinated Debentures due 2034 that it will not repay, redeem or repurchase, and that none of its subsidiaries will purchase, any part of the 2007 Notes or the 2007 Capital Securities on or before June 15, 2057, unless the repayment, redemption or repurchase is made from the net cash proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the 2007 Covenant. For more information, refer to the 2007 Covenant, which was filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed May 25, 2007.

(continued from previous page)

(in millions)	Maturity date(s)	Stated interest rate(s)	December 31,	
			2007	2006
Wells Fargo Bank, N.A. and its subsidiaries (WFB, N.A.)				
Subordinated				
Fixed-Rate Notes ⁽¹⁾	2010-2036	4.75-7.55%	\$ 6,151	\$ 6,264
Floating-Rate Notes	2016	Varies	500	500
Other notes and debentures	2008-2013	4.70-6.00%	11	13
Total subordinated debt – WFB, N.A.			<u>6,662</u>	<u>6,777</u>
Total long-term debt – WFB, N.A.			<u>8,081</u>	<u>10,324</u>
Wells Fargo Financial, Inc., and its subsidiaries (WFFI)				
Senior				
Fixed-Rate Notes	2008-2034	2.67-6.85%	8,103	7,654
Floating-Rate Notes	2008-2010	Varies	<u>1,405</u>	<u>1,970</u>
Total long-term debt – WFFI			<u>9,508</u>	<u>9,624</u>
Other consolidated subsidiaries				
Senior				
Fixed-Rate Notes	2008-2049	0.00-7.75%	951	378
Floating-Rate FHLB Advances	2009-2012	Varies	1,250	500
Other notes and debentures – Floating-Rate	2008-2048	Varies	<u>1,752</u>	<u>404</u>
Total senior debt – Other consolidated subsidiaries			<u>3,953</u>	<u>1,282</u>
Subordinated				
Fixed-Rate Notes	2008	6.25%	202	209
Other notes and debentures – Floating-Rate	2011-2016	Varies	<u>83</u>	<u>78</u>
Total subordinated debt – Other consolidated subsidiaries			<u>285</u>	<u>287</u>
Junior Subordinated				
Fixed-Rate Notes ⁽⁶⁾	2029-2031	9.875-10.875%	112	56
Floating-Rate Notes ⁽⁶⁾	2027-2036	Varies	257	176
FixFloat	2036	7.06% through mid-2011, varies	<u>81</u>	<u>—</u>
Total junior subordinated debt – Other consolidated subsidiaries			<u>450</u>	<u>232</u>
Total long-term debt – Other consolidated subsidiaries			<u>4,688</u>	<u>1,801</u>
Total long-term debt			<u>\$99,393</u>	<u>\$87,145</u>

The aggregate annual maturities of long-term debt obligations (based on final maturity dates) as of December 31, 2007, follow.

(in millions)	Parent	Company
2008	\$15,610	\$18,397
2009	7,760	9,756
2010	15,194	17,465
2011	7,173	10,379
2012	8,151	11,636
Thereafter	<u>23,228</u>	<u>31,760</u>
Total	<u>\$77,116</u>	<u>\$99,393</u>

The interest rates on floating-rate notes are determined periodically by formulas based on certain money market rates, subject, on certain notes, to minimum or maximum interest rates.

As part of our long-term and short-term borrowing arrangements, we are subject to various financial and operational covenants. Some of the agreements under which debt has been issued have provisions that may limit the merger or sale of certain subsidiary banks and the issuance of capital stock or convertible securities by certain subsidiary banks. At December 31, 2007, we were in compliance with all the covenants.

Note 15: Guarantees and Legal Actions

The significant guarantees we provide to third parties include standby letters of credit, various indemnification agreements, guarantees accounted for as derivatives, additional consideration related to business combinations and contingent performance guarantees.

We issue standby letters of credit, which include performance and financial guarantees, for customers in connection with contracts between the customers and third parties. Standby letters of credit assure that the third parties will receive specified funds if customers fail to meet their contractual obligations. We are obligated to make payment if a customer defaults. Standby letters of credit were \$12.5 billion at December 31, 2007, and \$12.0 billion at December 31, 2006, including financial guarantees of \$6.5 billion and \$7.2 billion, respectively, that we had issued or purchased participations in. Standby letters of credit are net of participations sold to other institutions of \$1.4 billion at December 31, 2007, and \$2.8 billion at December 31, 2006. We consider the credit risk in standby letters of credit in determining the allowance for credit losses. We also had commitments for commercial and similar letters of credit of \$955 million at December 31, 2007, and \$801 million at December 31, 2006.

We enter into indemnification agreements in the ordinary course of business under which we agree to indemnify third parties against any damages, losses and expenses incurred in connection with legal and other proceedings arising from relationships or transactions with us. These relationships or transactions include those arising from service as a director or officer of the Company, underwriting agreements relating to our securities, securities lending, acquisition agreements, and various other business transactions or arrangements. Because the extent of our obligations under these agreements depends entirely upon the occurrence of future events, our potential future liability under these agreements is not determinable.

We write options, floors and caps. Periodic settlements occur on floors and caps based on market conditions. The fair value of the written options liability in our balance sheet was \$700 million at December 31, 2007, and \$556 million at December 31, 2006. The aggregate fair value of the written floors and caps liability was \$280 million and \$86 million for the same periods, respectively. Our ultimate obligation under written options, floors and caps is based on future market conditions and is only quantifiable at settlement. The notional value related to written options was \$30.7 billion at December 31, 2007, and \$47.3 billion at December 31, 2006, and the aggregate notional value related to written floors and caps was \$26.5 billion and \$11.9 billion for the same periods, respectively. We offset substantially all options written to customers with purchased options.

We also enter into credit default swaps under which we buy loss protection from or sell loss protection to a counterparty in the event of default of a reference obligation. The fair value of the contracts sold was a liability of \$20 million at December 31, 2007, and \$2 million at December 31, 2006.

The maximum amount we would be required to pay under the swaps in which we sold protection, assuming all reference obligations default at a total loss, without recoveries, was \$873 million and \$599 million, based on notional value, at December 31, 2007 and 2006, respectively. We purchased credit default swaps of comparable notional amounts to mitigate the exposure of the written credit default swaps at December 31, 2007 and 2006. These purchased credit default swaps had terms (i.e., used the same reference obligation and maturity) that would offset our exposure from the written default swap contracts in which we are providing protection to a counterparty.

In connection with certain brokerage, asset management, insurance agency and other acquisitions we have made, the terms of the acquisition agreements provide for deferred payments or additional consideration, based on certain performance targets. At December 31, 2007 and 2006, the amount of additional consideration we expected to pay was not significant to our financial statements.

We have entered into various contingent performance guarantees through credit risk participation arrangements with remaining terms up to 22 years. We will be required to make payments under these guarantees if a customer defaults on its obligation to perform under certain credit agreements with third parties. The extent of our obligations under these guarantees depends entirely on future events and was contractually limited to an aggregate liability of approximately \$50 million at December 31, 2007, and \$125 million at December 31, 2006.

In the normal course of business, we are subject to pending and threatened legal actions, some for which the relief or damages sought are substantial. After reviewing pending and threatened actions with counsel, and any specific reserves established for such matters, management believes that the outcome of such actions will not have a material adverse effect on the results of operations or stockholders' equity. We are not able to predict whether the outcome of such actions may or may not have a material adverse effect on results of operations in a particular future period as the timing and amount of any resolution of such actions and its relationship to the future results of operations are not known.

Wells Fargo is a member of the Visa USA network. On October 3, 2007, the Visa organization of affiliated entities completed a series of global restructuring transactions to combine its affiliated operating companies, including Visa USA, under a single holding company, Visa Inc. Visa Inc. intends to issue and sell a majority of its shares to the public in an initial public offering (IPO). We have an approximate 2.8% ownership interest in Visa Inc., which is included in our balance sheet at a nominal amount.

We obtained concurrence from the staff of the SEC concerning our accounting for the Visa restructuring transactions, including (1) judgment sharing agreements previously executed among the Company, Visa Inc. and its

predecessors (collectively Visa) and certain other member banks of the Visa USA network, (2) litigation, and (3) an escrow account that will be established by Visa Inc. at the time of its IPO. The escrow account will be funded from IPO proceeds and will be used to make payments related to Visa litigation. We recorded litigation liabilities associated with indemnification obligations related to agreements entered into during second quarter 2006 and third quarter 2007. Based on our proportionate membership share of Visa USA, we recorded a litigation liability and corresponding expense

of \$95 million for 2006 and \$203 million for 2007. The effect to the second quarter 2006 was estimated based upon our share of an actual settlement reached in November 2007. Management does not believe that the fair value of this obligation if determined in second quarter 2006 would have been materially different given information available at that time. Management has concluded, and the Audit and Examination Committee of our Board of Directors has concurred, that these amounts are immaterial to the periods affected.

Note 16: Derivatives

Our approach to managing interest rate risk includes the use of derivatives. This helps minimize significant, unplanned fluctuations in earnings, fair values of assets and liabilities, and cash flows caused by interest rate volatility. This approach involves modifying the repricing characteristics of certain assets and liabilities so that changes in interest rates do not have a significant adverse effect on the net interest margin and cash flows. As a result of interest rate fluctuations, hedged assets and liabilities will gain or lose market value. In a fair value hedging strategy, the effect of this unrealized gain or loss will generally be offset by the gain or loss on the derivatives linked to the hedged assets and liabilities. In a cash flow hedging strategy, we manage the variability of cash payments due to interest rate fluctuations by the effective use of derivatives linked to hedged assets and liabilities.

We use derivatives as part of our interest rate risk management, including interest rate swaps, caps and floors, futures and forward contracts, and options. We also offer various derivatives, including interest rate, commodity, equity, credit and foreign exchange contracts, to our customers but usually offset our exposure from such contracts by purchasing other financial contracts. The customer accommodations and any offsetting financial contracts are treated as free-standing derivatives. Free-standing derivatives also include derivatives we enter into for risk management that do not otherwise qualify for hedge accounting, including economic hedge derivatives. To a lesser extent, we take positions based on market expectations or to benefit from price differentials between financial instruments and markets. Additionally, free-standing derivatives include embedded derivatives that are required to be separately accounted for from their host contracts.

By using derivatives, we are exposed to credit risk if counterparties to financial instruments do not perform as expected. If a counterparty fails to perform, our credit risk is equal to the fair value gain in a derivative contract. We minimize credit risk through credit approvals, limits and monitoring procedures. Credit risk related to derivatives is considered and, if material, provided for separately. As we generally enter into transactions only with counterparties that carry high quality credit ratings, losses from counterparty nonperformance on derivatives have not been significant.

Further, we obtain collateral, where appropriate, to reduce risk. To the extent the master netting arrangements and other criteria meet the requirements of FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, as amended by FASB Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*, amounts are shown net in the balance sheet.

Our derivative activities are monitored by Corporate ALCO. Our Treasury function, which includes asset/liability management, is responsible for various hedging strategies developed through analysis of data from financial models and other internal and industry sources. We incorporate the resulting hedging strategies into our overall interest rate risk management and trading strategies.

Fair Value Hedges

Prior to January 1, 2006, we used derivatives as fair value hedges to manage the risk of changes in the fair value of residential MSR and other interests held. These derivatives included interest rate swaps, swaptions, Eurodollar and Treasury futures and options, and forward contracts. Derivative gains or losses caused by market conditions (volatility) and the spread between spot and forward rates priced into the derivative contracts (the passage of time) were excluded from the evaluation of hedge effectiveness, but were reflected in earnings. Upon adoption of FAS 156, derivatives used to hedge our residential MSR are no longer accounted for as fair value hedges under FAS 133, but as economic hedges. Net derivative gains and losses related to our residential mortgage servicing activities are included in "Servicing income, net" in Note 9.

We use interest rate swaps to convert certain of our fixed-rate long-term debt and certificates of deposit to floating rates to hedge our exposure to interest rate risk. We also enter into cross-currency swaps and cross-currency interest rate swaps to hedge our exposure to foreign currency risk and interest rate risk associated with the issuance of non-U.S. dollar denominated long-term debt. Prior to January 1, 2007, the ineffective portion of these fair value hedges was recorded as part of interest expense in the income statement. Subsequent to January 1, 2007, the ineffective portion of

these fair value hedges is recorded as part of noninterest income. We made this change after converting these hedge relationships to the long-haul method of assessing hedge effectiveness, which results in recognition of more ineffectiveness compared to the short-cut method. Consistent with our asset/liability management strategy of converting fixed-rate debt to floating-rates, we believe interest expense should reflect only the current contractual interest cash flows on the liabilities and the related swaps. In addition, we use derivatives, such as Treasury and LIBOR futures and swaps, to hedge changes in fair value due to changes in interest rates of our commercial real estate mortgage loans held for sale. Prior to March 31, 2007, we used derivatives, such as Treasury and LIBOR futures and swaps, to hedge changes in fair value due to changes in interest rates of our franchise loans held for sale. Based upon a change in our intent, these loans have since been reclassified to held for investment, and therefore we no longer hedge these loans. The ineffective portion of these fair value hedges is recorded as part of mortgage banking noninterest income in the income statement. Finally, we use interest rate swaps to hedge against changes in fair value of certain debt securities that are classified as securities available for sale, primarily municipal bond securities beginning in second quarter 2006 and commercial mortgage-backed securities beginning in fourth quarter 2007, due to changes in interest rates. The ineffective portion of these fair value hedges is recorded in "Net gains (losses) on debt securities available for sale" in the income statement. For fair value hedges of long-term debt and certificates of deposit, commercial real estate loans, franchise loans and debt securities, all parts of each derivative's gain or loss due to the hedged risk are included in the assessment of hedge effectiveness.

For the previously mentioned fair value hedging relationships, we use regression analysis to assess hedge effectiveness, both at inception of the hedging relationship and on an ongoing basis. The regression analysis involves regressing the periodic change in fair value of the hedging instrument against the periodic changes in fair value of the asset or liability being hedged due to changes in the hedged risk(s). The assessment includes an evaluation of the quantitative measures of the regression results used to validate the conclusion of high effectiveness.

Prior to June 1, 2006, we used the short-cut method of assessing hedge effectiveness for certain fair value hedging relationships of U.S. dollar denominated fixed-rate long-term debt and certificates of deposits. The short-cut method allows an entity to assume perfect hedge effectiveness if certain qualitative criteria are met, and accordingly, does not require quantitative measures such as regression analysis. We used the short-cut method only when appropriate, based on the qualitative assessment of the criteria in paragraph 68 of FAS 133, performed at inception of the hedging relationship and on an ongoing basis. Effective January 1, 2006, for any new hedging relationships of these types, we used the long-haul method to assess hedge effectiveness. By June 1, 2006, we stopped using the short-cut method by de-designating all

remaining short-cut relationships and re-designating them to use the long-haul method to evaluate hedge effectiveness.

We enter into equity collars to lock in share prices between specified levels for certain equity securities. As permitted, we include the intrinsic value only (excluding time value) when assessing hedge effectiveness. We assess hedge effectiveness based on a dollar-offset ratio, at inception of the hedging relationship and on an ongoing basis, by comparing cumulative changes in the intrinsic value of the equity collar with changes in the fair value of the hedged equity securities. The net derivative gain or loss related to the equity collars is recorded in other noninterest income in the income statement.

At December 31, 2007, all designated fair value hedges continued to qualify as fair value hedges.

Cash Flow Hedges

We use derivatives, such as forwards, options and Eurodollar and Treasury futures, to hedge forecasted sales of mortgage loans. We hedge floating-rate senior debt against future interest rate increases by using interest rate swaps to convert floating-rate senior debt to fixed rates and by using interest rate caps and floors to limit variability of rates. We also use interest rate swaps and floors to hedge the variability in interest payments received on certain floating-rate commercial loans, due to changes in interest rates. Upon adoption of FAS 159 on January 1, 2007, derivatives used to hedge the forecasted sales of prime residential MHFS originated subsequent to January 1, 2007, were accounted for as economic hedges. We previously accounted for these derivatives as cash flow hedges under FAS 133. Gains and losses on derivatives that are reclassified from cumulative other comprehensive income to current period earnings, are included in the line item in which the hedged item's effect in earnings is recorded. All parts of gain or loss on these derivatives are included in the assessment of hedge effectiveness. For all cash flow hedges, we assess hedge effectiveness using regression analysis, both at inception of the hedging relationship and on an ongoing basis. The regression analysis involves regressing the periodic changes in cash flows of the hedging instrument against the periodic changes in cash flows of the forecasted transaction being hedged due to changes in the hedged risk(s). The assessment includes an evaluation of the quantitative measures of the regression results used to validate the conclusion of high effectiveness. As of December 31, 2007, all designated cash flow hedges continued to qualify as cash flow hedges.

We expect that \$63 million of deferred net gains on derivatives in other comprehensive income at December 31, 2007, will be reclassified as earnings during the next twelve months, compared with \$53 million of net deferred gains and \$13 million of net deferred losses at December 31, 2006 and 2005, respectively. We are hedging our exposure to the variability of future cash flows for all forecasted transactions for a maximum of seven years for both hedges of floating-rate senior debt and floating-rate commercial loans.

The following table provides derivative gains and losses related to fair value and cash flow hedges resulting from the change in value of the derivatives excluded from the assessment of hedge effectiveness and the change in value of the ineffective portion of the derivatives.

(in millions)	December 31,		
	2007	2006	2005
Net gains (losses) from fair value hedges ⁽¹⁾ from:			
Change in value of derivatives excluded from the assessment of hedge effectiveness	\$ 8	\$ (5)	\$ 350
Ineffective portion of change in value of derivatives	19	11	(399)
Net gains from ineffective portion of change in the value of cash flow hedges ⁽²⁾	26	45	23

(1) Includes hedges of long-term debt and certificates of deposit, commercial real estate and franchise loans, and debt and equity securities, and, for 2005, residential MSRs. Upon adoption of FAS 156, derivatives used to hedge our residential MSRs are no longer accounted for as fair value hedges under FAS 133.

(2) Includes hedges of floating-rate long-term debt and floating-rate commercial loans and, for 2006 and 2005, hedges of forecasted sales of prime residential MHFS. Upon adoption of FAS 159, derivatives used to hedge our prime residential MHFS were no longer accounted for as cash flow hedges under FAS 133.

Free-Standing Derivatives

We use free-standing derivatives (economic hedges), in addition to debt securities available for sale, to hedge the risk of changes in the fair value of residential MSRs, new prime residential MHFS, derivative loan commitments and other interests held, with the resulting gain or loss reflected in income.

The derivatives used to hedge residential MSRs include swaps, swaptions, forwards, Eurodollar and Treasury futures, and options contracts. Net derivative gains of \$1,154 million for 2007 and net derivative losses of \$145 million for 2006 from economic hedges related to our mortgage servicing activities are included in the income statement in "Mortgage banking." The aggregate fair value of these derivatives used as economic hedges was a net asset of \$1,652 million at December 31, 2007, and \$157 million at December 31, 2006. Changes in fair value of debt securities available for sale (unrealized gains and losses) are not included in servicing income, but are reported in cumulative other comprehensive income (net of tax) or, upon sale, are reported in net gains (losses) on debt securities available for sale.

Interest rate lock commitments for residential mortgage loans that we intend to sell are considered free-standing derivatives. Our interest rate exposure on these derivative loan commitments, as well as new prime residential MHFS

carried at fair value under FAS 159, is hedged with free-standing derivatives (economic hedges) such as forwards and options, Eurodollar futures, and Treasury futures, forwards and options contracts. The commitments, free-standing derivatives and residential MHFS are carried at fair value with changes in fair value included in the income statement in "Mortgage banking." We record a zero fair value for a derivative loan commitment at inception consistent with Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 105, *Application of Accounting Principles to Loan Commitments*. Changes subsequent to inception are based on changes in fair value of the underlying loan resulting from the exercise of the commitment and changes in the probability that the loan will not fund within the terms of the commitment (referred to as a fall-out factor). The value of the underlying loan is affected primarily by changes in interest rates and the passage of time. However, changes in investor demand, such as concerns about credit risk, can also cause changes in the spread relationships between underlying loan value and the derivative financial instruments that cannot be hedged. The aggregate fair value of derivative loan commitments in the balance sheet at December 31, 2007 and 2006, was a net asset of \$6 million and a net liability of \$65 million, respectively, and is included in the caption "Interest rate contracts" under Customer Accommodation, Trading and Other Free-Standing Derivatives in the following table.

We also enter into various derivatives primarily to provide derivative products to customers. To a lesser extent, we take positions based on market expectations or to benefit from price differentials between financial instruments and markets. These derivatives are not linked to specific assets and liabilities in the balance sheet or to forecasted transactions in an accounting hedge relationship and, therefore, do not qualify for hedge accounting. We also enter into free-standing derivatives for risk management that do not otherwise qualify for hedge accounting. They are carried at fair value with changes in fair value recorded as part of other noninterest income in the income statement.

Additionally, free-standing derivatives include embedded derivatives that are required to be accounted for separate from their host contract. We periodically issue long-term notes where the performance of the hybrid instrument notes is linked to an equity, commodity or currency index, or basket of such indices. These notes contain explicit terms that affect some or all of the cash flows or the value of the note in a manner similar to a derivative instrument and therefore are considered to contain an "embedded" derivative instrument. The indices on which the performance of the hybrid instrument is calculated are not clearly and closely related to the host debt instrument. In accordance with FAS 133, the "embedded" derivative is separated from the host contract and accounted for as a free-standing derivative.

The total notional or contractual amounts, credit risk amount and estimated net fair value for derivatives were:

(in millions)	December 31,					
	2007			2006		
	Notional or contractual amount	Credit risk amount ⁽²⁾	Estimated net fair value	Notional or contractual amount	Credit risk amount ⁽²⁾	Estimated net fair value
ASSET/LIABILITY MANAGEMENT HEDGES						
Qualifying hedge contracts accounted for under FAS 133						
Interest rate contracts:						
Swaps	\$ 47,408	\$1,411	\$1,144	\$ 36,840	\$ 530	\$ 158
Futures	50	—	—	339	—	—
Floors and caps purchased	250	8	8	500	5	5
Floors and caps written	250	—	(5)	—	—	—
Options purchased	—	—	—	—	—	—
Forwards	—	—	—	27,781	86	36
Equity contracts:						
Options purchased	1	—	—	1	—	—
Options written	3	—	(3)	75	—	(15)
Forwards	—	—	—	4	—	—
Foreign exchange contracts:						
Swaps	12,048	1,399	1,376	10,157	548	539
Free-standing derivatives (economic hedges)						
Interest rate contracts ⁽¹⁾ :						
Swaps	43,835	933	512	29,674	164	39
Futures	56,023	—	—	61,339	—	—
Options purchased	16,250	156	156	94,101	157	157
Options written	3,500	—	(20)	11,620	—	(5)
Forwards	353,095	1,094	807	260,751	394	(8)
Foreign exchange contracts:						
Swaps	603	202	202	603	87	87
Forwards	—	—	—	1,000	49	—
CUSTOMER ACCOMMODATION, TRADING AND OTHER FREE-STANDING DERIVATIVES						
Interest rate contracts:						
Swaps	195,144	3,584	388	100,944	1,286	230
Futures	33,443	—	—	16,870	—	—
Floors and caps purchased	21,629	143	143	6,929	30	30
Floors and caps written	24,466	—	(124)	10,704	—	(20)
Options purchased	2,573	88	88	8,993	102	102
Options written	19,074	35	(60)	31,237	15	(133)
Forwards	131,959	43	9	83,163	21	5
Commodity contracts:						
Swaps	5,053	367	(48)	3,422	277	34
Futures	1,417	—	—	518	—	—
Floors and caps purchased	1,869	290	290	839	55	55
Floors and caps written	1,738	—	(151)	1,224	—	(66)
Options purchased	761	74	74	184	30	30
Options written	552	—	(49)	155	—	(31)
Equity contracts:						
Swaps	291	63	19	81	4	1
Futures	138	—	—	90	—	—
Options purchased	4,966	508	508	2,732	295	295
Options written	4,416	—	(433)	2,113	—	(302)
Forwards	74	—	(8)	160	1	(7)
Foreign exchange contracts:						
Swaps	5,797	199	(20)	4,133	40	(17)
Futures	155	—	—	1	—	—
Options purchased	3,229	107	107	2,384	72	72
Options written	3,168	—	(100)	2,145	—	(55)
Forwards and spots	40,371	420	85	34,576	194	19
Credit contracts:						
Swaps	2,752	75	51	1,513	30	3

(1) Includes free-standing derivatives (economic hedges) used to hedge the risk of changes in the fair value of residential MSRs, MHFS, interest rate lock commitments and other interests held.

(2) Credit risk amounts reflect the replacement cost for those contracts in a gain position in the event of nonperformance by all counterparties.

Note 17: Fair Values of Assets and Liabilities

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Trading assets, securities available for sale, derivatives, prime residential mortgages held for sale (MHFS) and residential MSR are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets on a non-recurring basis, such as nonprime residential and commercial MHFS, loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets.

Effective January 1, 2007, upon adoption of FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* (FAS 159), we elected to measure MHFS at fair value prospectively for new prime residential MHFS originations for which an active secondary market and readily available market prices currently exist to reliably support fair value pricing models used for these loans. We also elected to remeasure at fair value certain of our other interests held related to residential loan sales and securitizations. We believe the election for MHFS and other interests held (which are now hedged with free-standing derivatives (economic hedges) along with our MSRs) will reduce certain timing differences and better match changes in the value of these assets with changes in the value of derivatives used as economic hedges for these assets. There was no transition adjustment required upon adoption of FAS 159 for MHFS because we continued to account for MHFS originated prior to 2007 at the lower of cost or market value. At December 31, 2006, the book value of other interests held was equal to fair value and, therefore, a transition adjustment was not required.

Upon adoption of FAS 159, we were also required to adopt FAS 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements. Additionally, FAS 157 amended FAS 107, *Disclosure about Fair Value of Financial Instruments* (FAS 107), and, as such, we follow FAS 157 in determination of FAS 107 fair value disclosure amounts. The disclosures required under FAS 159, FAS 157 and FAS 107 have been included in this Note.

Fair Value Hierarchy

Under FAS 157, we group our assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Determination of Fair Value

Under FAS 157, we base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in FAS 157.

Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon our own estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future values.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value (FAS 107 disclosures).

Assets

SHORT-TERM FINANCIAL ASSETS Short-term financial assets include cash and due from banks, federal funds sold and securities purchased under resale agreements and due from customers on acceptances. These assets are carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

TRADING ASSETS Trading assets are recorded at fair value and consist primarily of securities and derivatives held for trading purposes. The valuation method for trading securities is the same as the methodology used for securities classified as available for sale (see the following page). The valuation methodology for derivatives is described in the following *Derivatives* section.

SECURITIES AVAILABLE FOR SALE Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 securities include private collateralized mortgage obligations, municipal bonds and corporate debt securities. Securities classified as Level 3 are primarily private placement asset-backed securities where we underwrite the underlying collateral (auto lease receivables) and residual certificated interests in our residential mortgage loan securitizations.

MORTGAGES HELD FOR SALE (MHFS) Under FAS 159, we elected to carry our new prime residential MHFS portfolio at fair value. The remaining MHFS are carried at the lower of cost or market value. Fair value is based on independent quoted market prices, where available, or the prices for other mortgage whole loans with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions and liquidity. Nearly all of our MHFS are classified as Level 2. For a minor portion where market pricing data is not available, we use a discounted cash flow model to estimate fair value and, accordingly, classify as Level 3.

LOANS HELD FOR SALE Loans held for sale are carried at the lower of cost or market value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, we classify loans subjected to nonrecurring fair value adjustments as Level 2.

LOANS For the carrying value of loans, see Note 1 – Loans. We do not record loans at fair value on a recurring basis. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for FAS 107 disclosure purposes. However, from time to time, we record nonrecurring fair value adjustments to loans to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value.

The fair value estimates for FAS 107 purposes differentiates loans based on their financial characteristics, such as product classification, loan category, pricing features and remaining maturity. Prepayment and credit loss estimates are evaluated by product and loan rate.

The fair value of commercial and commercial real estate loans is calculated by discounting contractual cash flows using discount rates that reflect our current pricing for loans with similar characteristics and remaining maturity.

For real estate 1-4 family first and junior lien mortgages, fair value is calculated by discounting contractual cash flows, adjusted for prepayment and credit loss estimates, using discount rates based on current industry pricing (where readily available) or our own estimate of an appropriate risk-adjusted discount rate for loans of similar size, type, remaining maturity and repricing characteristics.

For credit card loans, the portfolio's yield is equal to our current pricing and, therefore, the fair value is equal to book value adjusted for estimates of credit losses inherent in the portfolio at the balance sheet date.

For all other consumer loans, the fair value is generally calculated by discounting the contractual cash flows, adjusted for prepayment and credit loss estimates, based on the current rates we offer for loans with similar characteristics.

Loan commitments, standby letters of credit and commercial and similar letters of credit not included in the following table had contractual values of \$241.9 billion, \$12.5 billion and \$955 million, respectively, at December 31, 2007, and \$216.5 billion, \$12.0 billion and \$801 million, respectively, at December 31, 2006. These instruments generate ongoing fees at our current pricing levels, which are recognized over the term of the commitment period. Of the commitments at December 31, 2007, 40% mature within one year. Deferred fees on commitments and standby letters of credit totaled \$33 million and \$39 million at December 31, 2007 and 2006, respectively. The fair value of these instruments is estimated based upon fees charged for similar agreements. The carrying value of the deferred fees is a reasonable estimate of the fair value of the commitments.

DERIVATIVES Quoted market prices are available and used for our exchange-traded derivatives, such as certain interest rate futures and option contracts, which we classify as Level 1. However, substantially all of our derivatives are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, we measure fair value using internally developed models that use primarily market observable inputs, such as yield curves and option volatilities, and, accordingly, classify as Level 2. Examples of Level 2 derivatives are basic interest rate swaps and forward contracts. Any remaining derivative fair value measurements using significant assumptions that are unobservable we classify as Level 3. Level 3 derivatives include interest rate lock commitments written for our residential mortgage loans that we intend to sell.

MORTGAGE SERVICING RIGHTS AND CERTAIN OTHER INTERESTS HELD IN SECURITIZATIONS Mortgage servicing rights (MSRs) and certain other interests held in securitizations (e.g., interest-only strips) do not trade in an active market with readily observable prices. Accordingly, we determine the fair value of MSRs

using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds (including housing price volatility), discount rate, cost to service (including delinquency and foreclosure costs), escrow account earnings, contractual servicing fee income, ancillary income and late fees. Since the adoption of FAS 156 on January 1, 2006, we record residential MSRMs at fair value on a recurring basis. Commercial MSRMs continue to be carried at lower of cost or market value, and therefore can be subject to fair value measurements on a nonrecurring basis. For other interests held in securitizations (such as interest-only strips) we use a valuation model that calculates the present value of estimated future cash flows. The model incorporates our own estimates of assumptions market participants use in determining the fair value, including estimates of prepayment speeds, discount rates, defaults and contractual fee income. Interest-only strips are recorded as trading assets. Fair value measurements of our MSRMs and interest-only strips use significant unobservable inputs and, accordingly, we classify as Level 3. We may also retain securities from our loan securitization activities. The valuation technique for these securities is discussed in *Securities available for sale*.

FORECLOSED ASSETS Foreclosed assets include foreclosed properties securing residential, auto and GNMA loans. Foreclosed assets are adjusted to fair value less costs to sell upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value less costs to sell. Fair value is generally based upon independent market prices or appraised values of the collateral and, accordingly, we classify foreclosed assets as Level 2.

NONMARKETABLE EQUITY INVESTMENTS Nonmarketable equity investments are recorded under the cost or equity method of accounting. There are generally restrictions on the sale and/or liquidation of these investments, including federal bank stock. Federal bank stock carrying value approximates fair value. We use facts and circumstances available to estimate the fair value of our nonmarketable equity investments. We typically consider our access to and need for capital (including recent or projected financing activity), qualitative assessments of the viability of the investee, evaluation of the financial statements of the investee and prospects for its future.

Liabilities

DEPOSIT LIABILITIES Deposit liabilities are carried at historical cost. FAS 107 states that the fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, interest-bearing checking, and market rate and other savings, is equal to the amount payable on demand at the measurement date. The fair value of other time deposits is calculated based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for like wholesale deposits with similar remaining maturities.

SHORT-TERM FINANCIAL LIABILITIES Short-term financial liabilities are carried at historical cost and include federal funds purchased and securities sold under repurchase agreements, commercial paper and other short-term borrowings. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

OTHER LIABILITIES Other liabilities recorded at fair value on a recurring basis, excluding derivative liabilities (see *Derivatives* section for derivative liabilities), includes liabilities for securities sold, but not yet purchased (short sale liabilities), and repurchase obligations (due to standard representations and warranties) under our residential mortgage loan contracts. Short sale liabilities are priced based upon quoted prices in active exchange markets of the underlying security and are classified as Level 1. The value of the repurchase obligations is determined using a cash flow valuation technique consistent with what market participants would use in estimating the fair value. Key assumptions in the valuation process are estimates for repurchase demands and losses subsequent to repurchase. Such assumptions are unobservable and, accordingly, we classify repurchase obligations as Level 3.

LONG-TERM DEBT Long-term debt is carried at amortized cost. However, we are required to estimate the fair value of long-term debt under FAS 107. Generally, the discounted cash flow method is used to estimate the fair value of our long-term debt. Contractual cash flows are discounted using rates currently offered for new notes with similar remaining maturities and, as such, these discount rates include our current spread levels. The fair value estimates generated are corroborated against observable market prices. For foreign-currency denominated debt, we estimate fair value based upon observable market prices for the instruments.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis.

(in millions)	December 31, 2007			
	Total	Level 1	Level 2	Level 3
Trading assets	\$ 7,727	\$ 1,041	\$ 6,268	\$ 418
Securities available for sale	72,951	38,178	29,392	5,381 ⁽²⁾
Mortgages held for sale	24,998	—	24,852	146
Mortgage servicing rights (residential)	16,763	—	—	16,763
Other assets ⁽¹⁾	<u>1,393</u>	<u>1,145</u>	<u>207</u>	<u>41</u>
Total	<u>\$123,832</u>	<u>\$40,364</u>	<u>\$60,719</u>	<u>\$22,749</u>
Other liabilities ⁽¹⁾	<u>\$ (2,591)</u>	<u>\$ (1,670)</u>	<u>\$ (606)</u>	<u>\$ (315)</u>

(1) Derivatives are included in this category.

(2) Asset-backed securities where we underwrite the underlying collateral (auto lease receivables) represent substantially all of this balance.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

(in millions)	Year ended December 31, 2007					
	Trading assets (excluding derivatives)	Securities available for sale	Mortgages held for sale	Mortgage servicing rights (residential)	Net derivative assets and liabilities	Other liabilities (excluding derivatives)
Balance, beginning of year	\$ 360	\$3,447	\$ —	\$17,591	\$ (68)	\$(282)
Total net gains (losses) for the year included in:						
Net income	(151)	(33)	1	(3,597)	(108)	(97)
Other comprehensive income	—	(12)	—	—	—	—
Purchases, sales, issuances and settlements, net	207	1,979	30	2,769	178	99
Net transfers into/out of Level 3	<u>2</u>	<u>—</u>	<u>115⁽³⁾</u>	<u>—</u>	<u>4</u>	<u>—</u>
Balance, end of year	<u>\$ 418</u>	<u>\$5,381</u>	<u>\$146</u>	<u>\$16,763</u>	<u>\$ 6</u>	<u>\$(280)</u>
Net unrealized gains (losses) included in net income for the year relating to assets and liabilities held at December 31, 2007 ⁽¹⁾	<u>\$ (86)⁽²⁾</u>	<u>\$ (31)</u>	<u>\$ 1⁽⁴⁾</u>	<u>\$ (594)⁽⁴⁾⁽⁵⁾</u>	<u>\$ 6⁽⁴⁾</u>	<u>\$ (98)⁽⁴⁾</u>

(1) Represents only net gains (losses) that are due to changes in economic conditions and management's estimates of fair value and excludes changes due to the collection/realization of cash flows over time.

(2) Included in other noninterest income in the income statement.

(3) Represents loans previously classified as Level 2 that became unsaleable during 2007; therefore the fair value measurement was derived from discounted cash flow models using unobservable inputs and assumptions.

(4) Included in mortgage banking in the income statement.

(5) Represents total unrealized losses of \$571 million, net of gains of \$23 million related to sales, for 2007.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

We may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The valuation methodologies

used to measure these fair value adjustments are described previously in this Note. For assets measured at fair value on a nonrecurring basis in 2007 that were still held in the balance sheet at year end, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at year end.

(in millions)	Carrying value at December 31, 2007				Year ended December 31, 2007
	Total	Level 1	Level 2	Level 3	Total losses
Mortgages held for sale	\$1,817	\$—	\$1,817	\$—	\$ (76)
Loans held for sale	691	—	691	—	(35)
Loans ⁽¹⁾	816	—	804	12	(3,080)
Private equity investments	22	—	—	22	(52)
Foreclosed assets ⁽²⁾	454	—	454	—	(90)
Operating lease assets	49	—	49	—	(3)
					<u>\$(3,336)</u>

(1) Represents carrying value and related write-downs of loans for which adjustments are based on the appraised value of the collateral. The carrying value of loans fully charged-off, which includes auto loans and unsecured lines and loans, is zero.

(2) Represents the fair value and related losses of foreclosed real estate and other collateral owned that were measured at fair value subsequent to their initial classification as foreclosed assets.

Fair Value Option

The following table reflects the differences between fair value carrying amount of MHFS measured at fair value under FAS 159 and the aggregate unpaid principal amount we are contractually entitled to receive at maturity.

(in millions)	December 31, 2007		
	Fair value carrying amount	Aggregate unpaid principal	Fair value carrying amount less aggregate unpaid principal
Mortgages held for sale reported at fair value:			
Total loans	\$24,998	\$24,691	\$307 ⁽¹⁾
Nonaccrual loans	59	85	(26)
Loans 90 days or more past due and still accruing	29	31	(2)

(1) The difference between fair value carrying amount and aggregate unpaid principal includes changes in fair value recorded at and subsequent to funding, gains and losses on the related loan commitment prior to funding, and premiums on acquired loans.

The assets accounted for under FAS 159 are initially measured at fair value. Gains and losses from initial measurement and subsequent changes in fair value are recognized in earnings. The changes in fair values related to initial measurement and subsequent changes in fair value that are included in current period earnings for these assets measured at fair value are shown, by income statement line item, below.

(in millions)	Year ended December 31, 2007	
	Mortgages held for sale	Other interests held
Changes in fair value included in net income:		
Mortgage banking noninterest income:		
Net gains on mortgage loan origination/sales activities ⁽¹⁾	\$986	\$ —
Other noninterest income	—	(153)

(1) Includes changes in fair value of servicing associated with MHFS.

Interest income on mortgages held for sale measured at fair value is calculated based on the note rate of the loan and is recorded in interest income in the income statement.

FAS 107, Disclosures about Fair Value of Financial Instruments

The table below is a summary of fair value estimates as of December 31, 2007 and 2006, for financial instruments, as defined by FAS 107, excluding short-term financial assets and liabilities, for which carrying amounts approximate fair value, and excluding financial instruments recorded at fair value on a recurring basis. The carrying amounts in the following table are recorded in the balance sheet under the indicated captions.

In accordance with FAS 107, we have not included assets and liabilities that are not financial instruments in our disclosure, such as the value of the long-term relationships

with our deposit, credit card and trust customers, amortized MSRs, premises and equipment, goodwill and other intangibles, deferred taxes and other liabilities. Additionally, the amounts in the table have not been updated since year end, therefore the valuations may have changed significantly since that point in time. For these reasons, the total of the fair value calculations presented does not represent, and should not be construed to represent, the underlying value of the Company.

(in millions)	December 31,			
	2007		2006	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
FINANCIAL ASSETS				
Mortgages held for sale ⁽¹⁾	\$ 1,817	\$ 1,817	\$ 33,097	\$ 33,240
Loans held for sale	948	955	721	731
Loans, net	376,888	377,219	315,352	315,484
Nonmarketable equity investments (cost method)	5,855	6,076	4,451	4,711
FINANCIAL LIABILITIES				
Deposits	\$344,460	\$344,484	\$310,243	\$310,116
Long-term debt ⁽²⁾	99,373	98,449	87,133	86,837

(1) Balance excludes mortgages held for sale for which the fair value option under FAS 159 was elected, and therefore includes nonprime residential and commercial mortgages held for sale.

(2) The carrying amount and fair value exclude obligations under capital leases of \$20 million and \$12 million at December 31, 2007 and 2006, respectively.

Note 18: Preferred Stock

We are authorized to issue 20 million shares of preferred stock and 4 million shares of preference stock, both without par value. Preferred shares outstanding rank senior to common shares both as to dividends and liquidation preference but have no general voting rights. We have not issued any preference shares under this authorization.

ESOP CUMULATIVE CONVERTIBLE PREFERRED STOCK All shares of our ESOP (Employee Stock Ownership Plan) Cumulative Convertible Preferred Stock (ESOP Preferred Stock) were issued to a trustee acting on behalf of the Wells Fargo & Company 401(k) Plan (the 401(k) Plan). Dividends on the ESOP Preferred Stock are cumulative from the date of initial issuance and are payable quarterly at annual rates ranging

from 8.50% to 12.50%, depending upon the year of issuance. Each share of ESOP Preferred Stock released from the unallocated reserve of the 401(k) Plan is converted into shares of our common stock based on the stated value of the ESOP Preferred Stock and the then current market price of our common stock. The ESOP Preferred Stock is also convertible at the option of the holder at any time, unless previously redeemed. We have the option to redeem the ESOP Preferred Stock at any time, in whole or in part, at a redemption price per share equal to the higher of (a) \$1,000 per share plus accrued and unpaid dividends or (b) the fair market value, as defined in the Certificates of Designation for the ESOP Preferred Stock.

	Shares issued and outstanding		Carrying amount (in millions)		Adjustable dividend rate	
	December 31, 2007	December 31, 2006	2007	2006	Minimum	Maximum
ESOP Preferred Stock ⁽¹⁾ :						
2007	135,124	—	\$ 135	\$ —	10.75%	11.75%
2006	95,866	115,521	96	116	10.75	11.75
2005	73,434	84,284	73	84	9.75	10.75
2004	55,610	65,180	56	65	8.50	9.50
2003	37,043	44,843	37	45	8.50	9.50
2002	25,779	32,874	26	33	10.50	11.50
2001	16,593	22,303	17	22	10.50	11.50
2000	9,094	14,142	9	14	11.50	12.50
1999	1,261	4,094	1	4	10.30	11.30
1998	—	563	—	1	10.75	11.75
Total ESOP Preferred Stock	<u>449,804</u>	<u>383,804</u>	<u>\$ 450</u>	<u>\$ 384</u>		
Unearned ESOP shares ⁽²⁾			<u>\$(482)</u>	<u>\$(411)</u>		

(1) Liquidation preference \$1,000. At December 31, 2007 and 2006, additional paid-in capital included \$32 million and \$27 million, respectively, related to preferred stock.

(2) In accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*, we recorded a corresponding charge to unearned ESOP shares in connection with the issuance of the ESOP Preferred Stock. The unearned ESOP shares are reduced as shares of the ESOP Preferred Stock are committed to be released. For information on dividends paid, see Note 19.

Note 19: Common Stock and Stock Plans

Common Stock

The table to the right presents our reserved, issued and authorized shares of common stock at December 31, 2007.

	Number of shares
Dividend reinvestment and common stock purchase plans	9,315,728
Director plans	1,022,372 ⁽²⁾
Stock plans ⁽¹⁾	<u>455,861,120⁽³⁾</u>
Total shares reserved	466,199,220
Shares issued	3,472,762,050
Shares not reserved	<u>2,061,038,730</u>
Total shares authorized	<u>6,000,000,000</u>

(1) Includes employee option, restricted shares and restricted share rights, 401(k), profit sharing and compensation deferral plans.

(2) On January 22, 2008, the Board of Directors authorized an additional 100,000 shares of common stock for issuance under the Directors Stock Compensation and Deferral Plan for compensation deferrals only.

(3) Includes 10,285,112 shares available for future awards at December 31, 2007, under the *PartnerShares* Stock Option Plan. No awards have been granted under this plan since 2002, and as a result of action taken by the Board of Directors on January 22, 2008, no future awards will be granted under this plan.

Dividend Reinvestment and Common Stock Purchase Plans

Participants in our dividend reinvestment and common stock direct purchase plans may purchase shares of our common stock at fair market value by reinvesting dividends and/or making optional cash payments, under the plan's terms.

Employee Stock Plans

We offer the stock-based employee compensation plans described below. Effective January 1, 2006, we adopted FAS 123(R), *Share-Based Payment*, using the "modified prospective" transition method. FAS 123(R) requires that we measure the cost of employee services received in exchange for an award of equity instruments, such as stock options or restricted share rights (RSRs), based on the fair value of the award on the grant date. The cost is normally recognized in our income statement over the vesting period of the award; awards with graded vesting are expensed on a straight-line method. Awards to retirement-eligible employees are subject to immediate expensing upon grant. Total stock option compensation expense was \$129 million in 2007 and \$134 million in 2006, with a related recognized tax benefit of \$49 million and \$50 million for the same years, respectively. Stock option expense is based on the fair value of the awards at the date of grant. Prior to January 1, 2006, we did not record any compensation expense for stock options.

LONG-TERM INCENTIVE COMPENSATION PLAN Our Long-Term Incentive Compensation Plan provides for awards of incentive and nonqualified stock options, stock appreciation rights, restricted shares, RSRs, performance awards and stock awards without restrictions. Options must have an exercise price at or above fair market value (as defined in the plan) of the stock at the date of grant (except for substitute or replacement options granted in connection with mergers or other acquisitions) and a term of no more than 10 years. Except for options granted in 2004 and 2005, which generally vested in full upon grant, options generally become exercisable over three years beginning on the first anniversary of the date of grant. Except as otherwise permitted under the plan, if employment is ended for reasons other than retirement, permanent disability or death, the option period is reduced or the options are canceled.

Options granted prior to 2004 may include the right to acquire a "reload" stock option. If an option contains the reload feature and if a participant pays all or part of the exercise price of the option with shares of stock purchased in the market or held by the participant for at least six months and, in either case, not used in a similar transaction in the last six months, upon exercise of the option, the participant is granted a new option to purchase, at the fair market value of the stock as of the date of the reload, the number of shares of stock equal to the sum of the number of shares used in payment of the exercise price and a number of shares with respect to related statutory minimum withholding taxes. Reload grants are fully vested upon grant and are expensed immediately under FAS 123(R) beginning in 2006.

The total number of shares of common stock available for grant under the plan at December 31, 2007, was 145,278,124.

Holders of RSRs are entitled to the related shares of common stock at no cost generally over three to five years after the RSRs were granted. Holders of RSRs granted prior to July 2007 may be entitled to receive cash payments equal to the cash dividends that would have been paid had the RSRs been issued and outstanding shares of common stock. Except in limited circumstances, RSRs are canceled when employment ends.

The compensation expense for RSRs equals the quoted market price of the related stock at the date of grant and is accrued over the vesting period. Total compensation expense for RSRs was not significant in 2007 or 2006.

For various acquisitions and mergers, we converted employee and director stock options of acquired or merged companies into stock options to purchase our common stock based on the terms of the original stock option plan and the agreed-upon exchange ratio.

PARTNERSHARES PLAN In 1996, we adopted the *PartnerShares*[®] Stock Option Plan, a broad-based employee stock option plan. It covers full- and part-time employees who generally were not included in the long-term incentive compensation plan described above. The total number of shares of common stock authorized for issuance under the plan since inception through December 31, 2007, was 108,000,000, including 10,285,112 shares available for grant at December 31, 2007. No options have been granted under the plan since 2002, and as a result of action taken by the Board of Directors on January 22, 2008, no future awards will be granted under the plan. The exercise date of options granted under the *PartnerShares* Plan is the earlier of (1) five years after the date of grant or (2) when the quoted market price of the stock reaches a predetermined price. These options generally expire 10 years after the date of grant. Because the exercise price of each *PartnerShares* Plan grant has been equal to or higher than the quoted market price of our common stock at the date of grant, we did not recognize any compensation expense in 2005 and prior years. In 2006, under FAS 123(R), we began to recognize expense related to these grants, based on the remaining vesting period. All of our *PartnerShares* Plan grants were fully vested as of December 31, 2007.

Director Plan

We provide a stock award to non-employee directors as part of their annual retainer under our Directors Stock Compensation and Deferred Plan. We also provide annual grants of options to purchase common stock to each non-employee director elected or re-elected at the annual meeting of stockholders. The options can be exercised after six months and through the tenth anniversary of the grant date.

The table below summarizes stock option activity and related information for 2007. Options assumed in mergers are included in the activity and related information for

Incentive Compensation Plans if originally issued under an employee plan, and in the activity and related information for Director Plans if originally issued under a director plan.

	Number	Weighted-average exercise price	Weighted-average remaining contractual term (in yrs.)	Aggregate intrinsic value (in millions)
Incentive Compensation Plans				
Options outstanding as of December 31, 2006	223,116,682	\$26.85		
Granted	44,279,645	34.53		
Canceled or forfeited	(2,183,078)	32.81		
Exercised	(33,390,005)	23.27		
Acquisitions	<u>6,806,680</u>	31.92		
Options outstanding as of December 31, 2007	<u>238,629,924</u>	28.87	5.8	\$654
As of December 31, 2007:				
Options exercisable and expected to be exercisable ⁽¹⁾	236,589,775	28.83	5.8	654
Options exercisable	174,612,827	27.15	4.8	654
PartnerShares Plan				
Options outstanding as of December 31, 2006	38,010,790	\$23.18		
Canceled or forfeited	(727,972)	23.74		
Exercised	<u>(12,917,257)</u>	22.53		
Options outstanding as of December 31, 2007	<u>24,365,561</u>	23.50	3.2	\$163
As of December 31, 2007:				
Options exercisable and expected to be exercisable ⁽¹⁾	24,365,561	23.50	3.2	163
Options exercisable	24,365,561	23.50	3.2	163
Director Plans				
Options outstanding as of December 31, 2006	794,611	\$26.16		
Granted	103,516	35.78		
Exercised	<u>(70,842)</u>	22.04		
Options outstanding as of December 31, 2007	<u>827,285</u>	27.72	5.4	\$ 3
As of December 31, 2007:				
Options exercisable and expected to be exercisable ⁽¹⁾	827,285	27.72	5.4	3
Options exercisable	827,285	27.72	5.4	3

(1) Adjusted for estimated forfeitures.

As of December 31, 2007, there was \$126 million of unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 2.1 years.

The total intrinsic value of options exercised during 2007 and 2006 was \$588 million and \$617 million, respectively.

Cash received from the exercise of options for 2007 and 2006 was \$1,026 million and \$1,092 million, respectively. The actual tax benefit recognized in stockholders' equity for the tax deductions from the exercise of options totaled \$210 million and \$229 million, respectively, for 2007 and 2006.

We do not have a specific policy on repurchasing shares to satisfy share option exercises. Rather, we have a general policy on repurchasing shares to meet common stock issuance requirements for our benefit plans (including share option exercises), conversion of its convertible securities, acquisitions, and other corporate purposes. Various factors determine the amount and timing of our share repurchases, including our capital requirements, the number of shares we expect to issue for acquisitions and employee benefit plans, market conditions (including the trading price of our stock),

and legal considerations. These factors can change at any time, and there can be no assurance as to the number of shares we will repurchase or when we will repurchase them.

Effective with the adoption of FAS 123(R), the fair value of each option award granted on or after January 1, 2006, is estimated using a Black-Scholes valuation model. The expected term of options granted is generally based on the historical exercise behavior of full-term options. Our expected volatilities are based on a combination of the historical volatility of our common stock and implied volatilities for traded options on our common stock. The risk-free rate is based on the U.S. Treasury zero-coupon yield curve in effect at the time of grant. Both expected volatility and the risk-free rates are based on a period commensurate with our expected term. The expected dividend is based on the current dividend, our historical pattern of dividend increases and the market price of our stock.

Prior to the adoption of FAS 123(R), we also used a Black-Scholes valuation model to estimate the fair value of options granted for the pro forma disclosures of net income and earnings per common share that were required by FAS 123.

Effective with the adoption of FAS 123(R), we changed our method of estimating our volatility assumption. Prior to 2006, we used a volatility based on historical stock price changes. Effective January 1, 2006, we used a volatility based on a combination of historical stock price changes and implied volatilities of traded options as both volatilities are relevant in estimating our expected volatility.

The following table presents the weighted-average per share fair value of options granted and the assumptions used, based on a Black-Scholes option valuation model.

	Year ended December 31,		
	2007	2006	2005
Per share fair value of options granted:			
Incentive Compensation Plans	\$4.03	\$4.03	\$3.75
Director Plans	4.05	4.67	3.13
Expected volatility	13.3%	15.9%	16.1%
Expected dividends	3.4	3.4	3.4
Expected term (in years)	4.2	4.3	4.4
Risk-free interest rate	4.6%	4.5%	4.0%

The weighted-average grant-date fair value of RSRs granted during 2006 was \$33.90. At December 31, 2007, there was \$2 million of total unrecognized compensation cost related to nonvested RSRs. The cost is expected to be recognized over a weighted-average period of 3.0 years. The total fair value of RSRs that vested during 2007 and 2006 was \$1 million and \$3 million, respectively.

A summary of the status of our RSRs at December 31, 2007, and changes during 2007 is in the following table:

	Number	Weighted-average grant-date fair value
Nonvested at January 1, 2007	147,146	\$29.53
Granted	27,360	34.76
Canceled or forfeited	(27,586)	27.51
Vested	(34,524)	27.20
Nonvested at December 31, 2007	<u>112,396</u>	32.01

Employee Stock Ownership Plan

Under the Wells Fargo & Company 401(k) Plan (the 401(k) Plan), a defined contribution ESOP, the 401(k) Plan may borrow money to purchase our common or preferred stock. Since 1994, we have loaned money to the 401(k) Plan to purchase shares of our ESOP Preferred Stock. As we release and convert ESOP Preferred Stock into common shares, we record compensation expense equal to the current market price of the common shares. Dividends on the common shares allocated as a result of the release and conversion of the ESOP Preferred Stock reduce retained earnings and the shares are considered outstanding for computing earnings per share. Dividends on the unallocated ESOP Preferred Stock do not reduce retained earnings, and the shares are not considered to be common stock equivalents for computing earnings per share. Loan principal and interest payments are made from our contributions to the 401(k) Plan, along with dividends paid on the ESOP Preferred Stock. With each principal and interest payment, a portion of the ESOP Preferred Stock is released and, after conversion of the ESOP Preferred Stock into common shares, allocated to the 401(k) Plan participants.

The balance of ESOP shares, the dividends on allocated shares of common stock and unreleased preferred shares paid to the 401(k) Plan and the fair value of unearned ESOP shares were:

(in millions, except shares)	Shares outstanding December 31,		
	2007	2006	2005
Allocated shares (common)	76,265,880	74,536,040	73,835,002
Unreleased shares (preferred)	449,804	383,804	325,463
Fair value of unearned ESOP shares	\$450	\$384	\$325
	Dividends paid Year ended December 31,		
	2007	2006	2005
Allocated shares (common)	\$88	\$79	\$71
Unreleased shares (preferred)	57	47	39

Deferred Compensation Plan for Independent Sales Agents

WF Deferred Compensation Holdings, Inc. is a wholly-owned subsidiary of the Parent formed solely to sponsor a deferred compensation plan for independent sales agents who provide investment, financial and other qualifying services for or with respect to participating affiliates. The Nonqualified Deferred Compensation Plan for Independent Contractors, which became effective January 1, 2002, allows participants to defer all or part of their eligible compensation payable to them by a participating affiliate. The Parent has fully and unconditionally guaranteed the deferred compensation obligations of WF Deferred Compensation Holdings, Inc. under the plan.

Note 20: Employee Benefits and Other Expenses

Employee Benefits

We sponsor noncontributory qualified defined benefit retirement plans including the Cash Balance Plan. The Cash Balance Plan is an active plan that covers eligible employees (except employees of certain subsidiaries).

Under the Cash Balance Plan, eligible employees' Cash Balance Plan accounts are allocated a compensation credit based on a percentage of their certified compensation. The compensation credit percentage is based on age and years of credited service. In addition, investment credits are allocated to participants quarterly based on their accumulated balances. Prior to January 1, 2008, employees became vested in their Cash Balance Plan accounts after completing five years of vesting service or reaching age 65, if earlier. Effective January 1, 2008, employees become vested in their Cash Balance Plan accounts after completing three years of vesting service or reaching age 65, if earlier.

We did not make a contribution in 2007 to our Cash Balance Plan because a contribution was not required and the Plan was well-funded. Although we will not be required to make a contribution in 2008 for the Cash Balance Plan, our decision on how much to contribute, if any, will be based on the maximum deductible contribution under the Internal Revenue Code, which has not yet been determined, and other factors, including the actual investment performance of plan assets during 2008. Given these uncertainties, we cannot estimate at this time the amount, if any, that we will contribute in 2008 to the Cash Balance Plan. The total amount contributed for our other pension plans in 2007 was \$31 million. For the unfunded nonqualified pension plans and postretirement benefit plans, we will contribute the minimum required amount in 2008, which equals the benefits paid under the plans. In 2007, we paid \$70 million in benefits for the postretirement plans, which included \$39 million in retiree contributions.

We sponsor defined contribution retirement plans including the 401(k) Plan. Under the 401(k) Plan, after one month of service, eligible employees may contribute up to 25% of their pre-tax certified compensation, although there may be a lower limit for certain highly compensated employees in order to maintain the qualified status of the 401(k) Plan. Eligible employees who complete one year of service are eligible for matching company contributions, which are generally a 100% match up to 6% of an employee's certified compensation. The matching contributions generally vest over four years.

Expenses for defined contribution retirement plans were \$426 million, \$373 million and \$370 million in 2007, 2006 and 2005, respectively.

We provide health care and life insurance benefits for certain retired employees and reserve the right to terminate or amend any of the benefits at any time.

The information set forth in the following tables is based on current actuarial reports using the measurement date of November 30 for our pension and postretirement benefit plans.

On September 29, 2006, the FASB issued FAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, which requires us to recognize in our balance sheet as of December 31, 2006, the funded status of our pension and other postretirement plans. Effective January 1, 2007, we were required to recognize changes in our plans' funded status in the year in which the changes occur in other comprehensive income.

The changes in the projected benefit obligation of pension benefits and the accumulated benefit obligation of other benefits and the fair value of plan assets during 2007 and

2006, the funded status at December 31, 2007 and 2006, and the amounts recognized in the balance sheet at December 31, 2007, were:

(in millions)	December 31,					
	2007			2006		
	Pension benefits		Other benefits	Pension benefits		Other benefits
Qualified	Non-qualified	Qualified		Non-qualified		
Change in benefit obligation:						
Benefit obligation at beginning of year	\$4,443	\$ 301	\$ 739	\$4,045	\$ 277	\$ 709
Service cost	281	15	15	247	16	15
Interest cost	246	18	41	224	16	39
Plan participants' contributions	—	—	39	—	—	35
Amendments	—	(24)	—	18	—	(11)
Plan mergers ⁽¹⁾	—	64	—	—	—	—
Actuarial loss (gain)	(105)	16	(105)	225	31	26
Benefits paid	(310)	(24)	(70)	(317)	(39)	(74)
Foreign exchange impact	10	—	4	1	—	—
Benefit obligation at end of year	<u>4,565</u>	<u>366</u>	<u>663</u>	<u>4,443</u>	<u>301</u>	<u>739</u>
Change in plan assets:						
Fair value of plan assets at beginning of year	5,351	—	412	4,944	—	370
Actual return on plan assets	560	—	56	703	—	37
Employer contribution	7	24	21	20	39	44
Plan participants' contributions	—	—	39	—	—	35
Benefits paid	(310)	(24)	(70)	(317)	(39)	(74)
Foreign exchange impact	9	—	—	1	—	—
Fair value of plan assets at end of year	<u>5,617</u>	<u>—</u>	<u>458</u>	<u>5,351</u>	<u>—</u>	<u>412</u>
Funded status at end of year	<u>\$1,052</u>	<u>\$(366)</u>	<u>\$(205)</u>	<u>\$ 908</u>	<u>\$(301)</u>	<u>\$(327)</u>
Amounts recognized in the balance sheet at end of year:						
Assets	\$1,061	\$ —	\$ —	\$ 927	\$ —	\$ —
Liabilities	(9)	(366)	(205)	(19)	(301)	(327)
	<u>\$1,052</u>	<u>\$(366)</u>	<u>\$(205)</u>	<u>\$ 908</u>	<u>\$(301)</u>	<u>\$(327)</u>

(1) Represents acquisition of Greater Bay Bancorp on October 1, 2007.

Amounts recognized in accumulated other comprehensive income (pre tax) for the year ended December 31, 2007 and 2006, consist of:

(in millions)	December 31,					
	2007			2006		
	Pension benefits		Other benefits	Pension benefits		Other benefits
Qualified	Non-qualified	Qualified		Non-qualified		
Net actuarial loss	\$248	\$ 79	\$ 13	\$494	\$ 76	\$144
Net prior service credit	(7)	(42)	(42)	(7)	(21)	(46)
Net transition obligation	—	—	3	—	—	3
Translation adjustments	3	—	2	—	—	—
	<u>\$244</u>	<u>\$ 37</u>	<u>\$(24)</u>	<u>\$487</u>	<u>\$ 55</u>	<u>\$101</u>

The net actuarial loss and net prior service credit for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2008 are \$14 million and \$5 million, respectively. The net actuarial loss and net prior service credit for the other postretirement plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2008 are \$1 million and \$4 million, respectively.

The weighted-average assumptions used to determine the projected benefit obligation were:

	Year ended December 31,			
	2007		2006	
	Pension benefits ⁽¹⁾	Other benefits	Pension benefits ⁽¹⁾	Other benefits
Discount rate	6.25%	6.25%	5.75%	5.75%
Rate of compensation increase	4.0	—	4.0	—

(1) Includes both qualified and nonqualified pension benefits.

The accumulated benefit obligation for the defined benefit pension plans was \$4,734 million and \$4,550 million at December 31, 2007 and 2006, respectively.

We seek to achieve the expected long-term rate of return with a prudent level of risk given the benefit obligations of the pension plans and their funded status. We target the Cash Balance Plan's asset allocation for a target mix range of 40–70% equities, 20–50% fixed income, and approximately 10% in real estate, venture capital, private equity and other investments. The target ranges referenced above account for the employment of an asset allocation methodology designed to overweight stocks or bonds when a compelling opportunity exists. The Employee Benefit Review Committee (EBRC), which includes several members of senior management, formally reviews the investment risk and performance of the Cash Balance Plan on a quarterly basis. Annual Plan liability analysis and periodic asset/liability evaluations are also conducted.

The weighted-average allocation of plan assets was:

	Percentage of plan assets at December 31,			
	2007		2006	
	Pension plan assets	Other benefit plan assets	Pension plan assets	Other benefit plan assets
Equity securities	67%	63%	70%	62%
Debt securities	26	34	24	35
Real estate	4	2	4	2
Other	3	1	2	1
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The table below provides information for pension plans with benefit obligations in excess of plan assets, substantially due to our nonqualified pension plans.

(in millions)	December 31,	
	2007	2006
Projected benefit obligation	\$463	\$399
Accumulated benefit obligation	422	345
Fair value of plan assets	88	70

The components of net periodic benefit cost were:

(in millions)	Year ended December 31,								
	2007			2006			2005		
	Pension benefits			Pension benefits			Pension benefits		
	Qualified	Non-qualified	Other benefits	Qualified	Non-qualified	Other benefits	Qualified	Non-qualified	Other benefits
Service cost	\$ 281	\$ 15	\$ 15	\$ 247	\$16	\$ 15	\$ 208	\$21	\$ 21
Interest cost	246	18	41	224	16	39	220	14	41
Expected return on plan assets	(452)	—	(36)	(421)	—	(31)	(393)	—	(25)
Amortization of net actuarial loss ⁽¹⁾	32	13	5	56	6	5	68	3	6
Amortization of prior service cost	—	(3)	(4)	—	(1)	(4)	(4)	(2)	(1)
Special termination benefits	—	—	—	2	—	—	—	—	—
Curtailment gain	—	—	—	—	—	(9)	—	—	—
Settlement	1	—	—	5	3	—	—	—	—
Net periodic benefit cost	<u>108</u>	<u>43</u>	<u>21</u>	<u>\$ 113</u>	<u>\$40</u>	<u>\$ 15</u>	<u>\$ 99</u>	<u>\$36</u>	<u>\$ 42</u>
Other changes in plan assets and benefit obligations recognized in other comprehensive income:									
Net actuarial loss (gain)	(213)	16	(126)						
Amortization of net actuarial loss	(33)	(13)	(5)						
Prior service cost	—	(24)	—						
Amortization of prior service cost	—	3	4						
Translation adjustments	3	—	2						
Total recognized in other comprehensive income	<u>(243)</u>	<u>(18)</u>	<u>(125)</u>						
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ (135)</u>	<u>\$ 25</u>	<u>\$ (104)</u>						

(1) Net actuarial loss is generally amortized over five years.

The weighted-average assumptions used to determine the net periodic benefit cost were:

	Year ended December 31,					
	2007		2006		2005	
	Pension benefits ⁽¹⁾	Other benefits	Pension benefits ⁽¹⁾	Other benefits	Pension benefits ⁽¹⁾	Other benefits
Discount rate	5.75%	5.75%	5.75%	5.75%	6.0%	6.0%
Expected return on plan assets	8.75	8.75	8.75	8.75	9.0	9.0
Rate of compensation increase	4.0	—	4.0	—	4.0	—

(1) Includes both qualified and nonqualified pension benefits.

The long-term rate of return assumptions above were derived based on a combination of factors including (1) long-term historical return experience for major asset class categories (for example, large cap and small cap domestic equities, international equities and domestic fixed income), and (2) forward-looking return expectations for these major asset classes.

To account for postretirement health care plans we use health care cost trend rates to recognize the effect of expected changes in future health care costs due to medical inflation, utilization changes, new technology, regulatory requirements and Medicare cost shifting. We assumed average annual increases of 8% (before age 65) and 9% (after age 65) for health care costs for 2008. The rates of average annual increases are assumed to trend down 1% each year until the trend rates reach an ultimate trend of 5% in 2011 (before age 65) and 2012 (after age 65). Increasing the assumed health care trend by one percentage point in each year would increase the benefit obligation as of December 31, 2007, by \$49 million and the total of the interest cost and service cost components of the net periodic benefit cost for 2007 by \$4 million. Decreasing the assumed health care trend by one percentage point in each year would decrease the benefit obligation as of December 31, 2007, by \$43 million and the total of the interest cost and service cost components of the net periodic benefit cost for 2007 by \$3 million.

The investment strategy for assets held in the Retiree Medical Plan Voluntary Employees' Beneficiary Association (VEBA) trust and other pension plans is maintained separate from the strategy for the assets in the Cash Balance Plan. The general target asset mix is 55–65% equities and 35–45% fixed income. In addition, the strategy for the VEBA trust assets considers the effect of income taxes by utilizing a combination of variable annuity and low turnover investment strategies. Members of the EBRC formally review the investment risk and performance of these assets on a quarterly basis.

Future benefits, reflecting expected future service that we expect to pay under the pension and other benefit plans, follow.

(in millions)	Pension benefits		
	Qualified	Non-qualified	Other benefits
Year ended December 31,			
2008	\$ 456	\$ 44	\$ 45
2009	474	45	49
2010	489	44	53
2011	433	37	57
2012	444	35	59
2013-2017	2,338	170	322

Other benefits payments are expected to be reduced by prescription drug subsidies from the federal government provided by the Medicare Prescription Drug, Improvement and Modernization Act of 2003, as follows:

(in millions)	Other benefits subsidy receipts
Year ended December 31,	
2008	\$ 5
2009	5
2010	6
2011	6
2012	6
2013-2017	33

Other Expenses

Expenses exceeding 1% of total interest income and noninterest income in any of the years presented that are not otherwise shown separately in the financial statements or Notes to Financial Statements were:

(in millions)	Year ended December 31,		
	2007	2006	2005
Outside professional services	\$899	\$942	\$835
Outside data processing	482	437	449
Travel and entertainment	474	542	481
Contract services	448	579	596
Advertising and promotion	412	456	443

Note 21: Income Taxes

The components of income tax expense were:

(in millions)	Year ended December 31,		
	2007	2006	2005
Current:			
Federal	\$3,181	\$2,993	\$2,627
State and local	284	438	346
Foreign	136	239	91
	<u>3,601</u>	<u>3,670</u>	<u>3,064</u>
Deferred:			
Federal	(32)	491	715
State and local	1	69	98
	<u>(31)</u>	<u>560</u>	<u>813</u>
Total	<u>\$3,570</u>	<u>\$4,230</u>	<u>\$3,877</u>

The tax benefit related to the exercise of employee stock options recorded in stockholders' equity was \$210 million, \$229 million and \$143 million for 2007, 2006 and 2005, respectively.

We had a net deferred tax liability of \$4,657 million and \$5,985 million at December 31, 2007 and 2006, respectively. The deferred tax balance at December 31, 2007, reflects the adoption of FIN 48 on January 1, 2007. The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities are presented in the table on the right.

We have determined that a valuation reserve is not required for any of the deferred tax assets since it is more likely than not that these assets will be realized principally through carry back to taxable income in prior years, future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income and tax planning strategies. Our conclusion that it is "more likely than not" that the deferred tax assets will be realized is based on federal taxable income in excess of \$20 billion in the carry-back period, substantial state taxable income in the carry-back period and historical earnings growth.

(in millions)	December 31,	
	2007	2006
Deferred Tax Assets		
Allowance for loan losses	\$1,977	\$1,430
Deferred compensation and employee benefits	576	484
Other	1,809	1,173
Total deferred tax assets	<u>4,362</u>	<u>3,087</u>
Deferred Tax Liabilities		
Mortgage servicing rights	5,103	4,234
Leasing	1,737	2,349
Mark to market, net	427	972
Net unrealized gains on securities available for sale	242	342
Other	1,510	1,175
Total deferred tax liabilities	<u>9,019</u>	<u>9,072</u>
Net Deferred Tax Liability	<u>\$4,657</u>	<u>\$5,985</u>

Deferred taxes related to net unrealized gains and losses on securities available for sale and derivatives are recorded in cumulative other comprehensive income.

The table below reconciles the statutory federal income tax expense and rate to the effective income tax expense and rate.

Income tax expense for 2007 and the effective tax rate included FIN 48 tax benefits of \$235 million, as well as the impact of lower pre-tax earnings in relation to the level of tax-exempt income and tax credits. The tax benefits were primarily related to the resolution of certain matters with federal and state taxing authorities and statute expirations, reduced by accruals for uncertain tax positions, in accordance with FIN 48.

(in millions)	Year ended December 31,					
	2007		2006		2005	
	Amount	Rate	Amount	Rate	Amount	Rate
Statutory federal income tax expense and rate	\$4,070	35.0%	\$4,428	35.0%	\$4,042	35.0%
Change in tax rate resulting from:						
State and local taxes on income, net of federal income tax benefit	359	3.1	331	2.6	289	2.5
Tax-exempt income and tax credits	(424)	(3.6)	(356)	(2.8)	(327)	(2.8)
Other	(435)	(3.8)	(173)	(1.4)	(127)	(1.1)
Effective income tax expense and rate	<u>\$3,570</u>	<u>30.7%</u>	<u>\$4,230</u>	<u>33.4%</u>	<u>\$3,877</u>	<u>33.6%</u>

We adopted FIN 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. Implementation of FIN 48 did not result in a cumulative effect adjustment to retained earnings at the date of adoption.

The change in unrecognized tax benefits in 2007 follows:

(in millions)	
Balance at January 1, 2007	\$2,875
Additions:	
For tax positions related to the current year	203
For tax positions related to prior years ⁽¹⁾	105
Reductions:	
For tax positions related to prior years	(82)
Lapse of statute of limitations	(244)
Settlements with tax authorities	(162)
Balance at December 31, 2007	<u>\$2,695</u>

(1) Prior year additions include \$22 million of acquired unrecognized tax benefits.

Of the \$2,695 million of unrecognized tax benefits at December 31, 2007, approximately \$1,363 million of the unrecognized tax benefits would, if recognized, affect the effective tax rate. Also included in the unrecognized tax benefits are \$22 million of liabilities that, if recognized, would be recorded as an adjustment to goodwill. The remaining \$1,310 million of unrecognized tax benefits relates to income tax positions on temporary differences.

We recognize interest and penalties as a component of income tax expense. At the end of 2007 and 2006 we accrued approximately \$230 million and \$262 million for

the payment of interest, respectively. Interest income of \$34 million was recognized for 2007 as a component of income tax expense.

We are subject to U.S. federal income tax as well as income tax in numerous state and foreign jurisdictions. With few exceptions, we are not subject to federal income tax examinations for taxable years prior to 2005, foreign income tax examinations for taxable years prior to 2004, or state and local income tax examinations prior to 2003.

We are routinely examined by tax authorities in various jurisdictions. The IRS recently began its examination of our 2005 and 2006 consolidated federal income tax returns. We are also litigating or appealing various issues related to our prior IRS examinations for the periods 1997-2004. We have paid the IRS the contested income tax associated with these issues and refund claims have been filed for the respective years. We do not anticipate that the current examination or the resolution of the contested issues will be completed in the next 12 months. We are also under examination in numerous other taxing jurisdictions. While it is possible that one or more of these examinations may be resolved within the next 12 months, we do not anticipate that these examinations will significantly impact our uncertain tax positions. We are estimating that our unrecognized tax benefits could decrease by approximately \$100 to \$200 million during the next 12 months primarily related to statute expirations. It is also reasonably possible that the decreases to our unrecognized tax benefits will be more than offset by additions related to new matters arising during the current period.

Note 22: Earnings Per Common Share

The table below shows earnings per common share and diluted earnings per common share and reconciles the numerator and denominator of both earnings per common share calculations.

At December 31, 2007, 2006 and 2005, options to purchase 13.8 million, 6.7 million and 9.7 million shares, respectively, were outstanding but not included in the calculation of diluted earnings per common share because the exercise price was higher than the market price, and therefore they were antidilutive.

(in millions, except per share amounts)	Year ended December 31,		
	2007	2006	2005
Net income (numerator)	<u>\$ 8,057</u>	<u>\$ 8,420</u>	<u>\$ 7,671</u>
EARNINGS PER COMMON SHARE			
Average common shares outstanding (denominator)	<u>3,348.5</u>	<u>3,368.3</u>	<u>3,372.5</u>
Per share	<u>\$ 2.41</u>	<u>\$ 2.50</u>	<u>\$ 2.27</u>
DILUTED EARNINGS PER COMMON SHARE			
Average common shares outstanding	3,348.5	3,368.3	3,372.5
Add: Stock options	34.2	41.7	37.8
Restricted share rights	0.1	0.1	0.6
Diluted average common shares outstanding (denominator)	<u>3,382.8</u>	<u>3,410.1</u>	<u>3,410.9</u>
Per share	<u>\$ 2.38</u>	<u>\$ 2.47</u>	<u>\$ 2.25</u>

Note 23: Other Comprehensive Income

The components of other comprehensive income and the related tax effects were:

(in millions)	Year ended December 31,								
	2007			2006			2005		
	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Translation adjustments	\$ 36	\$ 13	\$ 23	\$ —	\$ —	\$ —	\$ 8	\$ 3	\$ 5
Securities available for sale and other interests held:									
Net unrealized gains (losses) arising during the year	86	36	50	264	93	171	(401)	(143)	(258)
Reclassification of gains included in net income	(345)	(131)	(214)	(326)	(124)	(202)	(64)	(24)	(40)
Net unrealized losses arising during the year	(259)	(95)	(164)	(62)	(31)	(31)	(465)	(167)	(298)
Derivatives and hedging activities:									
Net unrealized gains arising during the year	645	246	399	46	16	30	349	134	215
Reclassification of net losses (gains) on cash flow hedges included in net income	(124)	(47)	(77)	64	24	40	(335)	(128)	(207)
Net unrealized gains arising during the year	521	199	322	110	40	70	14	6	8
Defined benefit pension plans:									
Amortization of net actuarial loss and prior service cost included in net income	391	149	242	—	—	—	—	—	—
Other comprehensive income	\$ 689	\$ 266	\$ 423	\$ 48	\$ 9	\$ 39	\$ (443)	\$ (158)	\$ (285)

Cumulative other comprehensive income balances were:

(in millions)	Translation adjustments	Net unrealized gains (losses) on securities available for sale and other interests held	Net unrealized gains on derivatives and hedging activities	Defined benefit pension plans	Cumulative other comprehensive income
Balance, December 31, 2004	\$24	\$ 891	\$ 35	\$ —	\$ 950
Net change	5	(298)	8	—	(285)
Balance, December 31, 2005	29	593	43	—	665
Net change	—	(31)	70	(402) ⁽¹⁾	(363)
Balance, December 31, 2006	29	562	113	(402)	302
Net change	23	(164)	322	242	423
Balance, December 31, 2007	\$52	\$ 398	\$435	\$ (160)	\$ 725

(1) Adoption of FAS 158.

Note 24: Operating Segments

We have three lines of business for management reporting: Community Banking, Wholesale Banking and Wells Fargo Financial. The results for these lines of business are based on our management accounting process, which assigns balance sheet and income statement items to each responsible operating segment. This process is dynamic and, unlike financial accounting, there is no comprehensive, authoritative guidance for management accounting equivalent to generally accepted accounting principles. The management accounting process measures the performance of the operating segments based on our management structure and is not necessarily comparable with similar information for other financial services companies. We define our operating segments by product type and customer segments. If the management structure and/or the allocation process changes, allocations, transfers and assignments may change. To reflect a change in the allocation of income taxes for management reporting adopted in 2007, results for prior periods have been revised.

The Community Banking Group offers a complete line of diversified financial products and services to consumers and small businesses with annual sales generally up to \$20 million in which the owner generally is the financial decision maker. Community Banking also offers investment management and other services to retail customers and high net worth individuals, securities brokerage through affiliates and venture capital financing. These products and services include the *Wells Fargo Advantage Funds*SM, a family of mutual funds, as well as personal trust and agency assets. Loan products include lines of credit, equity lines and loans, equipment and transportation (recreational vehicle and marine) loans, education loans, origination and purchase of residential mortgage loans and servicing of mortgage loans and credit cards. Other credit products and financial services available to small businesses and their owners include receivables and inventory financing, equipment leases, real estate financing, Small Business Administration financing, venture capital financing, cash management, payroll services, retirement plans, Health Savings Accounts and merchant payment processing. Consumer and business deposit products include checking accounts, savings deposits, market rate accounts, Individual Retirement Accounts (IRAs), time deposits and debit cards.

Community Banking serves customers through a wide range of channels, which include traditional banking stores, in-store banking centers, business centers and ATMs. Also, *Phone Bank*SM centers and the National Business Banking Center provide 24-hour telephone service. Online banking services include single sign-on to online banking, bill pay and brokerage, as well as online banking for small business.

The Wholesale Banking Group serves businesses across the United States with annual sales generally in excess of \$10 million. Wholesale Banking provides a complete line of commercial, corporate and real estate banking products and services. These include traditional commercial loans and lines of credit, letters of credit, asset-based lending, equipment leasing, mezzanine financing, high-yield debt, international trade facilities, foreign exchange services, treasury management, investment management, institutional fixed income sales, interest rate, commodity and equity risk management, online/electronic products such as the *Commercial Electronic Office*[®] (*CEO*[®]) portal, insurance and investment banking services. Wholesale Banking manages and administers institutional investments, employee benefit trusts and mutual funds, including the *Wells Fargo Advantage Funds*. Wholesale Banking includes the majority ownership interest in the Wells Fargo HSBC Trade Bank, which provides trade financing, letters of credit and collection services and is sometimes supported by the Export-Import Bank of the United States (a public agency of the United States offering export finance support for American-made products). Wholesale Banking also supports the commercial real estate market with products and services such as construction loans for commercial and residential development, land acquisition and development loans, secured and unsecured lines of credit, interim financing arrangements for completed structures, rehabilitation loans, affordable housing loans and letters of credit, permanent loans for securitization, commercial real estate loan servicing and real estate and mortgage brokerage services.

Wells Fargo Financial includes consumer finance and auto finance operations. Consumer finance operations make direct consumer and real estate loans to individuals and purchase sales finance contracts from retail merchants from offices throughout the United States, and in Canada and the Pacific Rim. Auto finance operations specialize in purchasing sales finance contracts directly from auto dealers and making loans secured by autos in the United States, Canada and Puerto Rico. Wells Fargo Financial also provides credit cards and lease and other commercial financing.

The Consolidated Company total of average assets includes unallocated goodwill balances held at the enterprise level.

(income/expense in millions,
average balances in billions)

	Community Banking	Wholesale Banking	Wells Fargo Financial	Consolidated Company
2007				
Net interest income ⁽¹⁾	\$13,365	\$3,382	\$4,227	\$20,974
Provision for credit losses	3,187	69	1,683	4,939
Noninterest income	12,173	4,959	1,284	18,416
Noninterest expense	<u>15,000</u>	<u>4,772</u>	<u>3,052</u>	<u>22,824</u>
Income before income tax expense	7,351	3,500	776	11,627
Income tax expense	<u>2,058</u>	<u>1,217</u>	<u>295</u>	<u>3,570</u>
Net income	<u>\$ 5,293</u>	<u>\$2,283</u>	<u>\$ 481</u>	<u>\$ 8,057</u>
2006				
Net interest income ⁽¹⁾	\$ 13,117	\$ 2,924	\$ 3,910	\$ 19,951
Provision for credit losses	887	16	1,301	2,204
Noninterest income	9,915	4,310	1,515	15,740
Noninterest expense	<u>13,917</u>	<u>4,114</u>	<u>2,806</u>	<u>20,837</u>
Income before income tax expense	8,228	3,104	1,318	12,650
Income tax expense	<u>2,678</u>	<u>1,086</u>	<u>466</u>	<u>4,230</u>
Net income	<u>\$ 5,550</u>	<u>\$ 2,018</u>	<u>\$ 852</u>	<u>\$ 8,420</u>
2005				
Net interest income ⁽¹⁾	\$ 12,702	\$ 2,393	\$ 3,409	\$ 18,504
Provision for credit losses	895	1	1,487	2,383
Noninterest income	9,418	3,756	1,271	14,445
Noninterest expense	<u>12,972</u>	<u>3,487</u>	<u>2,559</u>	<u>19,018</u>
Income before income tax expense	8,253	2,661	634	11,548
Income tax expense	<u>2,717</u>	<u>931</u>	<u>229</u>	<u>3,877</u>
Net income	<u>\$ 5,536</u>	<u>\$ 1,730</u>	<u>\$ 405</u>	<u>\$ 7,671</u>
2007				
Average loans	\$ 194.0	\$ 85.6	\$ 65.2	\$ 344.8
Average assets ⁽²⁾	330.8	113.1	71.1	520.8
Average core deposits	249.8	53.3	—	303.1
2006				
Average loans	\$ 178.0	\$ 71.4	\$ 57.5	\$ 306.9
Average assets ⁽²⁾	320.2	97.1	62.9	486.0
Average core deposits	233.5	35.3	0.1	268.9

(1) Net interest income is the difference between interest earned on assets and the cost of liabilities to fund those assets. Interest earned includes actual interest earned on segment assets and, if the segment has excess liabilities, interest credits for providing funding to other segments. The cost of liabilities includes interest expense on segment liabilities and, if the segment does not have enough liabilities to fund its assets, a funding charge based on the cost of excess liabilities from another segment. In general, Community Banking has excess liabilities and receives interest credits for the funding it provides to other segments.

(2) The Consolidated Company balance includes unallocated goodwill held at the enterprise level of \$5.8 billion for 2007 and 2006.

Note 25: Condensed Consolidating Financial Statements

Following are the condensed consolidating financial statements of the Parent and Wells Fargo Financial, Inc. and its wholly-owned subsidiaries (WFFI). In 2002, the Parent issued a full and unconditional guarantee of all outstanding term debt securities and commercial paper of WFFI. WFFI ceased filing periodic reports under the Securities Exchange Act of 1934 and is no longer a separately rated company. The Parent also guaranteed all outstanding term debt securities of Wells Fargo

Financial Canada Corporation (WFFCC), WFFI's wholly-owned Canadian subsidiary. WFFCC has continued to issue term debt securities and commercial paper in Canada, unconditionally guaranteed by the Parent. The Wells Fargo Financial business segment for management reporting (see Note 24) consists of WFFI and other affiliated consumer finance entities managed by WFFI that are included within other consolidating subsidiaries in the following tables.

Condensed Consolidating Statement of Income

(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Year ended December 31, 2007					
Dividends from subsidiaries:					
Bank	\$4,587	\$ —	\$ —	\$(4,587)	\$ —
Nonbank	398	—	—	(398)	—
Interest income from loans	—	5,643	23,453	(56)	29,040
Interest income from subsidiaries	3,693	—	—	(3,693)	—
Other interest income	152	115	5,875	(5)	6,137
Total interest income	<u>8,830</u>	<u>5,758</u>	<u>29,328</u>	<u>(8,739)</u>	<u>35,177</u>
Deposits	—	—	8,793	(641)	8,152
Short-term borrowings	444	442	1,626	(1,267)	1,245
Long-term debt	3,830	1,923	900	(1,847)	4,806
Total interest expense	<u>4,274</u>	<u>2,365</u>	<u>11,319</u>	<u>(3,755)</u>	<u>14,203</u>
NET INTEREST INCOME	4,556	3,393	18,009	(4,984)	20,974
Provision for credit losses	—	969	3,970	—	4,939
Net interest income after provision for credit losses	<u>4,556</u>	<u>2,424</u>	<u>14,039</u>	<u>(4,984)</u>	<u>16,035</u>
NONINTEREST INCOME					
Fee income – nonaffiliates	—	394	10,233	—	10,627
Other	117	140	9,060	(1,528)	7,789
Total noninterest income	<u>117</u>	<u>534</u>	<u>19,293</u>	<u>(1,528)</u>	<u>18,416</u>
NONINTEREST EXPENSE					
Salaries and benefits	61	1,229	12,078	—	13,368
Other	291	1,119	9,573	(1,527)	9,456
Total noninterest expense	<u>352</u>	<u>2,348</u>	<u>21,651</u>	<u>(1,527)</u>	<u>22,824</u>
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	4,321	610	11,681	(4,985)	11,627
Income tax expense (benefit)	(257)	246	3,581	—	3,570
Equity in undistributed income of subsidiaries	3,479	—	—	(3,479)	—
NET INCOME	<u>\$8,057</u>	<u>\$ 364</u>	<u>\$ 8,100</u>	<u>\$(8,464)</u>	<u>\$ 8,057</u>

Condensed Consolidating Statements of Income

(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Year ended December 31, 2006					
Dividends from subsidiaries:					
Bank	\$2,176	\$ —	\$ —	\$(2,176)	\$ —
Nonbank	876	—	—	(876)	—
Interest income from loans	—	5,283	20,370	(42)	25,611
Interest income from subsidiaries	3,266	—	—	(3,266)	—
Other interest income	103	102	6,428	(5)	6,628
Total interest income	<u>6,421</u>	<u>5,385</u>	<u>26,798</u>	<u>(6,365)</u>	<u>32,239</u>
Deposits	—	—	7,174	—	7,174
Short-term borrowings	436	381	1,065	(890)	992
Long-term debt	3,197	1,758	710	(1,543)	4,122
Total interest expense	<u>3,633</u>	<u>2,139</u>	<u>8,949</u>	<u>(2,433)</u>	<u>12,288</u>
NET INTEREST INCOME	2,788	3,246	17,849	(3,932)	19,951
Provision for credit losses	—	1,061	1,143	—	2,204
Net interest income after provision for credit losses	<u>2,788</u>	<u>2,185</u>	<u>16,706</u>	<u>(3,932)</u>	<u>17,747</u>
NONINTEREST INCOME					
Fee income – nonaffiliates	—	285	8,946	—	9,231
Other	180	259	6,126	(56)	6,509
Total noninterest income	<u>180</u>	<u>544</u>	<u>15,072</u>	<u>(56)</u>	<u>15,740</u>
NONINTEREST EXPENSE					
Salaries and benefits	95	1,128	10,704	—	11,927
Other	117	976	8,753	(936)	8,910
Total noninterest expense	<u>212</u>	<u>2,104</u>	<u>19,457</u>	<u>(936)</u>	<u>20,837</u>
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	2,756	625	12,321	(3,052)	12,650
Income tax expense (benefit)	(198)	205	4,223	—	4,230
Equity in undistributed income of subsidiaries	5,466	—	—	(5,466)	—
NET INCOME	<u>\$8,420</u>	<u>\$ 420</u>	<u>\$ 8,098</u>	<u>\$(8,518)</u>	<u>\$ 8,420</u>
Year ended December 31, 2005					
Dividends from subsidiaries:					
Bank	\$4,675	\$ —	\$ —	\$(4,675)	\$ —
Nonbank	763	—	—	(763)	—
Interest income from loans	—	4,467	16,809	(16)	21,260
Interest income from subsidiaries	2,215	—	—	(2,215)	—
Other interest income	105	104	4,493	—	4,702
Total interest income	<u>7,758</u>	<u>4,571</u>	<u>21,302</u>	<u>(7,669)</u>	<u>25,962</u>
Deposits	—	—	3,848	—	3,848
Short-term borrowings	256	223	897	(632)	744
Long-term debt	2,000	1,362	598	(1,094)	2,866
Total interest expense	<u>2,256</u>	<u>1,585</u>	<u>5,343</u>	<u>(1,726)</u>	<u>7,458</u>
NET INTEREST INCOME	5,502	2,986	15,959	(5,943)	18,504
Provision for credit losses	—	1,582	801	—	2,383
Net interest income after provision for credit losses	<u>5,502</u>	<u>1,404</u>	<u>15,158</u>	<u>(5,943)</u>	<u>16,121</u>
NONINTEREST INCOME					
Fee income – nonaffiliates	—	224	8,111	—	8,335
Other	298	223	5,727	(138)	6,110
Total noninterest income	<u>298</u>	<u>447</u>	<u>13,838</u>	<u>(138)</u>	<u>14,445</u>
NONINTEREST EXPENSE					
Salaries and benefits	92	985	9,378	—	10,455
Other	50	759	8,398	(644)	8,563
Total noninterest expense	<u>142</u>	<u>1,744</u>	<u>17,776</u>	<u>(644)</u>	<u>19,018</u>
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	5,658	107	11,220	(5,437)	11,548
Income tax expense (benefit)	145	(2)	3,734	—	3,877
Equity in undistributed income of subsidiaries	2,158	—	—	(2,158)	—
NET INCOME	<u>\$7,671</u>	<u>\$ 109</u>	<u>\$ 7,486</u>	<u>\$(7,595)</u>	<u>\$ 7,671</u>

Condensed Consolidating Balance Sheets

(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
December 31, 2007					
ASSETS					
Cash and cash equivalents due from:					
Subsidiary banks	\$ 14,989	\$ 253	\$ —	\$ (15,242)	\$ —
Nonaffiliates	—	230	17,281	—	17,511
Securities available for sale	2,481	2,091	68,384	(5)	72,951
Mortgages and loans held for sale	—	—	27,763	—	27,763
Loans	106	51,222	344,037	(13,170)	382,195
Loans to subsidiaries:					
Bank	11,400	—	—	(11,400)	—
Nonbank	53,272	—	—	(53,272)	—
Allowance for loan losses	—	(1,041)	(4,266)	—	(5,307)
Net loans	<u>64,778</u>	<u>50,181</u>	<u>339,771</u>	<u>(77,842)</u>	<u>376,888</u>
Investments in subsidiaries:					
Bank	49,461	—	—	(49,461)	—
Nonbank	5,463	—	—	(5,463)	—
Other assets	<u>8,010</u>	<u>1,720</u>	<u>74,955</u>	<u>(4,356)</u>	<u>80,329</u>
Total assets	<u>\$145,182</u>	<u>\$54,475</u>	<u>\$528,154</u>	<u>\$(152,369)</u>	<u>\$575,442</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits	\$ —	\$ —	\$359,702	\$ (15,242)	\$344,460
Short-term borrowings	4,692	9,117	69,990	(30,544)	53,255
Accrued expenses and other liabilities	5,432	1,393	27,307	(3,426)	30,706
Long-term debt	77,116	40,753	19,603	(38,079)	99,393
Indebtedness to subsidiaries	<u>10,314</u>	<u>—</u>	<u>—</u>	<u>(10,314)</u>	<u>—</u>
Total liabilities	<u>97,554</u>	<u>51,263</u>	<u>476,602</u>	<u>(97,605)</u>	<u>527,814</u>
Stockholders' equity	<u>47,628</u>	<u>3,212</u>	<u>51,552</u>	<u>(54,764)</u>	<u>47,628</u>
Total liabilities and stockholders' equity	<u>\$145,182</u>	<u>\$54,475</u>	<u>\$528,154</u>	<u>\$(152,369)</u>	<u>\$575,442</u>
December 31, 2006					
ASSETS					
Cash and cash equivalents due from:					
Subsidiary banks	\$ 14,131	\$ 146	\$ —	\$ (14,277)	\$ —
Nonaffiliates	78	324	20,704	—	21,106
Securities available for sale	920	1,725	39,990	(6)	42,629
Mortgages and loans held for sale	—	15	33,803	—	33,818
Loans	—	47,136	272,339	(359)	319,116
Loans to subsidiaries:					
Bank	3,400	—	—	(3,400)	—
Nonbank	48,014	538	—	(48,552)	—
Allowance for loan losses	—	(1,193)	(2,571)	—	(3,764)
Net loans	<u>51,414</u>	<u>46,481</u>	<u>269,768</u>	<u>(52,311)</u>	<u>315,352</u>
Investments in subsidiaries:					
Bank	43,098	—	—	(43,098)	—
Nonbank	4,616	—	—	(4,616)	—
Other assets	<u>5,811</u>	<u>1,745</u>	<u>62,981</u>	<u>(1,446)</u>	<u>69,091</u>
Total assets	<u>\$120,068</u>	<u>\$50,436</u>	<u>\$427,246</u>	<u>\$(115,754)</u>	<u>\$481,996</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits	\$ —	\$ —	\$324,520	\$ (14,277)	\$310,243
Short-term borrowings	19	7,708	18,793	(13,691)	12,829
Accrued expenses and other liabilities	3,857	1,323	22,683	(1,898)	25,965
Long-term debt	65,396	38,456	16,580	(33,287)	87,145
Indebtedness to subsidiaries	<u>4,982</u>	<u>—</u>	<u>—</u>	<u>(4,982)</u>	<u>—</u>
Total liabilities	<u>74,254</u>	<u>47,487</u>	<u>382,576</u>	<u>(68,135)</u>	<u>436,182</u>
Stockholders' equity	<u>45,814</u>	<u>2,949</u>	<u>44,670</u>	<u>(47,619)</u>	<u>45,814</u>
Total liabilities and stockholders' equity	<u>\$120,068</u>	<u>\$50,436</u>	<u>\$427,246</u>	<u>\$(115,754)</u>	<u>\$481,996</u>

Condensed Consolidating Statements of Cash Flows

(in millions)

	Year ended December 31,							
	2007				2006			
	Parent	WFFI	Other consolidating subsidiaries/ eliminations	Consolidated Company	Parent	WFFI	Other consolidating subsidiaries/ eliminations	Consolidated Company
Cash flows from operating activities:								
Net cash provided by operating activities	\$ 3,715	\$ 1,446	\$ 3,917	\$ 9,078	\$ 3,536	\$ 1,179	\$ 23,261	\$ 27,976
Cash flows from investing activities:								
Securities available for sale:								
Sales proceeds	2,554	559	44,877	47,990	353	822	52,129	53,304
Prepayments and maturities	—	299	8,206	8,505	14	259	7,048	7,321
Purchases	(3,487)	(1,174)	(70,468)	(75,129)	(378)	(1,032)	(61,052)	(62,462)
Loans:								
Increase in banking subsidiaries' loan originations, net of collections	—	(2,686)	(45,929)	(48,615)	—	(2,003)	(35,727)	(37,730)
Proceeds from sales (including participations) of loans originated for investment by banking subsidiaries	—	—	3,369	3,369	—	50	38,293	38,343
Purchases (including participations) of loans by banking subsidiaries	—	—	(8,244)	(8,244)	—	(202)	(5,136)	(5,338)
Principal collected on nonbank entities' loans	—	18,729	2,747	21,476	—	19,998	3,923	23,921
Loans originated by nonbank entities	—	(20,461)	(4,823)	(25,284)	—	(22,382)	(4,592)	(26,974)
Net repayments from (advances to) subsidiaries	(10,338)	—	10,338	—	(500)	—	500	—
Capital notes and term loans made to subsidiaries	(10,508)	—	10,508	—	(7,805)	—	7,805	—
Principal collected on notes/loans made to subsidiaries	7,588	—	(7,588)	—	4,926	—	(4,926)	—
Net decrease (increase) in investment in subsidiaries	(1,132)	—	1,132	—	(145)	—	145	—
Net cash paid for acquisitions	—	—	(2,811)	(2,811)	—	—	(626)	(626)
Other, net	(106)	(847)	2,381	1,428	—	1,081	(7,422)	(6,341)
Net cash used by investing activities	(15,429)	(5,581)	(56,305)	(77,315)	(3,535)	(3,409)	(9,638)	(16,582)
Cash flows from financing activities:								
Net change in:								
Deposits	—	—	27,058	27,058	—	—	(4,452)	(4,452)
Short-term borrowings	9,138	2,670	28,019	39,827	931	(1,297)	(10,790)	(11,156)
Long-term debt:								
Proceeds from issuance	24,385	11,335	(6,360)	29,360	13,448	8,670	(1,863)	20,255
Repayment	(11,726)	(9,870)	3,346	(18,250)	(7,362)	(5,217)	(30)	(12,609)
Common stock:								
Proceeds from issuance	1,876	—	—	1,876	1,764	—	—	1,764
Repurchased	(7,418)	—	—	(7,418)	(1,965)	—	—	(1,965)
Cash dividends paid	(3,955)	—	—	(3,955)	(3,641)	—	—	(3,641)
Excess tax benefits related to stock option payments	196	—	—	196	227	—	—	227
Other, net	(2)	13	(739)	(728)	12	70	(268)	(186)
Net cash provided (used) by financing activities	12,494	4,148	51,324	67,966	3,414	2,226	(17,403)	(11,763)
Net change in cash and due from banks	780	13	(1,064)	(271)	3,415	(4)	(3,780)	(369)
Cash and due from banks at beginning of year	14,209	470	349	15,028	10,794	474	4,129	15,397
Cash and due from banks at end of year	<u>\$ 14,989</u>	<u>\$ 483</u>	<u>\$ (715)</u>	<u>\$ 14,757</u>	<u>\$ 14,209</u>	<u>\$ 470</u>	<u>\$ 349</u>	<u>\$ 15,028</u>

Condensed Consolidating Statement of Cash Flows

(in millions)	Parent	WFFI	Other consolidating subsidiaries/ eliminations	Consolidated Company
Year ended December 31, 2005				
Cash flows from operating activities:				
Net cash provided (used) by operating activities	\$ 5,396	\$ 1,159	\$(18,540)	\$(11,985)
Cash flows from investing activities:				
Securities available for sale:				
Sales proceeds	631	281	18,147	19,059
Prepayments and maturities	90	248	6,634	6,972
Purchases	(231)	(486)	(27,917)	(28,634)
Loans:				
Increase in banking subsidiaries' loan originations, net of collections	—	(953)	(41,356)	(42,309)
Proceeds from sales (including participations) of loans originated for investment by banking subsidiaries	—	232	42,007	42,239
Purchases (including participations) of loans by banking subsidiaries	—	—	(8,853)	(8,853)
Principal collected on nonbank entities' loans	—	19,542	3,280	22,822
Loans originated by nonbank entities	—	(29,757)	(3,918)	(33,675)
Net repayments from (advances to) subsidiaries	(3,166)	—	3,166	—
Capital notes and term loans made to subsidiaries	(10,751)	—	10,751	—
Principal collected on notes/loans made to subsidiaries	2,950	—	(2,950)	—
Net decrease (increase) in investment in subsidiaries	194	—	(194)	—
Net cash acquired from acquisitions	—	—	66	66
Other, net	—	(1,059)	(4,045)	(5,104)
Net cash used by investing activities	<u>(10,283)</u>	<u>(11,952)</u>	<u>(5,182)</u>	<u>(27,417)</u>
Cash flows from financing activities:				
Net change in:				
Deposits:				
Short-term borrowings	1,048	3,344	(2,514)	1,878
Long-term debt:				
Proceeds from issuance	18,297	11,891	(3,715)	26,473
Repayment	(8,216)	(4,450)	(5,910)	(18,576)
Common stock:				
Proceeds from issuance	1,367	—	—	1,367
Repurchased	(3,159)	—	—	(3,159)
Cash dividends paid	(3,375)	—	—	(3,375)
Other, net	—	—	(1,673)	(1,673)
Net cash provided by financing activities	<u>5,962</u>	<u>10,785</u>	<u>25,149</u>	<u>41,896</u>
Net change in cash and due from banks	1,075	(8)	1,427	2,494
Cash and due from banks at beginning of year	<u>9,719</u>	<u>482</u>	<u>2,702</u>	<u>12,903</u>
Cash and due from banks at end of year	<u>\$ 10,794</u>	<u>\$ 474</u>	<u>\$ 4,129</u>	<u>\$ 15,397</u>

Note 26: Regulatory and Agency Capital Requirements

The Company and each of its subsidiary banks are subject to various regulatory capital adequacy requirements administered by the Federal Reserve Board (FRB) and the OCC, respectively. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required that the federal regulatory agencies adopt regulations defining five capital tiers for banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our financial statements.

Quantitative measures, established by the regulators to ensure capital adequacy, require that the Company and each of the subsidiary banks maintain minimum ratios (set forth in the following table) of capital to risk-weighted assets. There are three categories of capital under the guidelines. Tier 1 capital includes common stockholders' equity, qualifying preferred stock and trust preferred securities, less goodwill and certain other deductions (including a portion of servicing assets and the unrealized net gains and losses, after taxes, on securities available for sale). Tier 2 capital includes preferred stock not qualifying as Tier 1 capital, subordinated debt, the allowance for credit losses and net unrealized gains on

marketable equity securities, subject to limitations by the guidelines. Tier 2 capital is limited to the amount of Tier 1 capital (i.e., at least half of the total capital must be in the form of Tier 1 capital). Tier 3 capital includes certain qualifying unsecured subordinated debt.

We do not consolidate our wholly-owned trusts (the Trusts) formed solely to issue trust preferred securities. The amount of trust preferred securities issued by the Trusts that was includable in Tier 1 capital in accordance with FRB risk-based capital guidelines was \$4.7 billion at December 31, 2007. The junior subordinated debentures held by the Trusts were included in the Company's long-term debt. (See Note 14.)

Under the guidelines, capital is compared with the relative risk related to the balance sheet. To derive the risk included in the balance sheet, a risk weighting is applied to each balance sheet asset and off-balance sheet item, primarily based on the relative credit risk of the counterparty. For example, claims guaranteed by the U.S. government or one

of its agencies are risk-weighted at 0% and certain real estate related loans risk-weighted at 50%. Off-balance sheet items, such as loan commitments and derivatives, are also applied a risk weight after calculating balance sheet equivalent amounts. A credit conversion factor is assigned to loan commitments based on the likelihood of the off-balance sheet item becoming an asset. For example, certain loan commitments are converted at 50% and then risk-weighted at 100%. Derivatives are converted to balance sheet equivalents based on notional values, replacement costs and remaining contractual terms. (See Notes 6 and 16 for further discussion of off-balance sheet items.) For certain recourse obligations, direct credit substitutes, residual interests in asset securitization, and other securitized transactions that expose institutions primarily to credit risk, the capital amounts and classification under the guidelines are subject to qualitative judgments by the regulators about components, risk weightings and other factors.

(in billions)

	Actual		For capital adequacy purposes		To be well capitalized under the FDICIA prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007:						
Total capital (to risk-weighted assets)						
Wells Fargo & Company	\$51.6	10.68%	≥\$38.7	≥8.00%		
Wells Fargo Bank, N.A.	42.8	11.14	≥ 30.7	≥8.00	≥\$38.4	≥10.00%
Tier 1 capital (to risk-weighted assets)						
Wells Fargo & Company	\$36.7	7.59%	≥\$19.3	≥4.00%		
Wells Fargo Bank, N.A.	29.5	7.68	≥ 15.4	≥4.00	≥\$23.0	≥ 6.00%
Tier 1 capital (to average assets) (Leverage ratio)						
Wells Fargo & Company	\$36.7	6.83%	≥\$21.5	≥4.00% ⁽¹⁾		
Wells Fargo Bank, N.A.	29.5	6.84	≥ 17.3	≥4.00 ⁽¹⁾	≥\$21.6	≥ 5.00%

(1) The leverage ratio consists of Tier 1 capital divided by quarterly average total assets, excluding goodwill and certain other items. The minimum leverage ratio guideline is 3% for banking organizations that do not anticipate significant growth and that have well-diversified risk, excellent asset quality, high liquidity, good earnings, effective management and monitoring of market risk and, in general, are considered top-rated, strong banking organizations.

Management believes that, as of December 31, 2007, the Company and each of the covered subsidiary banks met all capital adequacy requirements to which they are subject.

The most recent notification from the OCC categorized each of the covered subsidiary banks as well capitalized, under the FDICIA prompt corrective action provisions applicable to banks. To be categorized as well capitalized, the institution must maintain a total risk-based capital ratio as set forth in the table above and not be subject to a capital directive order. There are no conditions or events since that notification that management believes have changed the risk-based capital category of any of the covered subsidiary banks.

As an approved seller/servicer, Wells Fargo Bank, N.A., through its mortgage banking division, is required to maintain minimum levels of shareholders' equity, as specified by various agencies, including the United States Department of Housing and Urban Development, Government National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. At December 31, 2007, Wells Fargo Bank, N.A. met these requirements.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Wells Fargo & Company:

We have audited the accompanying consolidated balance sheet of Wells Fargo & Company and Subsidiaries (“the Company”) as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders’ equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 25, 2008, expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for income taxes, leveraged lease transactions, certain mortgages held for sale and retained interests, and provided additional disclosure regarding the measurement of fair value for financial assets and liabilities in 2007, and changed its method of accounting for residential mortgage servicing rights and stock-based compensation in 2006.

KPMG LLP

San Francisco, California
February 25, 2008

Quarterly Financial Data

Condensed Consolidated Statement of Income — Quarterly (Unaudited)

(in millions, except per share amounts)

	2007				2006			
	Quarter ended				Quarter ended			
	Dec. 31	Sept. 30 ⁽¹⁾	June 30	Mar. 31	Dec. 31	Sept. 30	June 30 ⁽¹⁾	Mar. 31
INTEREST INCOME	\$ 9,242	\$ 9,223	\$ 8,573	\$ 8,139	\$ 8,231	\$ 8,399	\$ 8,077	\$ 7,532
INTEREST EXPENSE	<u>3,754</u>	<u>3,943</u>	<u>3,377</u>	<u>3,129</u>	<u>3,181</u>	<u>3,352</u>	<u>3,093</u>	<u>2,662</u>
NET INTEREST INCOME	5,488	5,280	5,196	5,010	5,050	5,047	4,984	4,870
Provision for credit losses	<u>2,612</u>	<u>892</u>	<u>720</u>	<u>715</u>	<u>726</u>	<u>613</u>	<u>432</u>	<u>433</u>
Net interest income after provision for credit losses	<u>2,876</u>	<u>4,388</u>	<u>4,476</u>	<u>4,295</u>	<u>4,324</u>	<u>4,434</u>	<u>4,552</u>	<u>4,437</u>
NONINTEREST INCOME								
Service charges on deposit accounts	788	837	740	685	695	707	665	623
Trust and investment fees	802	777	839	731	735	664	675	663
Card fees	588	561	517	470	481	464	418	384
Other fees	577	566	638	511	550	509	510	488
Mortgage banking	831	823	689	790	677	484	735	415
Operating leases	153	171	187	192	190	192	200	201
Insurance	370	329	432	399	299	313	364	364
Net gains (losses) on debt securities available for sale	60	160	(42)	31	51	121	(156)	(35)
Net gains from equity investments	222	173	242	97	256	159	133	190
Other	<u>326</u>	<u>176</u>	<u>453</u>	<u>525</u>	<u>429</u>	<u>274</u>	<u>261</u>	<u>392</u>
Total noninterest income	<u>4,717</u>	<u>4,573</u>	<u>4,695</u>	<u>4,431</u>	<u>4,363</u>	<u>3,887</u>	<u>3,805</u>	<u>3,685</u>
NONINTEREST EXPENSE								
Salaries	2,055	1,933	1,907	1,867	1,812	1,769	1,754	1,672
Incentive compensation	840	802	900	742	793	710	714	668
Employee benefits	558	518	581	665	501	458	487	589
Equipment	370	295	292	337	339	294	284	335
Net occupancy	413	398	369	365	367	357	345	336
Operating leases	124	136	148	153	157	155	157	161
Other	<u>1,540</u>	<u>1,589</u>	<u>1,530</u>	<u>1,397</u>	<u>1,442</u>	<u>1,338</u>	<u>1,530</u>	<u>1,313</u>
Total noninterest expense	<u>5,900</u>	<u>5,671</u>	<u>5,727</u>	<u>5,526</u>	<u>5,411</u>	<u>5,081</u>	<u>5,271</u>	<u>5,074</u>
INCOME BEFORE INCOME TAX EXPENSE	1,693	3,290	3,444	3,200	3,276	3,240	3,086	3,048
Income tax expense	<u>332</u>	<u>1,117</u>	<u>1,165</u>	<u>956</u>	<u>1,095</u>	<u>1,046</u>	<u>1,059</u>	<u>1,030</u>
NET INCOME	<u>\$ 1,361</u>	<u>\$ 2,173</u>	<u>\$ 2,279</u>	<u>\$ 2,244</u>	<u>\$ 2,181</u>	<u>\$ 2,194</u>	<u>\$ 2,027</u>	<u>\$ 2,018</u>
EARNINGS PER COMMON SHARE	\$ 0.41	\$ 0.65	\$ 0.68	\$ 0.66	\$ 0.65	\$ 0.65	\$ 0.60	\$ 0.60
DILUTED EARNINGS PER COMMON SHARE	\$ 0.41	\$ 0.64	\$ 0.67	\$ 0.66	\$ 0.64	\$ 0.64	\$ 0.59	\$ 0.60
DIVIDENDS DECLARED PER COMMON SHARE ⁽²⁾	\$ 0.31	\$ 0.31	\$ 0.28	\$ 0.28	\$ 0.28	\$ —	\$ 0.54	\$ 0.26
DIVIDENDS PAID PER COMMON SHARE	\$ 0.31	\$ 0.31	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.26	\$ 0.26
Average common shares outstanding	3,327.6	3,339.6	3,351.2	3,376.0	3,379.4	3,371.9	3,363.8	3,358.3
Diluted average common shares outstanding	3,352.2	3,374.0	3,389.3	3,416.1	3,424.0	3,416.0	3,404.4	3,395.7
Market price per common share ⁽³⁾								
High	\$ 37.78	\$ 37.99	\$ 36.49	\$ 36.64	\$ 36.99	\$ 36.89	\$ 34.86	\$ 32.76
Low	29.29	32.66	33.93	33.01	34.90	33.36	31.90	30.31
Quarter end	30.19	35.62	35.17	34.43	35.56	36.18	33.54	31.94

(1) Results for third quarter 2007 and second quarter 2006 have been revised to reflect \$170 million and \$95 million, respectively, of litigation expenses associated with indemnification obligations arising from the Company's ownership interest in Visa.

(2) On April 25, 2006, the Company's Board of Directors declared the second quarter 2006 cash dividend payable June 1, 2006. On June 27, 2006, the Board declared a two-for-one split in the form of a 100% stock dividend on the Company's common stock and, at the same time, the third quarter 2006 cash dividend payable September 1, 2006.

(3) Based on daily prices reported on the New York Stock Exchange Composite Transaction Reporting System.

Average Balances, Yields and Rates Paid (Taxable-Equivalent Basis) — Quarterly ⁽¹⁾⁽²⁾ (Unaudited)

(in millions)

	Quarter ended December 31,					
	2007			2006		
	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	\$ 2,972	4.45%	\$ 34	\$ 7,751	5.19%	\$ 102
Trading assets	4,248	3.39	37	3,950	5.12	50
Debt securities available for sale ⁽³⁾ :						
Securities of U.S. Treasury and federal agencies	926	4.18	9	786	4.28	9
Securities of U.S. states and political subdivisions	5,995	7.41	110	3,406	7.62	62
Mortgage-backed securities:						
Federal agencies	35,434	6.15	534	31,718	6.20	483
Private collateralized mortgage obligations	14,270	5.99	214	5,130	6.19	78
Total mortgage-backed securities	49,704	6.11	748	36,848	6.20	561
Other debt securities ⁽⁴⁾	8,465	7.45	161	6,406	7.20	115
Total debt securities available for sale ⁽⁴⁾	65,090	6.38	1,028	47,446	6.40	747
Mortgages held for sale ⁽⁵⁾	28,327	6.44	456	37,878	6.62	627
Loans held for sale ⁽⁵⁾	965	7.72	19	659	7.60	13
Loans:						
Commercial and commercial real estate:						
Commercial	86,958	7.88	1,726	68,402	8.27	1,426
Other real estate mortgage	35,863	7.22	652	29,882	7.49	563
Real estate construction	18,510	7.35	343	15,775	8.07	321
Lease financing	6,583	5.92	97	5,500	5.66	78
Total commercial and commercial real estate	147,914	7.57	2,818	119,559	7.93	2,388
Consumer:						
Real estate 1-4 family first mortgage	69,262	7.12	1,235	50,836	7.53	961
Real estate 1-4 family junior lien mortgage	75,272	7.92	1,503	68,208	8.16	1,403
Credit card	17,689	12.79	565	13,737	13.30	457
Other revolving credit and installment	56,546	9.54	1,359	53,206	9.67	1,297
Total consumer	218,769	8.48	4,662	185,987	8.80	4,118
Foreign	7,689	11.55	224	6,620	11.97	199
Total loans ⁽⁵⁾	374,372	8.18	7,704	312,166	8.54	6,705
Other	1,552	4.95	17	1,333	5.17	18
Total earning assets	<u>\$477,526</u>	7.75	<u>9,295</u>	<u>\$411,183</u>	8.01	<u>8,262</u>
FUNDING SOURCES						
Deposits:						
Interest-bearing checking	\$ 5,254	2.96	39	\$ 4,477	3.11	35
Market rate and other savings	156,260	2.63	1,035	135,673	2.69	918
Savings certificates	42,560	4.33	465	36,382	4.33	398
Other time deposits	10,874	4.45	122	19,838	5.27	264
Deposits in foreign offices	44,991	4.19	475	24,425	4.65	286
Total interest-bearing deposits	259,939	3.26	2,136	220,795	3.42	1,901
Short-term borrowings	34,074	4.42	380	13,470	4.77	162
Long-term debt	98,012	5.06	1,245	85,809	5.20	1,120
Total interest-bearing liabilities	392,025	3.81	3,761	320,074	3.95	3,183
Portion of noninterest-bearing funding sources	85,501	—	—	91,109	—	—
Total funding sources	<u>\$477,526</u>	3.13	<u>3,761</u>	<u>\$411,183</u>	3.08	<u>3,183</u>
Net interest margin and net interest income on a taxable-equivalent basis ⁽⁶⁾		<u>4.62%</u>	<u>\$5,534</u>		<u>4.93%</u>	<u>\$5,079</u>
NONINTEREST-EARNING ASSETS						
Cash and due from banks	\$ 12,127			\$ 12,379		
Goodwill	13,091			11,259		
Other	52,903			47,764		
Total noninterest-earning assets	<u>\$ 78,121</u>			<u>\$ 71,402</u>		
NONINTEREST-BEARING FUNDING SOURCES						
Deposits	\$ 86,632			\$ 91,259		
Other liabilities	29,019			25,749		
Stockholders' equity	47,971			45,503		
Noninterest-bearing funding sources used to fund earning assets	(85,501)			(91,109)		
Net noninterest-bearing funding sources	<u>\$ 78,121</u>			<u>\$ 71,402</u>		
TOTAL ASSETS	<u>\$555,647</u>			<u>\$482,585</u>		

(1) Our average prime rate was 7.52% and 8.25% for the quarters ended December 31, 2007 and 2006, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 5.03% and 5.37% 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 both quarters presented.

Stock Performance

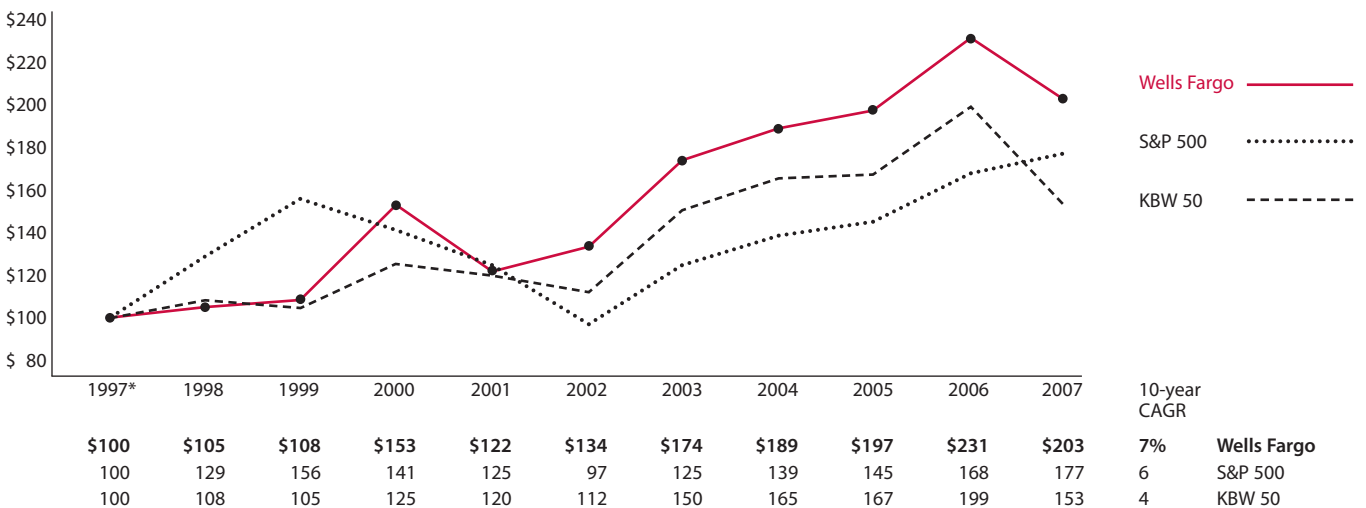
These graphs compare the cumulative total stockholder return and total compound annual growth rate (CAGR) for our common stock (NYSE: WFC) for the five- and ten-year periods ended December 31, 2007, with the cumulative total stockholder returns for the same periods for the Keefe, Bruyette and Woods 50 Total Return Index (the KBW 50 Bank Index) and the S&P 500 Index.

The cumulative total stockholder returns (including reinvested dividends) in the graphs assume the investment of \$100 in Wells Fargo's common stock, the KBW 50 Bank Index and the S&P 500 Index.

FIVE YEARS



TEN YEARS



*Reflects the results of Norwest Corporation before merger with the former Wells Fargo in 1998.

OUR VISION:

Satisfy all our customers' financial needs and help them succeed financially.

NUESTRA VISION:

Deseamos satisfacer todas las necesidades financieras de nuestros clientes y ayudarlos a tener éxito en el área financiera.

我們的目標：

滿足客戶在財務方面的所有需求，幫助他們在財務上發展成功。

NOTRE VISION:

Satisfaire tous les besoins financiers de nos clients et les aider à atteindre le succès financier.



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