WELLS FARGO & CO/MN
Form 10-Q
October 30, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2008
Commission file number 001-2979

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

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

420 Montgomery Street, San Francisco, California 94163
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code: 1-866-249-3302

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

	Shares Outstanding October 27, 2008
Common stock, $1-2/3 par value	3,325,244,156

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PART I FINANCIAL INFORMATION
FINANCIAL REVIEW
SUMMARY FINANCIAL DATA

				% Change Sept. 30, 2008 from				
			Quarter ended	June	Sept.		Nine months ended	
($ in millions, except per share amounts)	**Sept. 30, 2008**	June 30, 2008	Sept. 30, 2007	30, 2008	30, 2007	**Sept. 30, 2008**	Sept. 30, 2007	% Change
For the Period								
Net income	**$ 1,637**	$ 1,753	$ 2,173	(7)%	(25)%	**$ 5,389**	$ 6,696	(20)%
Diluted earnings per common share	**0.49**	0.53	0.64	(8)	(23)	**1.62**	1.97	(18)
Profitability ratios (annualized):								
Net income to average total assets (ROA)	**1.06%**	1.19%	1.59%	(11)	(33)	**1.21%**	1.76%	(31)
Net income to average stockholders equity (ROE)	**13.63**	14.58	18.22	(7)	(25)	**15.02**	19.15	(22)
Efficiency ratio (1)	**53.2**	51.1	57.5	4	(7)	**52.0**	58.0	(10)
Total revenue	**$ 10,379**	$ 11,459	$ 9,853	(9)	5	**$ 32,401**	$ 29,185	11
Dividends declared per common share	**0.34**	0.31	0.31	10	10	**0.96**	0.87	10
Average common shares outstanding	**3,316.4**	3,309.8	3,339.6		(1)	**3,309.6**	3,355.5	(1)
Diluted average common shares outstanding	**3,331.0**	3,321.4	3,374.0		(1)	**3,323.4**	3,392.9	(2)
Average loans	**$ 404,203**	$ 391,545	$ 350,683	3	15	**$ 393,262**	$ 334,801	17
Average assets	**614,194**	594,749	541,533	3	13	**594,717**	508,992	17
Average core deposits (2)	**320,074**	318,377	306,135	1	5	**318,582**	299,142	6
Average retail core deposits (3)	**234,140**	230,365	220,984	2	6	**230,935**	219,356	5
Net interest margin	**4.79%**	4.92%	4.55%	(3)	5	**4.80%**	4.79%	
At Period End								
Securities available for sale	**$ 86,882**	$ 91,331	$ 57,440	(5)	51	**$ 86,882**	$ 57,440	51
Loans	**411,049**	399,237	362,922	3	13	**411,049**	362,922	13
Allowance for loan losses	**7,865**	7,375	3,829	7	105	**7,865**	3,829	105
Goodwill	**13,520**	13,191	12,018	2	12	**13,520**	12,018	12
Assets	**622,361**	609,074	548,727	2	13	**622,361**	548,727	13
Core deposits (2)	**334,076**	310,410	303,853	8	10	**334,076**	303,853	10
Stockholders equity	**46,957**	47,964	47,566	(2)	(1)	**46,957**	47,566	(1)
Tier 1 capital (4)	**45,182**	42,471	38,107	6	19	**45,182**	38,107	19
Total capital (4)	**60,525**	57,909	51,625	5	17	**60,525**	51,625	17
Capital ratios:								
Stockholders equity to assets	**7.54%**	7.87%	8.67%	(4)	(13)	**7.54%**	8.67%	(13)
Risk-based capital (4)								
Tier 1 capital	**8.59**	8.24	8.17	4	5	**8.59**	8.17	5
Total capital	**11.51**	11.23	11.07	2	4	**11.51**	11.07	4
Tier 1 leverage (4)	**7.54**	7.35	7.26	3	4	**7.54**	7.26	4
Book value per common share	**$ 14.14**	$ 14.48	$ 14.30	(2)	(1)	**$ 14.14**	$ 14.30	(1)
Team members (active, full-time equivalent)	**159,000**	160,500	158,800	(1)		**159,000**	158,800	

Common Stock Price												
High	**$**	**44.68**	$	32.40	$	37.99	38	18	**$**	**44.68**	$	37.99	18
Low		**20.46**		23.46		32.66	(13)	(37)		**20.46**		32.66	(37)
Period end		**37.53**		23.75		35.62	58	5		**37.53**		35.62	5

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

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

(3) Retail core deposits are total core deposits excluding Wholesale Banking core deposits and retail mortgage escrow deposits. To reflect the realignment of our corporate trust business from Community Banking into Wholesale Banking in first quarter 2008, balances for prior periods have been revised.

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

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This Report on Form 10-Q for the quarter ended September 30, 2008, including the Financial Review and the Financial Statements and related Notes, has forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results might differ significantly from our forecasts and expectations due to several factors. Some of these factors are described in the Financial Review and in the Financial Statements and related Notes. For a discussion of other factors, refer to the Risk Factors section in this Report and to the Risk Factors and Regulation and Supervision sections of our Annual Report on Form 10-K for the year ended December 31, 2007 (2007 Form 10-K), filed with the Securities and Exchange Commission (SEC) and available on the SEC s website at www.sec.gov.

OVERVIEW

Wells Fargo & Company is a $622 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 and in other countries. We ranked fifth in assets and third in market value of our common stock among our peers at September 30, 2008. When we refer to the Company, we, our or us in this Report, we mean Wells Fargo & Company and Subsidiaries (consolidated). When we refer to the Parent, we mean Wells Fargo & Company.

We earned $1.64 billion, or $0.49 per share, in third quarter 2008, after incurring $0.13 per share of previously announced write-downs for investments in Fannie Mae, Freddie Mac and Lehman Brothers. We built our credit reserves by an additional $500 million ($0.10 per share), bringing the allowance for credit losses to $8.0 billion, a $4.0 billion increase in the allowance since the disruption in credit markets began a year ago. Business momentum remained strong in the quarter, with double-digit loan and earning asset growth (both up 15% year over year), double-digit growth in core deposits (up 10% from September 30, 2007, and 30% (annualized) from June 30, 2008), growth in assets under management, primarily mutual funds (up 12% year over year), and a record 5.7 cross-sell in our retail banking business.

Our net interest margin remained among the best of the large bank holding companies at 4.79%, reflecting the decline in our funding costs since last year and continued above-market growth in core deposits. Finally, despite the strong growth in earning assets, investment write-downs and higher credit costs in the quarter, our capital ratios increased, with Tier 1 capital rising to 8.59%, among the strongest capital positions in the industry.

On October 3, 2008, we announced that we had signed a definitive agreement to acquire all outstanding shares of Wachovia Corporation (Wachovia) in a stock-for-stock transaction. Wachovia, based in Charlotte, North Carolina, had total assets of $764 billion at September 30, 2008, and is one of the nation s largest diversified financial services companies, providing a broad range of retail banking and brokerage, asset and wealth management, and corporate and investment banking products and services to customers through 3,300 financial centers in 21 states from Connecticut to Florida and west to Texas and California, and nationwide retail brokerage, mortgage lending and auto finance businesses. Under terms of the agreement, Wachovia shareholders will receive 0.1991 shares of Wells Fargo common stock in exchange for each share of Wachovia common stock. The agreement is subject to approval of Wachovia shareholders and the merger is expected to be completed by the end of 2008. For more information about the pending merger with Wachovia, refer to the Company s Current Report on Form 8-K, including exhibits, filed on October 9, 2008, with the SEC and available on the SEC s website at www.sec.gov.

Our vision is to satisfy all our customers financial needs, help them succeed financially, be recognized as the premier financial services company in our markets and be one of America s great companies. Our primary strategy to achieve this vision is to increase the number of products our customers buy from us and to give them all of the financial products that fulfill their needs. Our cross-sell strategy and diversified business model facilitate growth in strong and weak economic cycles, as we can grow by expanding the number of products our current customers have with us. Our average retail banking household now has a record 5.7 products with us. Our goal is eight products per customer, which is currently half of our estimate of potential demand. Our core products grew this quarter from a year ago, with average loans up 15%, average core deposits up 5% and assets under management or administration up 4%.

We believe it is important to maintain a well-controlled environment as we continue to grow our businesses. We manage our credit risk by setting what we believe are sound credit policies for underwriting new business, while monitoring and reviewing the performance of our loan portfolio. We manage the interest rate and market risks inherent in our asset and liability balances within prudent ranges, while ensuring adequate liquidity and funding. We have maintained strong capital levels to provide for future growth. Our stockholder value has increased over time due to customer satisfaction, strong financial results, investment in our businesses, consistent execution of our business model and the management of our business risks.

Our financial results included the following:

Net income for third quarter 2008 was $1.64 billion ($0.49 per share), compared with $2.17 billion ($0.64 per share) for third quarter 2007. Return on assets (ROA) was 1.06% and return on equity (ROE) was 13.63% for third quarter 2008, compared with 1.59% and 18.22%, respectively, for third quarter 2007.

Net income for the first nine months of 2008 was $5.39 billion, or $1.62 per share, down from $6.70 billion, or $1.97 per share, for the first nine months of 2007. ROA was 1.21% and ROE was 15.02% for the first nine months of 2008, and 1.76% and 19.15%, respectively, for the first nine months of 2007.

Net interest income on a taxable-equivalent basis was $6.44 billion for third quarter 2008, up 21% from $5.32 billion for third quarter 2007, driven by 15% earning asset growth combined with a 24 basis point increase in the net interest margin to 4.79%.

Noninterest income was $4.0 billion for third quarter 2008 down from $4.57 billion for third quarter 2007, including a $756 million decline in net investment gains. Net investment losses of $423 million in third quarter 2008 consisted of previously announced other-than-temporary impairment charges of $646 million for Fannie Mae, Freddie Mac and Lehman Brothers, an additional $247 million of other-than-temporary write-downs and $470 million of net realized gains.

Despite the 24% decline in third quarter 2008 in the S&P500® from a year ago, trust and investment fees declined only 5%. Card fees were up 7% in third quarter 2008 from a year ago

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due to continued growth in new accounts and higher credit and debit card transaction volume. Insurance revenue was up 33% in third quarter 2008 from a year ago due to customer growth, higher crop insurance revenues and the fourth quarter 2007 acquisition of ABD Insurance. Charges and fees on loans were up 8% in third quarter 2008, primarily reflecting strong commercial loan demand.

Mortgage banking noninterest income was $892 million in third quarter 2008, up $69 million from third quarter 2007. The owned mortgage servicing portfolio was $1.56 trillion at September 30, 2008, up 6% from a year ago. Mortgage applications of $83 billion in third quarter 2008 were down 13% from a year ago but at wider margins. Mortgage originations declined as a result of the combined slowdown in home purchase and refinance activities, and mortgage servicing benefited from the decline in mortgage prepayments. Third quarter 2008 results included a $75 million net gain related to changes in the value of our mortgage servicing rights (MSRs), net of hedge results (reflected in net servicing income).

Net unrealized losses on securities available for sale were $4.9 billion at September 30, 2008, compared with net unrealized gains of $680 million at December 31, 2007. The change in value was largely due to wider spreads on mortgage-backed securities, and an increase in market yields for the first nine months of 2008.

Revenue, the sum of net interest income and noninterest income, was $10.38 billion in third quarter 2008, up 5% from $9.85 billion in third quarter 2007. The write-downs for investments in Fannie Mae, Freddie Mac and Lehman Brothers reduced revenue growth by 7 percentage points. Revenue was up 11% to $32.4 billion for the first nine months of 2008. Many of our businesses continued to generate double-digit revenue growth from third quarter 2007, including asset-based lending, commercial banking, credit cards, mortgage banking, insurance, international and wealth management.

Noninterest expense was $5.52 billion for third quarter 2008, down $154 million, or 3%, from $5.67 billion for the same period of 2007. We continued to make investments in distribution and sales and service team members, adding over 1,000 platform bankers since last year end and adding 12 new banking stores in third quarter 2008 alone. We continued to be disciplined about our efforts to restrict expenses to revenue-creating opportunities while at the same time paring down other unit costs. The efficiency ratio was 53.2% in third quarter 2008 even after taking into account the other-than-temporary impairment charges on debt and equity investment securities.

Net charge-offs for third quarter 2008 were $2.0 billion (1.96% of average total loans outstanding, annualized), compared with $1.5 billion (1.55%) for second quarter 2008 and $892 million (1.01%) for third quarter 2007. During the first nine months of 2008, net charge-offs were $5.04 billion (1.71%), compared with $2.33 billion (0.93%) for the first nine months of 2007. Total provision expense in third quarter 2008 was $2.5 billion, including a $500 million credit reserve build, primarily related to higher projected losses in several consumer credit businesses and commercial real estate, as well as growth in the wholesale portfolios, bringing the allowance for credit losses to $8.0 billion, double its level from just before the disruption in credit markets began a year ago. As expected, consumer behavior continued to be influenced by weakness in residential real estate values. Additionally, the effects of higher energy prices and higher unemployment levels impacted the performance of the consumer loan portfolios during the quarter. Loan requests in our wholesale businesses have increased as quality borrowers are providing attractive business opportunities that are both well-structured and appropriately priced for risk.

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Net charge-offs in the real estate 1-4 family first mortgage portfolio increased $123 million in third quarter 2008 from a year ago, including an increase of $53 million from Wells Fargo Financial s residential real estate portfolio. Credit card net charge-offs increased $185 million in third quarter 2008 from a year ago due to the effect of the current economic environment on consumers. Loss levels continued to increase in this credit cycle as the impacts from lower disposable income and unemployment weigh on the consumer. Net charge-offs in the auto portfolio in third quarter 2008 were up $58 million from a year ago and up $74 million linked quarter. While we remain optimistic about the positive impacts of process improvements and underwriting changes we made in the auto business in prior quarters, as well as our robust loss mitigation efforts, the economic environment continued to stress the consumer and influence loan performance.

Net credit losses in the real estate 1-4 family junior lien category were up $488 million for third quarter 2008 compared with third quarter 2007 and up $307 million linked quarter. A significant part of the sequential increase reflected the change in the National Home Equity Group (Home Equity) charge-off policy in second quarter 2008, which deferred an estimated $265 million of charge-offs from second quarter 2008. The fact that property values continued to drop in many markets directly impacted loss levels in this portfolio. Until residential real estate values stabilize, the Home Equity portfolio is expected to produce higher than normal loss levels.

Commercial and commercial real estate charge-offs increased $213 million in third quarter 2008 from third quarter 2007. Commercial and commercial real estate charge-offs include Business Direct (primarily unsecured lines of credit to small businesses), which increased $98 million in third quarter 2008 from a year ago and decreased $7 million linked quarter. The wholesale businesses continued to weather the turbulent credit environment. Commercial credits related to residential real estate and the consumer segment have shown some weakness, but remained within our expectations.

The provision for credit losses was $2.5 billion in third quarter 2008, $3.0 billion in second quarter 2008 and $892 million in third quarter 2007. The provision for third quarter 2008 included an additional $500 million in credit reserve build, primarily related to higher projected losses in several consumer credit businesses and commercial real estate, as well as growth in the wholesale portfolios. We have provided $3.9 billion in excess of net charge-offs since the beginning of fourth quarter 2007, including $2.5 billion in the first nine months of 2008. The allowance for credit losses, which consists of the allowance for loan losses and the reserve for unfunded credit commitments, was $8.03 billion (1.95% of total loans) at September 30, 2008, compared with $5.52 billion (1.44%) at December 31, 2007, and $4.02 billion (1.11%) at September 30, 2007.

Total nonaccrual loans were $5.00 billion (1.22% of total loans) at September 30, 2008, up from $2.68 billion (0.70%) at December 31, 2007, and $2.09 billion (0.58%) at September 30, 2007, reflecting economic conditions, primarily in portfolios affected by residential real estate conditions and the associated impact on the consumer. A portion of the increase in nonaccrual loans from a year ago continued to relate to our active loss mitigation strategies at Home Equity, Wells Fargo Home Mortgage (Home Mortgage) and Wells Fargo Financial as we are aggressively working with customers to keep them in their homes or find alternative solutions to their financial challenges. Home builders, mortgage service providers, contractors, suppliers and others in the residential real estate-related segments continued to be stressed during this credit cycle. Additionally, as consumers cut back on discretionary spending, we are seeing some of the commercial loan portfolios dependent on their spending weaken. The $2.9 billion increase in nonaccrual loans at September 30, 2008, from a year ago included $681 million in Wells Fargo Financial real estate, $578 million in Home Equity and $333 million in Home Mortgage.

Total nonperforming assets (NPAs) were $6.29 billion (1.53% of total loans) at September 30, 2008, compared with $3.87 billion (1.01%) at December 31, 2007, and $3.18 billion (0.88%) at September 30, 2007. Foreclosed assets were $1,240 million at September 30, 2008, $1,184 million at December 31, 2007, and $1,090 million at September 30, 2007. Foreclosed assets, a component of total NPAs, included $596 million, $535 million and $487 million of foreclosed real estate securing Government National Mortgage Association (GNMA) loans at September 30, 2008, December 31, 2007 and September 30, 2007, respectively, consistent with regulatory reporting requirements. The foreclosed real estate securing GNMA loans of $596 million represented 14 basis points of the ratio of NPAs to loans at September 30, 2008. Both principal and interest for GNMA loans secured by the foreclosed real estate are collectible because the GNMA loans are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs. Until conditions improve in the residential real estate and liquidity markets, we will continue to hold more nonperforming assets on our balance sheet as it is currently the most economic option available. Increases in commercial nonperforming assets were also a direct result of the conditions in the residential real estate markets and general consumer economy.

The Company and each of its subsidiary banks continued to remain well-capitalized. The ratio of stockholders equity to total assets was 7.54% at September 30, 2008, 8.28% at December 31, 2007, and 8.67% at September 30, 2007. Our total risk-based capital (RBC) ratio at September 30, 2008, was 11.51% and our Tier 1 RBC ratio was 8.59%, exceeding the minimum regulatory guidelines of 8% and 4%, respectively, for bank holding companies. Our total RBC ratio was 10.68% and 11.07% at December 31, 2007 and September 30, 2007, respectively, and our Tier 1 RBC ratio was 7.59% and 8.17% for the same periods. Our Tier 1 leverage ratio was 7.54%, 6.83% and 7.26% at September 30, 2008, December 31, 2007 and September 30, 2007, respectively, exceeding the minimum regulatory guideline of 3% for bank holding companies.

Current Accounting Developments

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

- FSP FIN 39-1 Financial Accounting Standards Board (FASB) Staff Position on Interpretation No. 39, *Amendment of FASB Interpretation No. 39;*
- EITF 06-4 Emerging Issues Task Force (EITF) Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements;*
- EITF 06-10 EITF Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements;* and
- SAB 109 Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings*.

On July 1, 2008, we adopted the following new accounting pronouncement:

- FSP FAS 157-3 FASB Staff Position No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*.

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

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

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

On October 10, 2008, the FASB issued Staff Position No. 157-3, which clarifies the application of FAS 157, *Fair Value Measurements*, in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. The FSP states that an entity should not automatically conclude that a particular transaction price is determinative of fair value. In a dislocated market, judgment is required to evaluate whether individual transactions are forced liquidations or distressed sales. When relevant observable market information is not available, a valuation approach that incorporates management s judgments about the assumptions that market participants would use in pricing the asset in a current sale transaction would be acceptable. The FSP also indicates that quotes from brokers or pricing services may be relevant inputs when measuring fair value, but are not necessarily determinative in the absence of an active market for the asset. In weighing a broker quote as an input to a fair value measurement, an entity should place less reliance on quotes that do not reflect the result of market transactions. Further, the nature of the quote (for example, whether the quote is an indicative price or a binding offer) should be considered when weighing the available evidence. The FSP is effective immediately and applies to prior periods for which financial statements have not been issued, including interim or annual periods ending on or before September 30, 2008. Accordingly, we adopted the FSP prospectively, beginning July 1, 2008. The adoption of the FSP did not have a material impact on our financial results or fair value determinations.

On October 14, 2008, the SEC s Office of the Chief Accountant (OCA), clarified its views on the application of other-than-temporary impairment guidance in FAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, to certain perpetual preferred securities. The OCA concluded that it would not object to a registrant applying an other-than-temporary impairment model to investments in perpetual preferred securities that possess significant debt-like characteristics that is similar to the impairment model applied to debt securities, provided there has been no evidence of deterioration in credit of the issuer. An entity is permitted to apply the OCA s views in its financial statements included in filings subsequent to the date of the letter. At September 30, 2008, based on the OCA guidance, we recorded no other-than-temporary impairment for our investments in investment-grade perpetual preferred securities that had no evidence of credit deterioration and that we have the intent and ability to hold to recovery.

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 shall be applied prospectively to business combinations completed on or after January 1, 2009. Early adoption is not permitted.

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 not permitted. We are currently evaluating the impact that FAS 160 may have on our consolidated financial statements.

On February 20, 2008, the FASB issued Staff Position FAS No. 140-3, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. FSP FAS 140-3 requires an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously or in contemplation of the initial transfer to be evaluated as a linked transaction under FAS 140 unless certain criteria are met, including that the transferred asset must be readily obtainable in the marketplace. The provisions of this FSP are effective beginning on January 1, 2009, and shall be applied prospectively to initial transfers and repurchase financings for which the initial transfer is executed on or after this date. Early application is not permitted.

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

On September 12, 2008, the FASB issued Staff Position No. 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. This FSP is intended to improve disclosures about credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivatives. It amends FAS 133, *Accounting for Derivative Instruments and Hedging Activities*, to require disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. The FSP also amends FASB Interpretation No. 45*, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others* (FIN 45), to require an additional disclosure about the current status of the payment/performance risk of a guarantee. The provisions of the FSP that amend FAS 133 and FIN 45 are effective for reporting periods (annual or interim) ending after November 15, 2008. Because the FSP amends only the disclosure requirements for credit derivatives and certain guarantees, the adoption of the FSP will not affect our consolidated financial results.

CRITICAL ACCOUNTING POLICIES

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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Approximately 22% of total assets ($134.7 billion) at September 30, 2008, and 22% of total assets ($123.8 billion) at December 31, 2007, consisted of financial instruments recorded at fair value on a recurring basis. At September 30, 2008, approximately 74% of these financial instruments used valuation methodologies involving market-based or market-derived information, collectively Level 1 and 2 measurements, to measure fair value. The remaining 26% of these financial instruments (6% of total assets) were measured using model-based techniques, with primarily unobservable inputs.

Our financial assets valued using Level 3 measurements consisted of MSRs, asset-backed securities collateralized by auto leases and cash reserves, certain mortgages held for sale (MHFS) and certain debt securities available for sale. While MSRs and our asset-backed securities collateralized by auto leases and cash reserves do not have observable market data and therefore are classified as Level 3, significant judgment may be required to determine whether certain other assets measured at fair value are included in Level 2 or Level 3. For example, we closely monitor market conditions involving assets that have become less actively traded, such as MHFS, non-agency mortgage-backed securities and certain other debt securities, including collateralized debt obligations. If fair value measurement is based upon recent observable market activity of such assets or comparable assets (other than forced or distressed transactions) that occur in sufficient volume, and do not require significant adjustment using unobservable inputs, those assets are classified as Level 2; if not, they are classified as Level 3. Making this assessment requires significant judgment. In third quarter 2008, $456 million of debt securities available for sale and, in the first nine months of 2008, $2.2 billion of debt securities available for sale and $4.3 billion of mortgages held for sale were transferred from Level 2 to Level 3 because significant inputs to the valuation became unobservable, largely due to reduced levels of market liquidity.

We use prices from independent pricing services and to a lesser extent, indicative (non-binding) quotes from independent brokers, to measure fair value of our investment securities. See Note 13 (Fair Values of Assets and Liabilities) for the amount and fair value hierarchy classification of those securities. We validate prices received from pricing services or brokers using a variety of methods, including, but not limited to, comparison to secondary pricing services, corroboration of pricing by reference to other independent market data such as secondary broker quotes and relevant benchmark indices, and review of pricing by Company personnel familiar with market liquidity and other market related conditions. Generally, we do not adjust prices received from pricing services or brokers, unless it is evident the fair value measurement is not consistent with FAS 157.

Approximately 2% of total liabilities ($10.8 billion) at September 30, 2008, and 0.5% ($2.6 billion) at December 31, 2007, consisted of financial instruments recorded at fair value on a recurring basis. Liabilities valued using Level 3 measurements were $550 million at September 30, 2008. See Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report for additional detail for third quarter 2008. See Note 8 (Securitizations and Variable Interest Entities) to Financial Statements in our 2007 Form 10-K for a detailed discussion of the key assumptions used to determine the fair value of our MSRs and the related sensitivity analysis.

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

						Quarter ended September 30,
			2008			2007
(in millions)	**Average balance**	**Yields/ rates**	**Interest income/ expense**	Average balance	Yields/ rates	Interest income/ expense
EARNING ASSETS						
Federal funds sold, securities purchased under resale agreements and other short-term investments	**$ 3,463**	**2.09%**	**$ 18**	$ 4,219	5.01%	$ 53
Trading assets	**4,838**	**3.72**	**46**	4,043	3.69	37
Debt securities available for sale (3):						
Securities of U.S. Treasury and federal agencies	**1,141**	**3.99**	**11**	871	4.27	10
Securities of U.S. states and political subdivisions	**7,211**	**6.65**	**124**	5,021	7.31	90
Mortgage-backed securities:						
Federal agencies	**50,528**	**5.83**	**731**	52,681	6.03	794
Private collateralized mortgage obligations	**21,358**	**5.82**	**346**	4,026	6.22	62
Total mortgage-backed securities	**71,886**	**5.83**	**1,077**	56,707	6.05	856
Other debt securities (4)	**12,622**	**7.17**	**248**	5,822	7.67	114
Total debt securities available for sale (4)	**92,860**	**6.06**	**1,460**	68,421	6.26	1,070
Mortgages held for sale (5)	**24,990**	**6.31**	**394**	35,552	6.59	586
Loans held for sale (5)	**677**	**6.95**	**12**	960	7.79	19
Loans:						
Commercial and commercial real estate:						
Commercial	**100,688**	**5.92**	**1,496**	79,713	8.24	1,655
Other real estate mortgage	**43,616**	**5.60**	**615**	32,641	7.42	610
Real estate construction	**19,715**	**4.82**	**238**	16,914	7.94	338
Lease financing	**7,250**	**5.48**	**100**	6,026	5.78	87
Total commercial and commercial real estate	**171,269**	**5.69**	**2,449**	135,294	7.90	2,690
Consumer:						
Real estate 1-4 family first mortgage	**76,197**	**6.64**	**1,265**	63,929	7.26	1,162
Real estate 1-4 family junior lien mortgage	**75,379**	**6.36**	**1,206**	73,476	8.19	1,515
Credit card	**19,948**	**12.19**	**609**	16,261	13.68	557
Other revolving credit and installment	**54,104**	**8.64**	**1,175**	54,165	9.79	1,336
Total consumer	**225,628**	**7.52**	**4,255**	207,831	8.75	4,570
Foreign	**7,306**	**10.28**	**188**	7,558	11.62	221

Total loans (5)	**404,203**	**6.79**	**6,892**	350,683	8.48	7,481
Other	**2,126**	**4.64**	**24**	1,396	5.01	20
Total earning assets	**$ 533,157**	**6.57**	**8,846**	$ 465,274	7.92	9,266
FUNDING SOURCES						
Deposits:						
Interest-bearing checking	**$ 5,483**	**0.87**	**12**	$ 5,160	3.20	42
Market rate and other savings	**166,710**	**1.18**	**495**	149,194	2.89	1,085
Savings certificates	**37,192**	**2.57**	**240**	41,080	4.38	454
Other time deposits	**7,930**	**2.59**	**53**	10,948	5.10	140
Deposits in foreign offices	**49,054**	**1.78**	**219**	41,326	4.77	497
Total interest-bearing deposits	**266,369**	**1.52**	**1,019**	247,708	3.55	2,218
Short-term borrowings	**83,458**	**2.35**	**492**	36,415	5.06	464
Long-term debt	**103,745**	**3.43**	**892**	94,686	5.33	1,267
Total interest-bearing liabilities	**453,572**	**2.11**	**2,403**	378,809	4.14	3,949
Portion of noninterest-bearing funding sources	**79,585**			86,465		
Total funding sources	**$ 533,157**	**1.78**	**2,403**	$ 465,274	3.37	3,949
Net interest margin and net interest income on a taxable-equivalent basis (6)		**4.79%**	**$ 6,443**		4.55%	$ 5,317
NONINTEREST-EARNING ASSETS						
Cash and due from banks	**$ 11,024**			$ 11,579		
Goodwill	**13,531**			12,008		
Other	**56,482**			52,672		
Total noninterest-earning assets	**$ 81,037**			$ 76,259		
NONINTEREST-BEARING FUNDING SOURCES						
Deposits	**$ 87,095**			$ 88,991		
Other liabilities	**25,762**			26,413		
Stockholders equity	**47,765**			47,320		
Noninterest-bearing funding sources used to fund earning assets	**(79,585)**			(86,465)		
Net noninterest-bearing funding sources	**$ 81,037**			$ 76,259		
TOTAL ASSETS	**$ 614,194**			$ 541,533		

(1) Our average prime rate was 5.00% and 8.18% for the quarters ended

September 30, 2008 and 2007, respectively, and 5.43% and 8.23% for the nine months ended September 30, 2008 and 2007, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 2.91% and 5.44% for the quarters ended September 30, 2008 and 2007, respectively, and 2.98% and 5.39% for the nine months ended September 30, 2008 and 2007, respectively.

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

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

(4) Includes certain preferred securities.

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

(6) Includes taxable-equivalent

adjustments primarily related to tax-exempt income on certain loans and securities. The federal statutory tax rate was 35% for the periods presented.

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Nine months ended September 30,					
2008			2007		
Average balance	**Yields/ rates**	**Interest income/ expense**	Average balance	Yields/ rates	Interest income/ expense
$ 3,734	**2.59%**	**$ 72**	$ 4,972	5.09%	$ 189
4,960	**3.57**	**133**	4,306	4.70	151
1,055	**3.88**	**30**	821	4.29	27
6,848	**6.88**	**362**	4,318	7.36	232
42,448	**5.93**	**1,854**	39,656	6.08	1,794
21,589	**5.92**	**1,010**	3,945	6.32	185
64,037	**5.92**	**2,864**	43,601	6.10	1,979
12,351	**6.78**	**670**	5,564	7.57	316
84,291	**6.11**	**3,926**	54,304	6.32	2,554
26,417	**6.11**	**1,211**	34,664	6.52	1,694
686	**6.66**	**34**	873	7.78	51
95,697	**6.29**	**4,509**	74,934	8.28	4,641
40,351	**5.91**	**1,788**	31,663	7.44	1,762
19,288	**5.29**	**763**	16,404	7.97	978
7,055	**5.63**	**298**	5,698	5.82	249
162,391	**6.05**	**7,358**	128,699	7.92	7,630
74,064	**6.77**	**3,761**	58,920	7.31	3,228
75,220	**6.78**	**3,820**	70,998	8.19	4,348
19,256	**12.11**	**1,749**	15,262	13.89	1,590
54,949	**8.84**	**3,637**	53,725	9.77	3,926
223,489	**7.74**	**12,967**	198,905	8.79	13,092
7,382	**10.72**	**592**	7,197	11.72	631
393,262	**7.10**	**20,917**	334,801	8.52	21,353
1,995	**4.55**	**68**	1,351	5.11	54
$ 515,345	**6.81**	**26,361**	$ 435,271	8.00	26,046

$ 5,399	**1.31**	**53**	$ 4,991	3.23	121
162,792	**1.45**	**1,765**	145,135	2.83	3,070
38,907	**3.23**	**940**	39,784	4.40	1,308
6,163	**2.87**	**133**	8,284	5.06	313
49,192	**2.13**	**785**	33,988	4.73	1,204
262,453	**1.87**	**3,676**	232,182	3.46	6,016
67,714	**2.51**	**1,274**	23,084	5.01	865
101,668	**3.71**	**2,825**	91,569	5.22	3,579
431,835	**2.40**	**7,775**	346,835	4.03	10,460
83,510			88,436		
$ 515,345	**2.01**	**7,775**	$ 435,271	3.21	10,460
	4.80%	**$ 18,586**		4.79%	$ 15,586
$ 11,182			$ 11,698		
13,289			11,575		
54,901			50,448		
$ 79,372			$ 73,721		
$ 86,676			$ 89,673		
28,268			25,726		
47,938			46,758		
(83,510)			(88,436)		
$ 79,372			$ 73,721		
$ 594,717			$ 508,992		

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NET INTEREST INCOME

Net interest income is the interest earned on debt securities, loans (including yield-related loan fees) and other interest-earning assets minus the interest paid for deposits and long-term and short-term debt. The net interest margin is the average yield on earning assets minus the average interest rate paid for deposits and our other sources of funding. Net interest income and the net interest margin are presented on a taxable-equivalent basis to consistently reflect income from taxable and tax-exempt loans and securities based on a 35% federal statutory tax rate.

Net interest income on a taxable-equivalent basis increased 21% to $6.44 billion in third quarter 2008 from $5.32 billion in third quarter 2007. The increase was driven by 15% earning asset growth combined with an increase in the net interest margin to 4.79%, up 24 basis points from a year ago. The improvement in the net interest margin reflects our focus on higher risk-adjusted yields on new loans and securities, a decline in funding costs, our disciplined deposit pricing, and the high percentage of checking and transaction accounts in our core deposit mix. Net interest income on a taxable-equivalent basis increased $3.0 billion to $18.59 billion for the first nine months of 2008 from $15.59 billion for the same period a year ago. For the first nine months of 2008, growth in net interest income has largely offset the impact of the credit crisis on charge-offs.

Average earning assets increased $67.9 billion (15%) to $533.2 billion in third quarter 2008 from $465.3 billion in third quarter 2007. Average loans increased to $404.2 billion in third quarter 2008 from $350.7 billion a year ago. Average mortgages held for sale decreased to $25.0 billion in third quarter 2008 from $35.6 billion a year ago. Average debt securities available for sale increased to $92.9 billion in third quarter 2008 from $68.4 billion a year ago.

Core deposits are an important contributor to growth in net interest income and the net interest margin, and are a low-cost source of funding. Core deposits are noninterest-bearing deposits, interest-bearing checking, savings certificates, market rate and other savings, and certain foreign deposits (Eurodollar sweep balances). Average core deposits rose 5% to $320.1 billion for third quarter 2008 from $306.1 billion for third quarter 2007 and funded 79% and 87% of average loans in third quarter 2008 and 2007, respectively. Total average retail core deposits, which exclude Wholesale Banking core deposits and retail mortgage escrow deposits, grew $13.2 billion (6%) to $234.1 billion for third quarter 2008 from a year ago. Average mortgage escrow deposits were $21.2 billion for third quarter 2008, down $1.2 billion from a year ago. Average savings certificates of deposits decreased to $37.2 billion in third quarter 2008 from $41.1 billion a year ago and average noninterest-bearing checking accounts and other core deposit categories (interest-bearing checking and market rate and other savings) increased to $259.3 billion in third quarter 2008 from $243.3 billion a year ago. Total average interest-bearing deposits increased to $266.4 billion in third quarter 2008 from $247.7 billion a year ago.

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

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NONINTEREST INCOME

(in millions)	Quarter ended Sept. 30, 2008	2007	% Change	Nine months ended Sept. 30, 2008	2007	% Change
Service charges on deposit accounts	**$ 839**	$ 837	%	**$ 2,387**	$ 2,262	6%
Trust and investment fees:						
Trust, investment and IRA fees	**549**	573	(4)	**1,674**	1,720	(3)
Commissions and all other fees	**189**	204	(7)	**589**	627	(6)
Total trust and investment fees	**738**	777	(5)	**2,263**	2,347	(4)
Card fees	**601**	561	7	**1,747**	1,548	13
Other fees:						
Cash network fees	**48**	51	(6)	**143**	146	(2)
Charges and fees on loans	**266**	246	8	**765**	737	4
All other fees	**238**	269	(12)	**654**	832	(21)
Total other fees	**552**	566	(2)	**1,562**	1,715	(9)
Mortgage banking:						
Servicing income, net	**525**	797	(34)	**1,019**	968	5
Net gains (losses) on mortgage loan origination/ sales activities	**276**	(61)	NM	**1,419**	1,069	33
All other	**91**	87	5	**282**	265	6
Total mortgage banking	**892**	823	8	**2,720**	2,302	18
Operating leases	**102**	171	(40)	**365**	550	(34)
Insurance	**439**	329	33	**1,493**	1,160	29
Net gains (losses) from trading activities	**65**	(43)	NM	**684**	482	42
Net gains on debt securities available for sale	**84**	160	(48)	**316**	149	112
Net gains (losses) from equity investments	**(507)**	173	NM	**(148)**	512	NM
All other	**193**	219	(12)	**593**	672	(12)
Total	**$ 3,998**	$ 4,573	(13)	**$ 13,982**	$ 13,699	2

NM - Not meaningful

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 September 30, 2008, these assets totaled $1.17 trillion, up 4% from $1.12 trillion at September 30, 2007. Trust, investment and IRA fees are primarily based on a tiered scale relative to the market value of the assets under management or administration. These fees declined 4% in third quarter 2008 from a year ago, while the S&P 500® declined 24% over the same period.

We also receive commissions and other fees for providing services to full-service and discount brokerage customers. 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. At September 30, 2008 and 2007, brokerage balances totaled $123 billion and $132 billion, respectively.

Card fees increased 7% to $601 million in third quarter 2008 from $561 million in third quarter 2007, due to continued growth in new accounts and higher credit and debit card transaction volume. Purchase volume on these cards was up 8% from a year ago and average card balances were up 26%.

Mortgage banking noninterest income was $892 million in third quarter 2008, compared with $823 million in third quarter 2007. In addition to servicing fees, net servicing income includes both changes in the fair value of MSRs during the period as well as changes in the value of derivatives (economic hedges) used to hedge the MSRs. Net servicing income for third quarter 2008 included a $75 million net MSRs valuation gain that was recorded to earnings ($546 million fair value loss offsetting a $621 million economic hedging gain) and for third quarter 2007 included a $562 million net MSRs valuation gain ($638 million fair value loss offsetting a $1.20 billion economic hedging gain). Our portfolio of loans serviced for others was $1.46 trillion at September 30, 2008, up 6% from $1.38 trillion at September 30, 2007. At September 30, 2008, the ratio of MSRs to related loans serviced for others was 1.34%.

Net gains on mortgage loan origination/sales activities were $276 million in third quarter 2008, compared with $61 million in net losses in third quarter 2007. The year-over-year increase reflected wider margins and decreased losses from spread widening caused by changes in liquidity. Residential real estate originations totaled $51 billion in third quarter 2008 and $68 billion in third quarter 2007. (For additional detail, see Asset/Liability and Market Risk Management Mortgage Banking Interest Rate and Market Risk, Note 8 (Mortgage Banking Activities) and Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.)

The 1-4 family first mortgage unclosed pipeline was $41 billion at September 30, 2008, $43 billion at December 31, 2007, and $45 billion at September 30, 2007.

Insurance revenue was up 33% in third quarter 2008 from third quarter 2007, due to customer growth, higher crop insurance revenues and the fourth quarter 2007 acquisition of ABD Insurance.

Income from trading activities was $65 million and $684 million in the third quarter and first nine months of 2008, respectively. Income from trading activities was a loss of $43 million and a gain of $482 million in the third quarter and first nine months of 2007, respectively. Income from trading activities and all other income collectively included a $106 million charge in third quarter 2008 related to unsecured counterparty exposure on derivative contracts with Lehman Brothers. Net investment losses (debt and equity) totaled $423 million for third quarter 2008 and included previously announced other-than-temporary impairment charges of $646 million for Fannie Mae, Freddie Mac and Lehman Brothers, an additional $247 million of other-than-temporary write-downs and $470 million of net realized investment gains. Net gains on debt securities available for sale were $84 million and $316 million in the third quarter and first nine months of 2008, and $160 million and $149 million, respectively, in the same periods of the prior year. Net gains (losses) from equity investments were $(507) million and $(148) million in the third quarter and first nine months of 2008, respectively, and $173 million and $512 million in the same periods of 2007. (For additional detail, see Balance Sheet Analysis Securities Available for Sale in this Report.)

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NONINTEREST EXPENSE

(in millions)	Quarter ended Sept. 30, 2008	2007	% Change	Nine months ended Sept. 30, 2008	2007	% Change
Salaries	**$ 2,078**	$ 1,933	8%	**$ 6,092**	$ 5,707	7%
Incentive compensation	**555**	802	(31)	**2,005**	2,444	(18)
Employee benefits	**486**	518	(6)	**1,666**	1,764	(6)
Equipment	**302**	295	2	**955**	924	3
Net occupancy	**402**	398	1	**1,201**	1,132	6
Operating leases	**90**	136	(34)	**308**	437	(30)
Outside professional services	**206**	222	(7)	**589**	649	(9)
Outside data processing	**122**	123	(1)	**353**	355	(1)
Travel and entertainment	**113**	113		**330**	340	(3)
Contract services	**88**	103	(15)	**300**	334	(10)
Operating losses	**63**	225	(72)	**46**	369	(88)
Insurance	**144**	81	78	**511**	357	43
Advertising and promotion	**96**	108	(11)	**285**	312	(9)
Postage	**83**	88	(6)	**256**	260	(2)
Telecommunications	**78**	79	(1)	**238**	241	(1)
Stationery and supplies	**53**	54	(2)	**159**	159	
Security	**45**	42	7	**134**	129	4
Core deposit intangibles	**32**	28	14	**94**	81	16
All other	**481**	323	49	**1,317**	930	42
Total	**$ 5,517**	$ 5,671	(3)	**$ 16,839**	$ 16,924	(1)

Noninterest expense in third quarter 2008 was down 3% from the prior year, reflecting continued emphasis on expense management and disciplined efforts to restrict expenses to revenue-creating opportunities. In the last 12 months, we opened 71 retail banking stores, including 12 stores this quarter, and converted 21 stores from acquisitions. The efficiency ratio was 53.2% in third quarter 2008, even after taking into account the other-than-temporary impairment charges on debt and equity investment securities.

INCOME TAX EXPENSE

Our effective income tax rate was 30.8% for third quarter 2008, down from 34.0% for third quarter 2007, primarily due to a lower level of pre-tax income and higher amounts of tax credits and tax-exempt income in 2008. For the first nine months of 2008, our effective tax rate was 32.9%, compared with 32.6% for the first nine months of 2007.

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OPERATING SEGMENT RESULTS

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

Community Banking s net income increased 10% to $1.59 billion in third quarter 2008 from $1.45 billion in third quarter 2007. Net income decreased 4% to $4.25 billion in the first nine months of 2008 from $4.45 billion in the first nine months of 2007. Revenue increased 14% to $7.20 billion in third quarter 2008 from $6.32 billion a year ago, driven by strong balance sheet growth and strong fee income growth in retail banking and mortgage. Net interest income increased 27% to $4.21 billion in third quarter 2008 from $3.30 billion a year ago. Average loans were up 12% to $220.5 billion in third quarter 2008 from $197.4 billion a year ago and average core deposits were up 5% to $254.9 billion in third quarter 2008 from $243.0 billion a year ago with a portion of the growth due to acquisitions. The provision for credit losses increased to $1.43 billion in third quarter 2008 from $446 million a year ago, with over half of the increase related to Home Equity. Noninterest income was $3.00 billion in third quarter 2008, flat compared with $3.02 billion a year ago, and included $486 million of other-than-temporary impairment charges. This was partially offset by strong retail banking fee revenue growth, including growth in card fees, deposit service charges and mortgage banking. Noninterest expense decreased 7% to $3.45 billion in third quarter 2008 from $3.71 billion a year ago, driven by continued expense management, partially offset by investments in technology, distribution and sales staff.

Wholesale Banking s net income decreased 86% to $83 million in third quarter 2008 from $591 million in third quarter 2007, including other-than-temporary impairment charges on debt and equity securities. Net income decreased 40% to $1.12 billion in the first nine months of 2008 from $1.85 billion in the first nine months of 2007. Revenue decreased 17% to $1.78 billion in third quarter 2008 from $2.16 billion a year ago, including impairment charges of $407 million. Net interest income increased 15% to $1.05 billion for third quarter 2008 from $918 million a year ago driven by strong loan and deposit growth. Average loans increased 33% to $116.2 billion in third quarter 2008 from $87.5 billion a year ago, with double-digit increases across nearly all wholesale lending businesses. Average total deposits were $84 billion, up 10% from a year ago, all in interest-bearing balances. The increase in the provision for credit losses to $294 million in third quarter 2008 from $19 million a year ago included $115 million from higher net charge-offs and an additional $178 million in credit reserve build. Noninterest income decreased 41% to $728 million in third quarter 2008 from a year ago, primarily due to impairment charges. Noninterest income from foreign exchange, loan fees, institutional brokerage and insurance all increased. Noninterest expense increased 13% to $1.39 billion in third quarter 2008 from $1.23 billion a year ago, mainly due to higher personnel-related costs, including expenses due to the fourth quarter 2007 acquisition of ABD Insurance and higher agent commissions in the crop insurance business due to higher commodity prices.

Wells Fargo Financial reported a net loss of $33 million in third quarter 2008 compared with net income of $135 million in third quarter 2007, reflecting higher credit costs, including a $162 million credit reserve build as a result of continued softening in the real estate, auto and

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credit card markets. For the first nine months of 2008, net income was $26 million, compared with $403 million for the same period a year ago. Revenue was $1.39 billion in third quarter 2008, flat from a year ago. Net interest income increased 6% to $1.12 billion in third quarter 2008 from $1.06 billion a year ago due to 3% growth in average loans to $67.5 billion in third quarter 2008 from $65.8 billion a year ago. The increase in the provision for credit losses to $770 million in third quarter 2008 from $427 million a year ago included $181 million from higher net charge-offs and an additional $162 million in credit reserve build. Noninterest expense decreased $51 million, or 7%, to $677 million in third quarter 2008 from $728 million a year ago primarily due to lower lease expenses from the run off of the auto lease portfolio.

BALANCE SHEET ANALYSIS

SECURITIES AVAILABLE FOR SALE

Our securities available for sale consists of both debt and marketable equity securities. We hold debt securities available for sale primarily for liquidity, interest rate risk management and long-term yield enhancement. Accordingly, this portfolio primarily includes very liquid, high-quality federal agency debt, as well as privately issued mortgage-backed securities. At September 30, 2008, we held $84.6 billion of debt securities available for sale, with net unrealized losses of $4.1 billion, compared with $70.2 billion at December 31, 2007, with net unrealized gains of $775 million. We also held $2.3 billion of marketable equity securities available for sale at September 30, 2008, and $2.8 billion at December 31, 2007, with net unrealized losses of $739 million and $95 million for the same periods, respectively. The increase in net unrealized losses for the total securities available-for-sale portfolio to $4.9 billion at September 30, 2008, from net unrealized gains of $680 million at December 31, 2007, was largely due to wider spreads on mortgage-backed securities and an increase in market yields in the first nine months of 2008.

We conduct other-than-temporary impairment analysis on a quarterly basis. The initial indication of other-than-temporary impairment for both debt and equity securities is a decline in the 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 the market value has been below cost, recent events specific to the issuer, including investment downgrades by rating agencies 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 and for perpetual preferred securities that are treated as debt securities for the purpose of other-than-temporary analysis, 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.

Based on our evaluation at September 30, 2008, we recorded other-than-temporary impairment of $893 million in third quarter 2008, including $646 million related to investments in Fannie Mae, Freddie Mac and Lehman Brothers. See Note 4 (Securities Available for Sale) to Financial Statements in this Report for additional information.

The weighted-average expected maturity of debt securities available for sale was 6.0 years at September 30, 2008. Since 77% 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 the following table.

MORTGAGE-BACKED SECURITIES

(in billions)	Fair value	Net unrealized gain (loss)	Remaining maturity
At September 30, 2008	$ 64.9	$ (2.8)	4.4 yrs.
At September 30, 2008, assuming a 200 basis point:			
Increase in interest rates	59.2	(8.5)	6.1 yrs.
Decrease in interest rates	69.2	1.5	2.2 yrs.

LOAN PORTFOLIO

A discussion of average loan balances is included in Earnings Performance Net Interest Income on page 14 and a comparative schedule of average loan balances is included in the table on page 12; quarter-end balances are in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Total loans at September 30, 2008, were $411.0 billion, up $48.1 billion (13%) from $362.9 billion at September 30, 2007. Commercial and commercial real estate loans were $176.0 billion at September 30, 2008, up $36.8 billion (26%) from $139.2 billion a year ago. Consumer loans were $228.1 billion at September 30, 2008, up $12.4 billion (6%) from $215.8 billion a year ago. Mortgages held for sale were $18.7 billion at September 30, 2008, down $11.0 billion from $29.7 billion a year ago.

DEPOSITS

(in millions)	**Sept. 30, 2008**	Dec. 31, 2007	Sept. 30, 2007
Noninterest-bearing	**$ 89,446**	$ 84,348	$ 82,365
Interest-bearing checking	**5,398**	5,277	4,376
Market rate and other savings	**172,542**	153,924	153,116
Savings certificates	**38,909**	42,708	41,863
Foreign deposits (1)	**27,781**	25,474	22,133
Core deposits	**334,076**	311,731	303,853
Other time deposits	**9,052**	3,654	2,448
Other foreign deposits	**10,446**	29,075	28,655
Total deposits	**$ 353,574**	$ 344,460	$ 334,956

(1) Reflects Eurodollar sweep balances included in core

deposits.

Core deposits of $334.1 billion at September 30, 2008, increased $30.2 billion (10%) from $303.9 billion a year ago. Average core deposits increased $13.9 billion (5%) to $320.1 billion in third quarter 2008 from third quarter 2007, predominantly due to growth in market rate and other savings.

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OFF-BALANCE SHEET ARRANGEMENTS AND AGGREGATE CONTRACTUAL OBLIGATIONS

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

Almost all of our off-balance sheet arrangements result from securitizations. Based on market conditions, from time to time we may securitize home mortgage loans and 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 (QSPEs) that we are not required to consolidate. We also enter into certain contractual obligations. For additional information on off-balance sheet arrangements and other contractual obligations see Financial Review Off-Balance Sheet Arrangements and Aggregate Contractual Obligations in our 2007 Form 10-K and Note 11 (Guarantees and Legal Actions) to Financial Statements in this Report.

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. We continually evaluate and modify our credit policies to address unacceptable levels of risk as they are identified. Beginning in 2007 and continuing in 2008, we updated our credit policies related to residential real estate lending to reflect the deteriorating economic conditions in the industry and decisions were made to exit certain underperforming indirect channels. In addition to these steps we have made adjustments to the credit criteria across the breadth of our consumer business segments to eliminate originations with unacceptable levels of risk given the challenges and uncertainty in the credit market.

Nonaccrual Loans and Other Assets

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

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

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

NONACCRUAL LOANS AND OTHER ASSETS

(in millions)	**Sept. 30, 2008**	Dec. 31, 2007	Sept. 30, 2007
Nonaccrual loans:			
Commercial and commercial real estate:			
Commercial	**$ 846**	$ 432	$ 399
Other real estate mortgage	**296**	128	133
Real estate construction	**736**	293	188
Lease financing	**69**	45	38
Total commercial and commercial real estate	**1,947**	898	758
Consumer:			
Real estate 1-4 family first mortgage (1)	**1,975**	1,272	886
Real estate 1-4 family junior lien mortgage	**780**	280	238
Other revolving credit and installment	**232**	184	160
Total consumer	**2,987**	1,736	1,284
Foreign	**61**	45	46
Total nonaccrual loans (2)	**4,995**	2,679	2,088
As a percentage of total loans	**1.22%**	0.70%	0.58%
Foreclosed assets:			
GNMA loans (3)	**596**	535	487
Other	**644**	649	603
Real estate and other nonaccrual investments (4)	**56**	5	5
Total nonaccrual loans and other assets	**$ 6,291**	$ 3,868	$ 3,183
As a percentage of total loans	**1.53%**	1.01%	0.88%

(1) Includes nonaccrual mortgages held for sale.

(2) Includes impaired loans of $1,550 million, $469 million and $394 million at September 30, 2008,

December 31, 2007, and September 30, 2007, respectively. See Note 5 to Financial Statements in this Report and Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in our 2007 Form 10-K for further information on impaired loans.

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

(4) Includes real estate investments (contingent interest loans accounted for as investments) that would be

classified as
nonaccrual if
these assets
were recorded
as loans.

Nonaccrual loans increased $2.9 billion to $5.0 billion at September 30, 2008, from $2.1 billion at September 30, 2007, reflecting economic conditions, primarily in portfolios affected by residential real estate conditions and the associated impact on the consumer. A portion of the increase in nonaccrual loans from a year ago continued to relate to our active loss mitigation strategies at Home Equity, Home Mortgage and Wells Fargo Financial as we are aggressively working with customers to keep them in their homes or find alternative solutions to their financial challenges. Home builders, mortgage service providers, contractors, suppliers and others in the residential real estate-related segments continued to be stressed during this credit cycle. Additionally, as consumers cut back on discretionary spending, we are seeing some of the commercial loan portfolios dependent on their spending weaken. The $2.9 billion increase from a year ago included $681 million in Wells Fargo Financial real estate, $578 million in Home Equity and $333 million in Home Mortgage. Nonaccrual real estate 1-4 family loans included approximately $251 million of loans at September 30, 2008, that have been modified. Our policy requires six consecutive months of payments on modified loans before they are returned to accrual status. Until conditions improve in the residential real estate and liquidity markets, we will continue to hold more nonperforming assets on our balance sheet as it is currently the most economic option available. As a result, foreclosed asset balances increased $150 million to $1,240 million at September 30, 2008, from a year ago, including an increase of $138 million from Home Mortgage. Increases in commercial nonperforming assets were also a direct result of the conditions in the residential real estate markets and general consumer economy. We expect that the amount of nonaccrual loans will change due to portfolio growth, economic conditions, portfolio seasoning, routine problem loan recognition and resolution through collections, sales or charge-offs. (See Financial Review Allowance for Credit Losses in this Report for additional discussion.) The performance of any one loan can be affected by external factors, such as economic or market conditions, or factors affecting a particular borrower.

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 $8,439 million, $6,393 million and $5,526 million at September 30, 2008, December 31, 2007, and September 30, 2007, respectively. The total included $6,295 million, $4,834 million and $4,263 million for the same periods, respectively, in advances pursuant to our servicing agreements to GNMA mortgage pools and similar loans whose repayments are insured by the FHA or guaranteed by the Department of Veterans Affairs. The table below reflects loans 90 days or more past due and still accruing excluding the insured/guaranteed GNMA advances.

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

(in millions)	**Sept. 30, 2008**	Dec. 31, 2007	Sept. 30, 2007
Commercial and commercial real estate:			
Commercial	**$ 46**	$ 32	$ 14
Other real estate mortgage	**111**	10	22
Real estate construction	**146**	24	10
Total commercial and commercial real estate	**303**	66	46
Consumer:			
Real estate 1-4 family first mortgage (1)	**429**	286	225
Real estate 1-4 family junior lien mortgage	**257**	201	127
Credit card	**498**	402	303
Other revolving credit and installment	**617**	552	520
Total consumer	**1,801**	1,441	1,175
Foreign	**40**	52	42
Total	**$ 2,144**	$ 1,559	$ 1,263

(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. The detail of the changes in the allowance for credit losses, including charge-offs and recoveries by loan category, is in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Net charge-offs for third quarter 2008 were $2.0 billion (1.96% of average total loans outstanding, annualized), compared with $1.5 billion (1.55%) for second quarter 2008 and $892 million (1.01%) for third quarter 2007. A significant part of the sequential increase reflected the change in the Home Equity charge-off policy in second quarter 2008, which deferred an estimated $265 million of charge-offs from second quarter 2008. Total provision expense in third quarter 2008 was $2.5 billion, including a $500 million credit reserve build, primarily related to higher projected losses in several consumer credit businesses and commercial real estate, as well as growth in the wholesale portfolios. The $1.1 billion increase in net credit losses from a year ago included $488 million in the real estate 1-4 family junior lien category. Net credit losses in the commercial category increased $213 million (a major portion from Business Direct) from a year ago.

Because of our responsible lending and risk management practices, we have largely avoided many of the products others in the mortgage industry have offered. We have not offered certain mortgage products such as negative amortizing mortgages or option ARMs. We continually evaluate and modify our credit policies to address unacceptable levels of risk as they are identified. In the past year, for example, we have tightened underwriting standards as we believed appropriate. Home Mortgage closed its nonprime wholesale channel early in third quarter 2007, after closing its nonprime correspondent channel in second quarter 2007. In addition, rates were increased for non-conforming mortgage loans during third quarter 2007 reflecting the reduced liquidity in the capital markets. As a result of these underwriting and policy changes, as well as overall market changes, Home Mortgage has shifted its loan origination production mix to significantly more government and conforming loans than a year ago, when production included a higher level of non-conforming and nonprime loans.

Although credit quality in Wells Fargo Financial s real estate-secured lending business has deteriorated, we have not experienced the level of credit degradation that many nonprime lenders have because of our disciplined underwriting practices. Wells Fargo Financial has continued its long-standing practice not to use brokers or correspondents in its U.S. debt consolidation business. We endeavor to ensure that there is a tangible benefit to the borrower before we make a loan.

The deterioration in segments of the Home Equity portfolio required a targeted approach to managing these assets. We segregated into a liquidating portfolio all Home Equity loans generated through the wholesale channel not behind a Wells Fargo first mortgage, and all home equity loans acquired through correspondents. While the $10.7 billion of loans in this liquidating portfolio represented about 3% of total loans outstanding at September 30, 2008, these loans experienced a significant portion of the credit losses in our $83.9 billion Home Equity portfolio, with an annualized loss rate of 7.59% for third quarter 2008, compared with 2.43% for the remaining core portfolio. In this challenging real estate market it is necessary to have more time to work with our customers to identify ways to help resolve their financial difficulties and keep them in their homes. In order to provide this additional time to assist our customers, beginning April 1, 2008, we changed our Home Equity charge-off policy, consistent with Federal Financial Institutions Examination Council (FFIEC) guidelines. The core portfolio consisted of $73.3 billion of loans in the Home Equity portfolio at September 30, 2008. The following table includes the credit attributes of these two portfolios.

HOME EQUITY PORTFOLIO (1)

	Outstanding balances		% of loans two payments or more past due		Annualized loss rate Quarter ended	
(in millions)	**Sept. 30, 2008**	Dec. 31, 2007	**Sept. 30, 2008**	Dec. 31, 2007	**Sept. 30, 2008**	Dec. 31, 2007 (2)
Liquidating portfolio						
California	**$ 4,146**	$ 4,387	**5.18%**	2.94%	**11.88%**	7.34%
Florida	**534**	582	**6.74**	4.98	**14.57**	7.08
Arizona	**255**	274	**5.02**	2.67	**10.45**	5.84
Texas	**199**	221	**0.96**	0.83	**1.64**	0.78
Minnesota	**130**	141	**3.29**	3.18	**6.25**	4.09
Other	**5,390**	6,296	**2.68**	2.00	**3.72**	2.94
Total	**10,654**	11,901	**3.89**	2.50	**7.59**	4.80
Core portfolio						
California	**27,640**	25,991	**2.50**	1.63	**3.61**	1.27
Florida	**2,536**	2,614	**5.20**	2.92	**6.28**	2.57
Arizona	**3,814**	3,821	**2.52**	1.54	**3.21**	0.90
Texas	**2,735**	2,842	**1.19**	1.03	**0.41**	0.19
Minnesota	**4,465**	4,668	**1.21**	1.08	**1.24**	0.88
Other	**32,105**	32,393	**1.55**	1.43	**1.35**	0.44
Total	**73,295**	72,329	**2.05**	1.52	**2.43**	0.86
Combined totals	**$ 83,949**	$ 84,230	**2.29**	1.66	**3.09**	1.42

(1) Reflects the impact of the April 1, 2008, change in the Home Equity charge-off policy.

(2) Annualized loss rate for

December 31, 2007, data is based on loss rate for month of December 2007.

Other consumer portfolios performed as expected during the quarter. Net charge-offs in the real estate 1-4 family first mortgage portfolio increased $123 million in third quarter 2008 from third quarter 2007, including an increase of $53 million in Wells Fargo Financial s residential real estate portfolio. The increase in mortgage loss rates was consistent with the continued decline in home prices. Credit card net charge-offs increased $185 million from a year ago due to the effect of the current economic environment on consumers. Loss levels continued to increase in this credit cycle as the impacts from lower disposable income and unemployment weigh on the consumer. Net charge-offs in the auto portfolio in third quarter 2008 were up $58 million from a year ago and up $74 million linked quarter. While we remain optimistic about the positive impacts of process improvements and underwriting changes we made in the auto business in prior quarters, as well as our robust loss mitigation efforts, the economic environment continued to stress the consumer and influence loan performance.

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Because of our Wholesale Banking business model, focused primarily on long-term relationships with business customers, we have not participated significantly in certain higher-risk activities. We have not sponsored any SIVs. On the investment side of this business, we operate within disciplined credit standards and regularly monitor and manage our securities portfolios. We have not participated in the underwriting of 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.

Commercial and commercial real estate net charge-offs increased $213 million to $338 million in third quarter 2008 from $125 million in third quarter 2007. Commercial and commercial real estate charge-offs include Business Direct (primarily unsecured lines of credit to small businesses), which increased $98 million in third quarter from a year ago and decreased $7 million linked quarter.

We believe the allowance for credit losses of $8.03 billion was adequate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, at September 30, 2008. 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 in our 2007 Form 10-K.) 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 in our 2007 Form 10-K.

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 September 30, 2008, our most recent simulation indicated estimated earnings at risk of approximately 5.6% of our most likely earnings plan over the next 12 months using a scenario in which both the federal funds rate and the 10-year Constant Maturity Treasury bond yield rise to 5.50%. 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 MSRs 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 MSRs. 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 credit risk amount and estimated net fair value of these derivatives as of September 30, 2008, and December 31, 2007, are presented in Note 12 (Derivatives) to Financial Statements in this Report. 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, MSRs and other interests held 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. Based on market conditions and other factors, we may reduce unwanted credit and liquidity risks by selling or securitizing some or all of the long-term fixed-rate mortgage loans and ARMs we originate. On the other hand, we may hold originated ARMs and fixed-rate mortgage loans 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 ARMs or fixed-rate mortgage loans 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.

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 MSRs measured at fair value, the value of mortgages held for sale (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 residential MSRs, new prime residential MHFS, other interests held 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, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*, 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 generally exist to reliably support fair value pricing models used for these loans. Loan origination fees on these loans are recorded when earned, and related direct loan origination costs and fees are recognized when incurred. 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 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. During third quarter 2008, in response to continued secondary market illiquidity, we continued to originate certain prime non-agency loans to be held for investment for the foreseeable future rather than to be held for sale.

Under FAS 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140,* we elected to use the fair value measurement method to initially measure and carry our residential MSRs, which represent substantially all of our MSRs. Under this method, the MSRs are recorded at fair value at the time we sell or securitize the related mortgage loans. The carrying value of MSRs 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 MSRs increases, income is recognized; if the fair value of the MSRs decreases, a loss is recognized. We use a dynamic and sophisticated model to estimate the fair value of our MSRs and periodically benchmark our estimates to independent appraisals. While the valuation of MSRs 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 MSRs. 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 MSRs. This reduction in fair value causes a charge to income (net of any gains on free-standing derivatives (economic hedges) used to hedge MSRs). We may choose not to fully hedge all of the potential decline in the value of our MSRs resulting from a decline in interest rates because the potential increase in origination/servicing fees in that scenario provides a partial natural business hedge. An increase in interest rates generally reduces the propensity for refinancing, increases the expected duration of the servicing portfolio and therefore increases the estimated fair value of the MSRs. However, an increase in interest rates can also reduce mortgage loan demand and therefore reduce origination income. In third quarter 2008, a $546 million decrease in the fair value of our MSRs and $621 million of gains on the free-standing derivatives used to hedge the MSRs, resulted in a net gain of $75 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:

- MSRs 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 MSRs 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 MSRs 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 MSRs was $19.6 billion at September 30, 2008, and $17.2 billion at December 31, 2007. The weighted-average note rate on the owned servicing portfolio was 5.98% at September 30, 2008, and 6.01% at December 31, 2007. Our total MSRs were 1.34% of mortgage loans serviced for others at September 30, 2008, compared with 1.20% at December 31, 2007.

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. For interest rate lock commitments issued prior to January 1, 2008, we recorded a zero fair value for the derivative loan commitment at inception consistent with SAB 105. Effective January 1, 2008, we were required by SAB 109 to include, at inception and during the life of the loan commitment, the expected net future cash flows related to the associated servicing of the loan as part of the fair value measurement of derivative loan commitments. The implementation of SAB 109 did not have a material impact on our results or the valuation of our 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 commitment 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 options, 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 credit risk amount and estimated net fair value of all customer accommodation derivatives at September 30, 2008, and December 31, 2007, are included in Note 12 (Derivatives) to Financial Statements in this Report. 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 consists of 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 third quarter 2008 was $25 million, with a lower bound of $18 million and an upper bound of $52 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 $2.21 billion at September 30, 2008, and $2.02 billion at December 31, 2007.

We also have marketable equity securities in the securities available-for-sale portfolio, including common stock, perpetual preferred securities, and securities relating to our venture capital activities. We manage these securities within investment 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 periodically include other-than-temporary impairment charges, which are recorded when determined. The fair value of marketable equity securities was $2.31 billion and cost was $3.05 billion at September 30, 2008, and $2.78 billion and $2.88 billion, respectively, at December 31, 2007. (For additional detail, see Balance Sheet Analysis Securities Available for Sale in this Report.)

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. Asset liquidity is further enhanced by our ability to sell or securitize loans in secondary markets and to pledge loans to access secured borrowing facilities through the Federal Home Loan Banks, the Federal Reserve Board, or the U.S. Treasury.

Core customer deposits have historically provided a sizeable source of relatively stable and low-cost funds. Additional funding is provided 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).

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 through issuances of registered debt securities, 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. 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. Standard & Poor s Ratings Services rates Wells Fargo Bank, N.A. as AAA and the Company s senior debt rating as AA+. Wells Fargo Bank, N.A. is the only U.S. bank to have the highest possible credit rating from both Moody s and S&P.

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 the first nine months of 2008, the Parent issued a total of $6.8 billion in registered senior notes. The Parent also issued capital securities in the form of $6.5 billion in junior subordinated debt to statutory business trusts formed by the Parent, which, in turn, issued trust preferred and perpetual preferred purchase securities. We used the proceeds from securities issued in the first nine months of 2008 for general corporate purposes and expect that the proceeds from securities issued in the future will also be used for general corporate purposes. 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 $100 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. In the first nine months of 2008, Wells Fargo Bank, N.A. issued $43.1 billion in short-term and long-term senior notes.

Wells Fargo Financial. In February 2008, 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 in medium-term notes for distribution from time to time in Canada. In the first nine months of 2008, WFFCC issued CAD$500 million in 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 such costs 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 Exchange Act 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 2007, the Board authorized the repurchase of up to 200 million additional shares of our outstanding common stock and, in September 2008, the repurchase of up to 25 million additional shares. During the first nine months of 2008, we repurchased approximately 37 million shares of our common stock, all from our employee benefit plans. In the first nine months of 2008, we issued approximately 61 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 repurchase programs. At September 30, 2008, the total remaining common stock repurchase authority was approximately 29 million shares. (For additional information regarding share repurchases and repurchase authorizations, see Part II Item 2 of this Report.)

The Board of Directors approved a 10% increase in our common stock dividend to $0.34 per share for third quarter 2008 from $0.31 per share for second quarter 2008.

Our potential sources of capital include retained earnings and issuances of common and preferred stock. In the first nine months of 2008, retained earnings increased $1.9 billion, predominantly resulting from net income of $5.4 billion, less dividends of $3.2 billion. In the first nine months of 2008, we issued $1.6 billion of common stock under various employee benefit and director plans.

The Emergency Economic Stabilization Act of 2008 authorizes the United States Treasury Department (Treasury Department) to use appropriated funds to restore liquidity and stability to the U.S. financial system. As part of this authority, on October 28, 2008, at the request of the Treasury Department and pursuant to a Letter Agreement and related Securities Purchase Agreement dated October 26, 2008 (the Securities Purchase Agreements), we issued 25,000 shares of Wells Fargo s Fixed Rate Cumulative Perpetual Preferred Stock, Series D without par value, having a liquidation amount per share equal to $1,000,000, for a total price of $25 billion. The shares of these preferred securities may be evidenced by depositary shares, with each depositary share representing 1/1,000 interest in one share of preferred stock. The preferred securities pay cumulative dividends at a rate of 5% per year for the first five years and thereafter at a rate of 9% per year. We may not redeem the preferred securities during the first three years except with the proceeds from a qualifying equity offering. After three years, we may, at our option, redeem the preferred securities at par value plus accrued and unpaid dividends. The preferred securities are generally non-voting. Prior to October 28, 2011, unless we have redeemed the preferred securities or the Treasury Department has transferred the preferred securities to a third party, the consent of the Treasury Department will be required for us to increase our common stock dividend or repurchase our common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Securities Purchase Agreements. A consequence of the preferred securities purchase includes certain restrictions on executive compensation that could limit the tax deductibility of compensation we pay to executive management. As part of its purchase of the preferred securities, the Treasury Department received warrants to purchase 110,261,688 shares of our common stock at an initial per share exercise price of $34.01. The warrants provide for the adjustment of the exercise price and the number of shares of our common stock issuable upon exercise pursuant to customary anti-dilution provisions, such as upon stock splits or distributions of securities or other assets to holders of our common stock, and upon certain issuances of our common stock at or below a specified price relative to the initial exercise price. The warrants expire ten years from the issuance date. Both the preferred securities and warrants will be accounted for as components of Tier 1 capital.

At September 30, 2008, the Company and each of our subsidiary banks were well capitalized under the applicable regulatory capital adequacy guidelines. Our Tier 1 capital ratio was 8.59%, up 100 basis points from year end 2007. For additional information see Note 19 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report.

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LEGAL PROCEEDINGS

For information regarding legal proceedings, refer to Note 11 (Guarantees and Legal Actions) to Financial Statements in this Report.

RISK FACTORS

An investment in the Company has risk. In addition, in accordance with the Private Securities Litigation Reform Act of 1995, we caution you that actual results may differ from forward-looking statements about our future financial and business performance contained in this Report and other reports we file with the SEC and in other Company communications. 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 the pending merger with Wachovia to be completed by the end of this year;
- until residential real estate values stabilize, the Home Equity portfolio is expected to produce higher than normal loss levels;
- until conditions improve in the residential real estate and liquidity markets, we will continue to hold more nonperforming assets on our balance sheet;
- the adoption of FAS 161, Staff Position No. 133-1 and FIN 45-4 will not affect our consolidated financial results;
- we expect 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;
- we believe the election to measure at fair value new prime 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 to hedge these assets;
- we expect changes in the fair value of derivative financial instruments used to hedge derivative loan commitments will fully or partially offset changes in the fair value of such commitments;
- we expect the proceeds of securities issued in the future will be used for general corporate purposes;
- three pending business combination transactions, in addition to the pending merger with Wachovia, will close in fourth quarter 2008;
- we expect to recover our investments in entities formed to invest in affordable housing and sustainable energy projects 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; and
- we expect $39 million of deferred net gains on derivatives in other comprehensive income at September 30, 2008, will be reclassified as earnings in the next 12 months.

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This Report 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. This Report also includes the statement that we believe the allowance for credit losses at September 30, 2008, was adequate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments. There is no assurance that our allowance for credit losses at September 30, 2008, will be sufficient to cover future credit losses. As described below and elsewhere in this Report and in our 2007 Form 10-K, increases in loan charge-offs, changes in the allowance for credit losses or the related provision expense, or other effects of credit deterioration after September 30, 2008, could materially adversely affect our results of operations and financial condition.

This Report also includes various statements about the evaluation for other-than-temporary impairment of securities held in our available-for-sale portfolio, including certain perpetual preferred securities. We may be required to recognize other-than-temporary impairment in future periods with respect to these and other securities held in our available-for-sale portfolio. For more information, refer to Overview Current Accounting Developments, Balance Sheet Analysis Securities Available for Sale and Note 4 (Securities Available for Sale) to Financial Statements in this Report.

As discussed elsewhere in this Report, we have agreed to acquire Wachovia in a stock-for-stock transaction that is expected to close by the end of 2008. In the merger, Wells Fargo will acquire all of the assets and liabilities (including loan portfolios) of Wachovia and its subsidiaries. Some of these assets could become nonperforming or could default, increasing our credit costs and requiring us to write-down the value of the assets. This could materially adversely affect our results of operations and financial condition. We are not receiving any loan guarantees or other financial assistance from the government, thus after the merger we will be fully responsible for all credit losses, write-downs and impairments relating to Wachovia s assets and liabilities acquired in the merger.

Our results of operations and financial condition could also be materially adversely affected if we fail to realize the expected benefits of the merger or it takes longer than expected to realize the benefits. The merger will involve the integration of the businesses of Wachovia and Wells Fargo. It is possible that the integration process could result in the loss of key Wachovia employees, the disruption of Wachovia s ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect Wachovia s ability to maintain relationships with customers and employees. As with any financial institution merger, there also may be disruptions that cause Wachovia to lose customers or cause customers to take deposits out of Wachovia s banks. The integration of the two companies may also divert management attention and resources away from other operations and limit Wells Fargo s ability to pursue other acquisitions.

Also, as discussed under Capital Management in this Report, on October 28, 2008, at the request of the Treasury Department we issued certain preferred securities and common stock warrants to the Treasury Department. Prior to October 28, 2011, unless we have redeemed the preferred securities or the Treasury Department has transferred the preferred securities to a third party, the consent of the Treasury Department will be required for us to, among other actions, increase our common stock dividend or repurchase our common stock other than in connection with benefit plans consistent with past practice. The warrants provide for the adjustment of the exercise price and the number of shares of our common stock issuable upon exercise pursuant to customary anti-dilution provisions, such as upon stock splits or distributions of securities or other assets to holders of our common stock, and upon certain issuances of our common stock at or below a specified price relative to the initial exercise price.

For a discussion of certain risk factors that could cause our financial results and condition to vary materially from period to period or cause actual results to differ from our expectations for our future financial and business performance, refer to our 2007 Form 10-K, including the Risk Factors and Regulation and Supervision sections, and to the Financial Review section and Financial Statements and related Notes included in this Report. Additional factors are described below:

- lower or negative revenue growth because of our inability to cross-sell more products to our existing customers;
- decreased demand for our products and services and lower revenue and earnings because of an economic recession;
- reduced fee income from our brokerage and asset management businesses because of a fall in stock market prices;
- lower net interest margin, decreased mortgage loan originations and reductions in the value of our MSRs and MHFS because of changes in interest rates;
- increased funding costs due to market illiquidity and increased competition for funding;
- the election to provide capital support to our mutual funds relating to investments in credit products;
- reduced earnings due to higher credit losses generally and specifically because:
  - o losses in our residential real estate loan portfolio (including home equity) are greater than expected due to economic factors, including declining home values, increasing interest rates, increasing unemployment, or changes in payment behavior, or other factors; and/or
  - o our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral;
- higher credit losses because of federal or state legislation or regulatory action that reduces the amount that our borrowers are required to pay us;
- higher credit losses because of federal or state legislation or regulatory action that limits our ability to foreclose on properties or other collateral or makes foreclosure less economically feasible;
- changes to our allowance for credit losses following periodic examinations by our banking regulators;
- negative effect on our servicing and investment portfolios because of financial difficulties or credit downgrades of mortgage and bond issuers;
- reduced earnings because we write-down the carrying value of securities held in our securities available-for-sale portfolio following a determination that the securities are other-than-temporarily impaired;
- reduced earnings because of changes in the value of our venture capital investments;
- changes in our accounting policies or in accounting standards, and changes in how accounting standards are interpreted or applied;
- reduced earnings because actual returns on our pension plan assets are lower than expected, resulting in an increase in future net periodic benefit expense;
- reduced earnings from not realizing the expected benefits of acquisitions or from unexpected difficulties integrating acquisitions;

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- reduced earnings because of the inability or unwillingness of counterparties to perform their obligations with respect to derivative financial instruments;
- federal and state regulations;
- reputational damage from negative publicity;
- fines, penalties and other negative consequences from regulatory violations, even inadvertent or unintentional violations;
- the loss of checking and savings account deposits to alternative investments such as the stock market and higher-yielding fixed income investments; and
- fiscal and monetary policies of the Federal Reserve Board.

As described in our 2007 Form 10-K under Regulation and Supervision Deposit Insurance Assessments, our bank subsidiaries, including Wells Fargo Bank, N.A., are members of the Deposit Insurance Fund (DIF). The Federal Deposit Insurance Corporation (FDIC) uses the DIF to cover insured deposits in the event of a bank failure, and maintains the fund by assessing member banks an insurance premium. Recent failures have caused the DIF to fall below the minimum balance required by law, forcing the FDIC to consider action to rebuild the fund by raising the insurance premiums assessed member banks. Depending on the frequency and severity of bank failures, the increase in premiums could be significant and negatively affect our earnings.

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CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by SEC rules, the Company s management evaluated the effectiveness, as of September 30, 2008, 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 September 30, 2008.

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 third quarter 2008 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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WELLS FARGO & COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share amounts)	Quarter ended Sept. 30, 2008	2007	Nine months ended Sept. 30, 2008	2007
INTEREST INCOME				
Trading assets	**$ 41**	$ 37	**$ 126**	$ 137
Securities available for sale	**1,397**	1,032	**3,753**	2,470
Mortgages held for sale	**394**	586	**1,211**	1,694
Loans held for sale	**12**	19	**34**	51
Loans	**6,888**	7,477	**20,906**	21,341
Other interest income	**42**	72	**140**	242
Total interest income	**8,774**	9,223	**26,170**	25,935
INTEREST EXPENSE				
Deposits	**1,019**	2,218	**3,676**	6,016
Short-term borrowings	**492**	464	**1,274**	865
Long-term debt	**882**	1,261	**2,801**	3,568
Total interest expense	**2,393**	3,943	**7,751**	10,449
NET INTEREST INCOME	**6,381**	5,280	**18,419**	15,486
Provision for credit losses	**2,495**	892	**7,535**	2,327
Net interest income after provision for credit losses	**3,886**	4,388	**10,884**	13,159
NONINTEREST INCOME				
Service charges on deposit accounts	**839**	837	**2,387**	2,262
Trust and investment fees	**738**	777	**2,263**	2,347
Card fees	**601**	561	**1,747**	1,548
Other fees	**552**	566	**1,562**	1,715
Mortgage banking	**892**	823	**2,720**	2,302
Operating leases	**102**	171	**365**	550
Insurance	**439**	329	**1,493**	1,160
Net gains on debt securities available for sale	**84**	160	**316**	149
Net gains (losses) from equity investments	**(507)**	173	**(148)**	512
Other	**258**	176	**1,277**	1,154
Total noninterest income	**3,998**	4,573	**13,982**	13,699
NONINTEREST EXPENSE				
Salaries	**2,078**	1,933	**6,092**	5,707
Incentive compensation	**555**	802	**2,005**	2,444
Employee benefits	**486**	518	**1,666**	1,764
Equipment	**302**	295	**955**	924

Net occupancy	**402**	398	**1,201**	1,132
Operating leases	**90**	136	**308**	437
Other	**1,604**	1,589	**4,612**	4,516
Total noninterest expense	**5,517**	5,671	**16,839**	16,924
INCOME BEFORE INCOME TAX EXPENSE	**2,367**	3,290	**8,027**	9,934
Income tax expense	**730**	1,117	**2,638**	3,238
NET INCOME	**$ 1,637**	$ 2,173	**$ 5,389**	$ 6,696
EARNINGS PER COMMON SHARE	**$ 0.49**	$ 0.65	**$ 1.63**	$ 1.99
DILUTED EARNINGS PER COMMON SHARE	**$ 0.49**	$ 0.64	**$ 1.62**	$ 1.97
DIVIDENDS DECLARED PER COMMON SHARE	**$ 0.34**	$ 0.31	**$ 0.96**	$ 0.87
Average common shares outstanding	**3,316.4**	3,339.6	**3,309.6**	3,355.5
Diluted average common shares outstanding	**3,331.0**	3,374.0	**3,323.4**	3,392.9

The accompanying notes are an integral part of these statements.

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WELLS FARGO & COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

(in millions, except shares)	**September 30, 2008**	December 31, 2007	September 30, 2007
ASSETS			
Cash and due from banks	**$ 12,861**	$ 14,757	$ 12,200
Federal funds sold, securities purchased under resale agreements and other short-term investments	**8,093**	2,754	4,546
Trading assets	**9,097**	7,727	7,298
Securities available for sale	**86,882**	72,951	57,440
Mortgages held for sale (includes $17,290, $24,998 and $26,714 carried at fair value)	**18,739**	26,815	29,699
Loans held for sale	**635**	948	1,011
Loans	**411,049**	382,195	362,922
Allowance for loan losses	**(7,865)**	(5,307)	(3,829)
Net loans	**403,184**	376,888	359,093
Mortgage servicing rights:			
Measured at fair value (residential MSRs)	**19,184**	16,763	18,223
Amortized	**433**	466	460
Premises and equipment, net	**5,054**	5,122	5,002
Goodwill	**13,520**	13,106	12,018
Other assets	**44,679**	37,145	41,737
Total assets	**$ 622,361**	$ 575,442	$ 548,727
LIABILITIES			
Noninterest-bearing deposits	**$ 89,446**	$ 84,348	$ 82,365
Interest-bearing deposits	**264,128**	260,112	252,591
Total deposits	**353,574**	344,460	334,956
Short-term borrowings	**85,187**	53,255	41,729
Accrued expenses and other liabilities	**29,293**	30,706	28,884
Long-term debt	**107,350**	99,393	95,592
Total liabilities	**575,404**	527,814	501,161
STOCKHOLDERS EQUITY			
Preferred stock	**625**	450	545
Common stock $1-2/3 par value, authorized 6,000,000,000 shares; issued 3,472,762,050 shares	**5,788**	5,788	5,788
Additional paid-in capital	**8,348**	8,212	8,089
Retained earnings	**40,853**	38,970	38,645
Cumulative other comprehensive income (loss)	**(2,783)**	725	291

Treasury stock 151,543,421 shares, 175,659,842 shares and 147,535,970 shares	**(5,207)**	(6,035)	(5,209)
Unearned ESOP shares	**(667)**	(482)	(583)
Total stockholders equity	**46,957**	47,628	47,566
Total liabilities and stockholders equity	**$ 622,361**	$ 575,442	$ 548,727

The accompanying notes are an integral part of these statements.

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WELLS FARGO & COMPANY AND SUBSIDIARIES
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, 2006	3,377,149,861	$ 384	$ 5,788	$ 7,739	$ 35,215	$ 302	$ (3,203)	$ (411)	$ 45,814
Cumulative effect of adoption of FSP13-2					(71)				(71)
BALANCE JANUARY 1, 2007	3,377,149,861	384	5,788	7,739	35,144	302	(3,203)	(411)	45,743
Comprehensive income:									
Net income					6,696				6,696
Other comprehensive income, net of tax:									
Translation adjustments						24			24
Net unrealized losses on securities available for sale and other interests held, net of reclassification of $133 million of net gains included in net income						(226)			(226)
Net unrealized gains on derivatives and hedging activities, net of reclassification of $61 million of net gains on cash flow hedges included in net income						174			174
Defined benefit pension plans:									
Amortization of actuarial loss and prior service cost included in net income						17			17
Total comprehensive income									6,685
Common stock issued	58,568,656			(99)	(276)		1,906		1,531
Common stock issued for acquisitions	17,705,418			68			581		649

Common stock repurchased	(137,404,390)						(4,765)		(4,765)
Preferred stock (484,000) issued to ESOP		484		34				(518)	
Preferred stock released to ESOP				(23)				346	323
Preferred stock (323,069) converted to common shares	9,206,535	(323)		20			303		
Common stock dividends					(2,919)				(2,919)
Tax benefit upon exercise of stock options				199					199
Stock option compensation expense				107					107
Net change in deferred compensation and related plans				44			(31)		13
Net change	(51,923,781)	161		350	3,501	(11)	(2,006)	(172)	1,823
BALANCE SEPTEMBER 30, 2007	3,325,226,080	$ 545	$ 5,788	$ 8,089	$ 38,645	$ 291	$ (5,209)	$ (583)	$ 47,566
BALANCE DECEMBER 31, 2007	**3,297,102,208**	**$ 450**	**$ 5,788**	**$ 8,212**	**$ 38,970**	**$ 725**	**$ (6,035)**	**$ (482)**	**$ 47,628**
Cumulative effect of adoption of EITF 06-4 and EITF 06-10					**(20)**				**(20)**
FAS 158 change of measurement date					**(8)**				**(8)**
BALANCE JANUARY 1, 2008	**3,297,102,208**	**450**	**5,788**	**8,212**	**38,942**	**725**	**(6,035)**	**(482)**	**47,600**
Comprehensive income									
Net income					**5,389**				**5,389**
Other comprehensive income, net of tax:									
Translation adjustments						**(20)**			**(20)**
Net unrealized losses on securities available for sale and other interests held, net of reclassification of $107 million of net losses included in net income						**(3,485)**			**(3,485)**
Net unrealized losses on derivatives and hedging activities, net of reclassification of $115 million of net gains						**(6)**			**(6)**

on cash flow hedges included in net income									
Defined benefit pension plans:									
Amortization of net actuarial loss and prior service cost included in net income						**3**			**3**
Total comprehensive income									**1,881**
Common stock issued	**49,454,756**			**(41)**	**(300)**		**1,610**		**1,269**
Common stock repurchased	**(37,327,260)**						**(1,162)**		**(1,162)**
Preferred stock (520,500) issued to ESOP		**521**		**30**				**(551)**	
Preferred stock released to ESOP				**(20)**				**366**	**346**
Preferred stock (344,860) converted to common shares	**11,988,925**	**(346)**		**(46)**			**392**		
Common stock dividends					**(3,178)**				**(3,178)**
Tax benefit upon exercise of stock options				**106**					**106**
Stock option compensation expense				**134**					**134**
Net change in deferred compensation and related plans				**32**			**(12)**		**20**
Other				**(59)**					**(59)**
Net change	**24,116,421**	**175**		**136**	**1,911**	**(3,508)**	**828**	**(185)**	**(643)**
BALANCE SEPTEMBER 30, 2008	**3,321,218,629**	**$ 625**	**$ 5,788**	**$ 8,348**	**$ 40,853**	**$ (2,783)**	**$ (5,207)**	**$ (667)**	**$ 46,957**

The accompanying notes are an integral part of these statements.

WELLS FARGO & COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)	Nine months ended September 30, 2008	2007
Cash flows from operating activities:		
Net income	**$ 5,389**	$ 6,696
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	**7,535**	2,327
Changes in fair value of MSRs (residential) and MHFS carried at fair value	**(1,301)**	474
Depreciation and amortization	**1,154**	1,141
Other net gains	**(999)**	(1,337)
Preferred stock released to ESOP	**346**	323
Stock option compensation expense	**134**	107
Excess tax benefits related to stock option payments	**(104)**	(185)
Originations of MHFS	**(163,797)**	(176,135)
Proceeds from sales of and principal collected on mortgages originated for sale	**171,809**	172,905
Net change in:		
Trading assets	**(1,360)**	(2,959)
Loans originated for sale	**(361)**	(285)
Deferred income taxes	**1,146**	632
Accrued interest receivable	**63**	(446)
Accrued interest payable	**(176)**	(59)
Other assets, net	**(7,958)**	(5,516)
Other accrued expenses and liabilities, net	**631**	3,169
Net cash provided by operating activities	**12,151**	852
Cash flows from investing activities:		
Net change in:		
Federal funds sold, securities purchased under resale agreements and other short-term investments	**(5,301)**	1,539
Securities available for sale:		
Sales proceeds	**39,698**	37,297
Prepayments and maturities	**15,879**	6,868
Purchases	**(74,381)**	(54,192)
Loans:		
Increase in banking subsidiaries loan originations, net of collections	**(32,006)**	(34,020)
Proceeds from sales (including participations) of loans originated for investment by banking subsidiaries	**1,843**	2,611
Purchases (including participations) of loans by banking subsidiaries	**(4,329)**	(7,543)
Principal collected on nonbank entities loans	**15,462**	16,461
Loans originated by nonbank entities	**(13,880)**	(19,190)
Net cash paid for acquisitions	**(590)**	(2,862)
Proceeds from sales of foreclosed assets	**1,299**	1,014

Changes in MSRs from purchases and sales	**71**	1,124
Other, net	**(1,325)**	(5,662)
Net cash used by investing activities	**(57,560)**	(56,555)
Cash flows from financing activities:		
Net change in:		
Deposits	**7,370**	22,954
Short-term borrowings	**31,798**	28,760
Long-term debt:		
Proceeds from issuance	**22,751**	22,569
Repayment	**(15,439)**	(14,846)
Common stock:		
Proceeds from issuance	**1,269**	1,531
Repurchased	**(1,162)**	(4,765)
Cash dividends paid	**(3,178)**	(2,919)
Excess tax benefits related to stock option payments	**104**	185
Other, net		(594)
Net cash provided by financing activities	**43,513**	52,875
Net change in cash and due from banks	**(1,896)**	(2,828)
Cash and due from banks at beginning of period	**14,757**	15,028
Cash and due from banks at end of period	**$ 12,861**	$ 12,200
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	**$ 7,927**	$ 10,508
Income taxes	**2,431**	2,613
Noncash investing and financing activities:		
Net transfers from loans held for sale to loans	**$ 677**	$
Transfers from MHFS to securities available for sale	**544**	
Transfers from trading assets to securities available for sale		1,268
Transfers from MHFS to loans	**507**	1,522
Transfers from MHFS to MSRs	**2,659**	2,841
Transfers from MHFS to foreclosed assets	**105**	69
Transfers from loans to foreclosed assets	**2,203**	1,978

The accompanying notes are an integral part of these statements.

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NOTES TO FINANCIAL STATEMENTS

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. When we refer to the Company, we, our or us in this Form 10-Q, we mean Wells Fargo & Company and Subsidiaries (consolidated). Well 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.

The information furnished in these unaudited interim statements reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The results of operations in the interim statements do not necessarily indicate the results that may be expected for the full year. The interim financial information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007 (2007 Form 10-K).

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

- FSP FIN 39-1 Financial Accounting Standards Board (FASB) Staff Position on Interpretation No. 39, *Amendment of FASB Interpretation No. 39;*
- EITF 06-4 Emerging Issues Task Force (EITF) Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements;*
- EITF 06-10 EITF Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements;* and
- SAB 109 Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings*.

On July 1, 2008, we adopted the following new accounting pronouncement:

- FSP FAS 157-3 FASB Staff Position No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*.

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

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

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

On October 10, 2008, the FASB issued Staff Position No. 157-3, which clarifies the application of FAS 157, *Fair Value Measurements*, in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. The FSP states that an entity should not automatically conclude that a particular transaction price is determinative of fair value. In a dislocated market, judgment is required to evaluate whether individual transactions are forced liquidations or distressed sales. When relevant observable market information is not available, a valuation approach that incorporates management s judgments about the assumptions that market participants would use in pricing the asset in a current sale transaction would be acceptable. The FSP also indicates that quotes from brokers or pricing services may be relevant inputs when measuring fair value, but are not necessarily determinative in the absence of an active market for the asset. In weighing a broker quote as an input to a fair value measurement, an entity should place less reliance on quotes that do not reflect the result of market transactions. Further, the nature of the quote (for example, whether the quote is an indicative price or a binding offer) should be considered when weighing the available evidence. The FSP is effective immediately and applies to prior periods for which financial statements have not been issued, including interim or annual periods ending on or before September 30, 2008. Accordingly, we adopted the FSP prospectively, beginning July 1, 2008. The adoption of the FSP did not have a material impact on our financial results or fair value determinations.

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Statement of Cash Flows

In the first nine months of 2007, our consolidated statement of cash flows reflected mortgage servicing rights (MSRs) from securitizations and asset transfers, as separately detailed in Note 8 in this Report, of $2,841 million as an increase to cash flows from operating activities with a corresponding decrease to cash flows from investing activities. Upon filing our 2007 Form 10-K we 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 on the consolidated statement of cash flows for the first nine months of 2007 was to decrease net cash provided by operating activities from $3,693 million to $852 million and decrease net cash used by investing activities from $59,396 million to $56,555 million. These revisions to the historical financial statements were not considered to be material.

Descriptions of our significant accounting policies are included in Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2007 Form 10-K.

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.

At September 30, 2008, we had three pending business combinations with total assets of approximately $1.6 billion. Transactions completed in the first nine months of 2008 were:

(in millions)	Date	Assets
Flatiron Credit Company, Inc., Denver, Colorado	April 30	$ 332
Transcap Associates, Inc., Chicago, Illinois	June 27	22
United Bancorporation of Wyoming, Inc., Jackson, Wyoming (1)	July 1	2,110
Other (2)		12
		$ 2,476

(1) Consists of five affiliated banks of United Bancorporation of Wyoming, Inc., located in Wyoming and Idaho, and certain assets and liabilities of United Bancorporation of Wyoming, Inc.

(2) Consists of nine acquisitions of insurance brokerage

businesses.

On October 3, 2008, we announced that we had signed a definitive agreement to acquire all outstanding shares of Wachovia Corporation (Wachovia) in a stock-for-stock transaction. Wachovia, based in Charlotte, North Carolina, had total assets of $764 billion at September 30, 2008, and is one of the nation s largest diversified financial services companies, providing a broad range of retail banking and brokerage, asset and wealth management, and corporate and investment banking products and services to customers through 3,300 financial centers in 21 states from Connecticut to Florida and west to Texas and California, and nationwide retail brokerage, mortgage lending and auto finance businesses. Under terms of the agreement, Wachovia shareholders will receive 0.1991 shares of Wells Fargo common stock in exchange for each share of Wachovia common stock. The agreement is subject to approval of Wachovia shareholders and the merger is expected to be completed by the end of 2008.

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3. FEDERAL FUNDS SOLD, SECURITIES PURCHASED UNDER RESALE AGREEMENTS AND OTHER SHORT-TERM INVESTMENTS

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

(in millions)	**Sept. 30, 2008**	Dec. 31, 2007	Sept. 30, 2007
Federal funds sold and securities purchased under resale agreements	**$ 5,562**	$ 1,700	$ 3,436
Interest-earning deposits	**1,775**	460	499
Other short-term investments	**756**	594	611
Total	**$ 8,093**	$ 2,754	$ 4,546

4. 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. There were no securities classified as held to maturity as of the periods presented.

	Sept. 30, 2008		Dec. 31, 2007		Sept. 30, 2007	
(in millions)	**Cost**	**Fair value**	Cost	Fair value	Cost	Fair value
Securities of U.S. Treasury and federal agencies	**$ 1,162**	**$ 1,170**	$ 962	$ 982	$ 859	$ 860
Securities of U.S. states and political subdivisions	**8,011**	**7,336**	6,128	6,152	5,698	5,786
Mortgage-backed securities:						
Federal agencies	**43,074**	**43,904**	34,092	34,987	29,470	29,902
Private collateralized mortgage obligations (1)	**24,582**	**21,033**	20,026	19,982	12,083	12,086
Total mortgage-backed securities	**67,656**	**64,937**	54,118	54,969	41,553	41,988
Other	**11,883**	**11,131**	8,185	8,065	6,377	6,312
Total debt securities	**88,712**	**84,574**	69,393	70,168	54,487	54,946
Marketable equity securities:						
Perpetual preferred securities	**2,531**	**1,653**	2,082	1,852	1,605	1,525
Other marketable equity securities	**516**	**655**	796	931	767	969
Total marketable equity securities	**3,047**	**2,308**	2,878	2,783	2,372	2,494
Total	**$ 91,759**	**$ 86,882**	$ 72,271	$ 72,951	$ 56,859	$ 57,440

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

The following table provides the components of the net unrealized gains (losses) on securities available for sale. The net unrealized gains and losses on securities available for sale are reported on an after-tax basis as a component of cumulative other comprehensive income.

(in millions)	**Sept. 30, 2008**	Dec. 31, 2007	Sept. 30, 2007
Gross unrealized gains	**$ 1,176**	$ 1,352	$ 857
Gross unrealized losses	**(6,053)**	(672)	(276)
Net unrealized gains (losses)	**$ (4,877)**	$ 680	$ 581

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Net unrealized losses were $4,877 million at September 30, 2008, compared with net unrealized gains of $680 million at December 31, 2007. The increase in net unrealized losses was largely due to wider spreads on mortgage-backed securities and an increase in market yields for the first nine months of 2008.

The following table shows the gross unrealized losses and fair value of securities available for sale at September 30, 2008, and December 31, 2007, by length of time that individual securities in each category had been in a continuous loss position.

	Less than 12 months		12 months or more		Total	
(in millions)	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:						
Perpetual preferred securities	(236)	1,404		9	(236)	1,413
Other marketable equity securities	(30)	284	(1)	27	(31)	311
Total marketable equity securities	(266)	1,688	(1)	36	(267)	1,724
Total	$ (629)	$ 13,831	$ (43)	$ 801	$ (672)	$ 14,632
September 30, 2008						
Securities of U.S. Treasury and federal agencies	**$ (7)**	**$ 514**	**$**	**$**	**$ (7)**	**$ 514**
Securities of U.S. states and political subdivisions	**(384)**	**4,186**	**(345)**	**1,367**	**(729)**	**5,553**
Mortgage-backed securities:						
Federal agencies	**(29)**	**3,568**	**(1)**	**31**	**(30)**	**3,599**
Private collateralized mortgage obligations	**(3,529)**	**20,331**	**(42)**	**145**	**(3,571)**	**20,476**
	(3,558)	**23,899**	**(43)**	**176**	**(3,601)**	**24,075**

Total mortgage-backed securities						
Other	**(509)**	**7,885**	**(280)**	**531**	**(789)**	**8,416**
Total debt securities	**(4,458)**	**36,484**	**(668)**	**2,074**	**(5,126)**	**38,558**
Marketable equity securities:						
Perpetual preferred securities	**(452)**	**1,137**	**(428)**	**426**	**(880)**	**1,563**
Other marketable equity securities	**(46)**	**212**	**(1)**	**2**	**(47)**	**214**
Total marketable equity securities	**(498)**	**1,349**	**(429)**	**428**	**(927)**	**1,777**
Total	**$ (4,956)**	**$ 37,833**	**$ (1,097)**	**$ 2,502**	**$ (6,053)**	**$ 40,335**

The change in the debt securities that had been in a continuous loss position for 12 months or more at September 30, 2008, was due to changes in market interest rates and spreads and not due to the credit quality of the securities. As of September 30, 2008, we have received all principal and interest payments, 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 evaluated these securities for impairment in accordance with our policy and determined that they were not other-than-temporarily impaired as of September 30, 2008.

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Our marketable equity securities included approximately $1.7 billion of investments in perpetual preferred securities at September 30, 2008. These securities were issued by credit-worthy companies and underwent an extensive credit evaluation at purchase. They provide very attractive tax-equivalent yields and were current as to periodic distributions in accordance with their respective terms as of September 30, 2008. We have opportunistically increased our holdings in these securities over the past 12 months in response to increased yields available in the marketplace, driven by a significant widening in credit spreads caused by the mortgage and credit crises. The market value of our holdings in these securities declined during this period in direct correlation with the continued widening of credit spreads. Unlike common stock whose return is mostly in the form of price appreciation, these securities were purchased for their high yields, with purchase decisions underwritten like bonds and debt securities. We evaluated these hybrid financial instruments for impairment in accordance with our policy and consistent with our impairment model used for debt securities. We determined that these securities were not other-than-temporarily impaired as of September 30, 2008, because there was no evidence of credit deterioration or investment rating downgrades of any issuers to below investment grade, and it was probable we would continue to receive full contractual payments. We will continue to evaluate the prospects for recovery in their market value in accordance with our policy for determining other-than-temporary impairment.

The following table shows the net realized gains (losses) on the sales of securities from the securities available-for-sale portfolio, including marketable equity securities. Gross realized losses include other-than-temporary impairment of $893 million and $1,095 million for the third quarter and first nine months of 2008, respectively, and $3 million and $7 million for the third quarter and first nine months of 2007. Other-than-temporary impairment for the third quarter and first nine months of 2008 included $594 million and $627 million, respectively, related to perpetual preferred securities that were either downgraded to less than investment grade or evidenced other significant credit deterioration events.

	Quarter ended Sept. 30,		Nine months ended Sept. 30,	
(in millions)	**2008**	2007	**2008**	2007
Gross realized gains	**$ 549**	$ 212	**$ 1,003**	$ 292
Gross realized losses	**(948)**	(23)	**(1,175)**	(77)
Net realized gains (losses)	**$ (399)**	$ 189	**$ (172)**	$ 215

5. 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 $4,528 million, $4,083 million and $3,562 million, at September 30, 2008, December 31, 2007, and September 30, 2007, respectively.

(in millions)	**Sept. 30, 2008**	Dec. 31, 2007	Sept. 30, 2007
Commercial and commercial real estate:			
Commercial	**$ 104,281**	$ 90,468	$ 82,598
Other real estate mortgage	**44,741**	36,747	33,227
Real estate construction	**19,681**	18,854	17,301
Lease financing	**7,271**	6,772	6,089
Total commercial and commercial real estate	**175,974**	152,841	139,215
Consumer:			
Real estate 1-4 family first mortgage	**77,870**	71,415	66,877
Real estate 1-4 family junior lien mortgage	**75,617**	75,565	74,632
Credit card	**20,358**	18,762	17,129
Other revolving credit and installment	**54,327**	56,171	57,180
Total consumer	**228,172**	221,913	215,818
Foreign	**6,903**	7,441	7,889
Total loans	**$ 411,049**	$ 382,195	$ 362,922

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

(in millions)	**Sept. 30, 2008**	Dec. 31, 2007	Sept. 30, 2007
Impairment measurement based on:			
Collateral value method	**$ 49**	$ 285	$ 267
Discounted cash flow method	**2,159**	184	127
Total (1)	**$ 2,208**	$ 469	$ 394

(1) Includes $2,097 million, $369 million

and $221 million of impaired loans with a related allowance of $415 million, $50 million and $24 million at September 30, 2008, December 31, 2007, and September 30, 2007, respectively.

The average recorded investment in impaired loans was $1,826 million and $308 million in third quarter 2008 and 2007, respectively, and $1,414 million and $273 million in the first nine months of 2008 and 2007, respectively.

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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:

	Quarter ended Sept. 30,		Nine months ended Sept. 30,	
(in millions)	**2008**	2007	**2008**	2007
Balance, beginning of period	**$ 7,517**	$ 4,007	**$ 5,518**	$ 3,964
Provision for credit losses	**2,495**	892	**7,535**	2,327
Loan charge-offs:				
Commercial and commercial real estate:				
Commercial	**(305)**	(155)	**(897)**	(408)
Other real estate mortgage	**(9)**		**(19)**	(2)
Real estate construction	**(36)**	(3)	**(93)**	(5)
Lease financing	**(19)**	(8)	**(44)**	(24)
Total commercial and commercial real estate	**(369)**	(166)	**(1,053)**	(439)
Consumer:				
Real estate 1-4 family first mortgage	**(146)**	(22)	**(330)**	(71)
Real estate 1-4 family junior lien mortgage	**(669)**	(167)	**(1,476)**	(357)
Credit card	**(396)**	(205)	**(1,078)**	(579)
Other revolving credit and installment	**(586)**	(473)	**(1,617)**	(1,381)
Total consumer	**(1,797)**	(867)	**(4,501)**	(2,388)
Foreign	**(59)**	(69)	**(185)**	(195)
Total loan charge-offs	**(2,225)**	(1,102)	**(5,739)**	(3,022)
Loan recoveries:				
Commercial and commercial real estate:				
Commercial	**27**	35	**90**	84
Other real estate mortgage	**1**	2	**4**	7
Real estate construction		1	**2**	2
Lease financing	**3**	3	**9**	12
Total commercial and commercial real estate	**31**	41	**105**	105
Consumer:				
Real estate 1-4 family first mortgage	**7**	6	**20**	18
Real estate 1-4 family junior lien mortgage	**28**	14	**63**	39
Credit card	**35**	29	**113**	90
Other revolving credit and installment	**117**	105	**363**	393
Total consumer	**187**	154	**559**	540
Foreign	**12**	15	**40**	50
Total loan recoveries	**230**	210	**704**	695
Net loan charge-offs	**(1,995)**	(892)	**(5,035)**	(2,327)

Allowances related to business combinations/other	**10**	11	**9**	54
Balance, end of period	**$ 8,027**	$ 4,018	**$ 8,027**	$ 4,018
Components:				
Allowance for loan losses	**$ 7,865**	$ 3,829	**$ 7,865**	$ 3,829
Reserve for unfunded credit commitments	**162**	189	**162**	189
Allowance for credit losses	**$ 8,027**	$ 4,018	**$ 8,027**	$ 4,018
Net loan charge-offs (annualized) as a percentage of average total loans	**1.96%**	1.01%	**1.71%**	0.93%
Allowance for loan losses as a percentage of total loans	**1.91%**	1.06%	**1.91%**	1.06%
Allowance for credit losses as a percentage of total loans	**1.95**	1.11	**1.95**	1.11

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6. OTHER ASSETS

The components of other assets were:

(in millions)	**Sept. 30, 2008**	Dec. 31, 2007	Sept. 30, 2007
Nonmarketable equity investments:			
Private equity investments	**$ 2,210**	$ 2,024	$ 1,982
Federal bank stock	**2,556**	1,925	1,637
All other	**3,437**	2,981	2,672
Total nonmarketable equity investments	**8,203**	6,930	6,291
Operating lease assets	**1,442**	2,218	2,526
Accounts receivable	**14,650**	10,913	16,750
Interest receivable	**2,914**	2,977	3,016
Core deposit intangibles	**395**	435	362
Credit card and other intangibles	**283**	319	260
Foreclosed assets:			
GNMA loans (1)	**596**	535	487
Other	**644**	649	603
Due from customers on acceptances	**111**	62	83
Other	**15,441**	12,107	11,359
Total other assets	**$ 44,679**	$ 37,145	$ 41,737

(1) Consistent with regulatory reporting requirements, foreclosed assets include foreclosed real estate securing Government National Mortgage Association (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)	Quarter ended Sept. 30, **2008**	2007	Nine months ended Sept. 30, **2008**	2007
Net gains (losses) from private equity investments	**$ (24)**	$ 144	**$ 340** (1)	$ 446
Net gains (losses) from all other nonmarketable equity investments	**26**	(7)	**36**	(24)
Net gains from nonmarketable equity investments	**$ 2**	$ 137	**$ 376**	$ 422

(1) Includes $334 million gain for first quarter 2008 from our ownership in Visa, which completed its initial public offering in March 2008. See Note 11 in this Report for additional information.

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7. VARIABLE INTEREST ENTITIES

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 $4.3 billion and $3.5 billion in total assets at September 30, 2008, and December 31, 2007, 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 substantially all of these consolidated entities have 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 $8.0 billion and $5.8 billion in total assets at September 30, 2008, and December 31, 2007, 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 $2.8 billion and $2.0 billion at September 30, 2008, and December 31, 2007, 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. We also held investments in asset-backed securities of approximately $7.3 billion and $4.7 billion collateralized by auto leases and cash reserves of $10.6 billion and $6.4 billion at September 30, 2008, and December 31, 2007, respectively, issued by certain special-purpose entities where the third-party issuer of the securities is the primary beneficiary.

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8. 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.

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

(in millions)	Quarter ended Sept. 30, 2008	Quarter ended Sept. 30, 2007	Nine months ended Sept. 30, 2008	Nine months ended Sept. 30, 2007
Fair value, beginning of period	**$ 19,333**	$ 18,733	**$ 16,763**	$ 17,591
Purchases	**57**	188	**191**	489
Servicing from securitizations or asset transfers	**851**	951	**2,642**	2,808
Sales		(292)	**(269)**	(1,714)
Net additions	**908**	847	**2,564**	1,583
Changes in fair value:				
Due to changes in valuation model inputs or assumptions (1)	**(546)**	(638)	**1,788**	1,364
Other changes in fair value (2)	**(511)**	(719)	**(1,931)**	(2,315)
Total changes in fair value	**(1,057)**	(1,357)	**(143)**	(951)
Fair value, end of period	**$ 19,184**	$ 18,223	**$ 19,184**	$ 18,223

(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)	Quarter ended Sept. 30, 2008	Quarter ended Sept. 30, 2007	Nine months ended Sept. 30, 2008	Nine months ended Sept. 30, 2007
Balance, beginning of period	**$ 442**	$ 418	**$ 466**	$ 377
Purchases (1)	**2**	46	**7**	101
Servicing from securitizations or asset transfers (1)	**8**	12	**17**	33
Amortization	**(19)**	(16)	**(57)**	(51)

Balance, end of period (2)	**$**	**433**	$	460	**$**	**433**	$	460
Fair value of amortized MSRs:								
Beginning of period	**$**	**595**	$	561	**$**	**573**	$	457
End of period		**622**		602		**622**		602

(1) Based on September 30, 2008, assumptions, the weighted-average amortization period for MSRs added during the third quarter and the first nine months of 2008 was approximately 18.3 years and 17.1 years, respectively.

(2) There was no valuation allowance recorded for the periods presented.

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The components of our managed servicing portfolio were:

(in billions)	September 30, 2008	2007
Loans serviced for others (1)	**$ 1,464**	$ 1,380
Owned loans serviced (2)	**97**	97
Total owned servicing	**1,561**	1,477
Sub-servicing	**19**	22
Total managed servicing portfolio	**$ 1,580**	$ 1,499
Ratio of MSRs to related loans serviced for others	**1.34%**	1.35%

(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)	Quarter ended Sept. 30, 2008	2007	Nine months ended Sept. 30, 2008	2007
Servicing income, net:				
Servicing fees (1)	**$ 980**	$ 970	**$ 2,903**	$ 3,031
Changes in fair value of residential MSRs:				
Due to changes in valuation model inputs or assumptions (2)	**(546)**	(638)	**1,788**	1,364
Other changes in fair value (3)	**(511)**	(719)	**(1,931)**	(2,315)
Total changes in fair value of residential MSRs	**(1,057)**	(1,357)	**(143)**	(951)
Amortization	**(19)**	(16)	**(57)**	(51)
Net derivative gains (losses) from economic hedges (4)	**621**	1,200	**(1,684)**	(1,061)
Total servicing income, net	**525**	797	**1,019**	968
Net gains (losses) on mortgage loan origination/sales activities	**276**	(61)	**1,419**	1,069
All other	**91**	87	**282**	265

Total mortgage banking noninterest income	**$**	**892**	$	823	**$**	**2,720**	$	2,302
Market-related valuation changes to MSRs, net of economic hedge results (2) + (4)	**$**	**75**	$	562	**$**	**104**	$	303

(1) Includes contractually specified servicing fees, late charges and other ancillary revenues.

(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) Represents results from free-standing derivatives (economic hedges) used to hedge the risk of changes in fair value of MSRs. See Note 12 Free-Standing Derivatives in this Report for additional information.

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9. INTANGIBLE ASSETS

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

				September 30,
		2008		2007
(in millions)	**Gross carrying amount**	**Accumulated amortization**	Gross carrying amount	Accumulated amortization
Amortized intangible assets:				
MSRs (1)	**$ 641**	**$ 208**	$ 592	$ 132
Core deposit intangibles	**2,558**	**2,163**	2,434	2,072
Credit card and other intangibles	**740**	**471**	656	410
Total intangible assets	**$ 3,939**	**$ 2,842**	$ 3,682	$ 2,614
MSRs (fair value) (1)	**$ 19,184**		$ 18,223	
Trademark	**14**		14	

(1) See Note 8 in this Report for additional information on MSRs.

The current year and estimated future amortization expense for intangible assets as of September 30, 2008, follows:

(in millions)	Core deposit intangibles	Other(1)	Total
Nine months ended September 30, 2008 (actual)	**$ 94**	**$ 103**	**$ 197**
Estimate for year ended December 31,			
2008	$ 126	$ 132	$ 258
2009	120	118	238
2010	106	106	212
2011	44	92	136
2012	23	82	105
2013	20	71	91

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

We based our projections of amortization expense shown above on existing asset balances at September 30, 2008. Future amortization expense will vary based on additional core deposit or other intangibles acquired through business combinations.

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10. GOODWILL

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

(in millions)	Community Banking (1)	Wholesale Banking (1)	Wells Fargo Financial	Consolidated Company
December 31, 2006	$ 7,357	$ 3,552	$ 366	$ 11,275
Goodwill from business combinations	473	262		735
Foreign currency translation adjustments			8	8
September 30, 2007	$ 7,830	$ 3,814	$ 374	$ 12,018
December 31, 2007	**$ 8,581**	**$ 4,102**	**$ 423**	**$ 13,106**
Reduction in goodwill related to divested businesses		**(1)**		**(1)**
Goodwill from business combinations	**322**	**97**		**419**
Foreign currency translation adjustments			**(4)**	**(4)**
September 30, 2008	**$ 8,903**	**$ 4,198**	**$ 419**	**$ 13,520**

(1) To reflect the realignment of our corporate trust business from Community Banking into Wholesale Banking in first quarter 2008, balances for prior periods have been revised.

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 17 in this Report for further information on management reporting. The balances of goodwill for management reporting were:

(in millions)	Community Banking (1)	Wholesale Banking (1)	Wells Fargo Financial	Enterprise	Consolidated Company

September 30, 2007	$	3,983	$	1,864	$	374	$	5,797	$	12,018
September 30, 2008		**5,056**		**2,248**		**419**		**5,797**		**13,520**

(1) To reflect the realignment of our corporate trust business from Community Banking into Wholesale Banking in first quarter 2008, balances for prior periods have been revised.

11. GUARANTEES AND LEGAL ACTIONS

Guarantees

The guarantees we provide to third parties primarily 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 $15.3 billion at September 30, 2008, and $12.5 billion at December 31, 2007,

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including financial guarantees of $8.9 billion and $6.5 billion, respectively, that we had issued or purchased participations in. Standby letters of credit are net of participations sold to other institutions of $2.5 billion at September 30, 2008, and $1.4 billion at December 31, 2007. We also had commitments for commercial and similar letters of credit of $1.0 billion at September 30, 2008, and $955 million at December 31, 2007. We consider the credit risk in standby letters of credit, and commercial and similar letters of credit in determining the allowance for credit losses.

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 $1,522 million at September 30, 2008, and $700 million at December 31, 2007. The aggregate fair value of the written floors and caps liability was $474 million and $280 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 $78.5 billion at September 30, 2008, and $30.7 billion at December 31, 2007, and the aggregate notional value related to written floors and caps was $24.9 billion and $26.5 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 $42 million at September 30, 2008, and $20 million at December 31, 2007. 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 $712 million and $873 million, based on notional value, at September 30, 2008 and December 31, 2007, respectively. We purchased credit default swaps of comparable notional amounts to mitigate the exposure of the written credit default swaps at September 30, 2008 and December 31, 2007. These purchased credit default swaps had terms (i.e., 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 September 30, 2008, and December 31, 2007, 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 21 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 $30 million at September 30, 2008, and $50 million at December 31, 2007.

Wells Fargo is a Class B common shareholder of Visa Inc. (Visa). Based on agreements previously executed among Wells Fargo, Visa and its predecessors and certain member banks of the Visa USA network, we may be required to indemnify Visa with respect to certain covered litigation. In conjunction with its initial public offering, Visa deposited $3 billion of the proceeds of the offering into a litigation escrow account to be used to satisfy settlement obligations with respect to prior litigation and to make payments with respect to the future resolution of the covered litigation. The extent of our future obligations, if any, under these arrangements depends on the ultimate resolution of the covered litigation. In October of 2008, Visa entered into an agreement in principle to settle with Discover Financial Services (Discover). We had previously established a reserve to reflect the fair value of our possible indemnification obligation to Visa for the Discover litigation.

To maintain a credit rating of AAA for certain funds, we entered into a capital support agreement in first quarter 2008 for up to $130 million related to one structured investment vehicle (SIV) held by our AAA-rated non-government money market mutual funds. In third quarter 2008 we fulfilled our obligation under this agreement by purchasing the SIV from the funds. At September 30, 2008, the SIV was recorded as a debt security in our securities available-for-sale portfolio. 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. 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.

Legal Actions

The following supplements and amends our discussion of certain matters previously reported in Note 15 (Guarantees and Legal Actions) of our 2007 Form 10-K for events occurring in the most recent quarter.

Citigroup Litigation. On or about October 4, 2008, Citigroup, Inc. (Citigroup) commenced an action in New York state court against Wells Fargo, Wachovia, and their respective directors alleging, in part, that our agreement to merge with Wachovia constitutes tortious interference by Wells Fargo of an agreement between Citigroup and Wachovia. The complaint has been removed to the United States District Court for the Southern District of New York. After the case was removed, Citigroup purported to amend the complaint to seek $20 billion in compensatory damages, $20 billion in restitutionary and unjust enrichment damages, and $40 billion in punitive damages. We believe that we have valid defenses with respect to Citigroup s claims for any damages and will vigorously defend our position.

Auction Rate Securities. We are engaged in discussions with regulators concerning investigations into the sale of auction rate securities by Wells Fargo Investments, LLC, Wells Fargo Brokerage Services, LLC, and Wells Fargo Institutional Securities, LLC, and liquidity solutions for purchasers.

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Taking into consideration information currently available, advice of counsel, and established reserves, we believe that the outcome of pending and threatened legal actions, including the matters described above, will not have a material adverse effect on the results of operations or stockholders equity. However, in the event of unexpected future developments, it is possible that the ultimate resolution of those matters, if unfavorable, may be material to our results of operations and financial condition for any particular period.

12. DERIVATIVES

Fair Value Hedges

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. The ineffective portion of these fair value hedges is recorded as part of noninterest income. In addition, we use derivatives, such as Treasury futures and LIBOR swaps, to hedge changes in fair value due to changes in interest rates of our commercial real estate mortgage loans held for sale. Finally, we use interest rate swaps to hedge against changes in fair value of certain municipal debt securities classified as available for sale and, beginning in fourth quarter 2007, commercial mortgage-backed securities, 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.

From time to time, 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 September 30, 2008, all designated fair value hedges continued to qualify as fair value hedges.

Cash Flow Hedges

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. 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. As of September 30, 2008, all designated cash flow hedges continued to qualify as cash flow hedges.

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We expect that $39 million of deferred net gains on derivatives in other comprehensive income at September 30, 2008, will be reclassified as earnings during the next twelve months, compared with $34 million of deferred net gains at September 30, 2007. We are hedging our exposure to the variability of future cash flows for all forecasted transactions for a maximum of six years for hedges of both floating-rate senior debt and floating-rate commercial loans.

The following table provides net 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)	Quarter ended Sept. 30, 2008	Quarter ended Sept. 30, 2007	Nine months ended Sept. 30, 2008	Nine months ended Sept. 30, 2007
Net gains from fair value hedges from:				
Change in value of derivatives excluded from the assessment of hedge effectiveness	**$**	$ 1	**$**	$ 8
Ineffective portion of change in value of derivatives	**73**	12	**116**	13
Net gains (losses) from ineffective portion of change in the value of cash flow hedges	**(3)**		**(6)**	25

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 (losses) of $621 million and $(1,684) million for the third quarter and first nine months of 2008, respectively, and $1,200 million and $(1,061) million for the third quarter and first nine months of 2007, respectively, from economic hedges related to our mortgage servicing activities are included in mortgage banking noninterest income. The aggregate fair value of these derivatives used as economic hedges was a net asset of $685 million at September 30, 2008, $1,652 million at December 31, 2007, and $596 million at September 30, 2007. 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, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* (FAS 159), is hedged with free-standing derivatives (economic hedges) such as forwards and options, Eurodollar futures and options, 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 mortgage banking noninterest income. For interest rate lock commitments issued prior to January 1, 2008, we recorded a zero fair value for the derivative loan commitment at inception consistent with SAB 105. Effective January 1, 2008, we were required by SAB 109 to include, at inception and during the life of the loan commitment, the expected net future cash flows related to the associated servicing of the loan as part of the fair value measurement of derivative loan commitments. The implementation of SAB 109 did not have a material impact on our results or the valuation of our 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 was a net liability of $114 million at September 30, 2008, a net asset of $6 million at December 31, 2007, and a net liability of $26 million at September 30, 2007, 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.

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 and certificates of deposit 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.

Counterparty Credit Risk

By using derivatives, we are exposed to credit risk if counterparties to the derivative contracts do not perform as expected. If a counterparty fails to perform, our counterparty credit risk is equal to the amount reported as a derivative asset in our balance sheet. The amount reported as a derivative asset are derivative contracts in a gain position, and to the extent subject to master netting arrangements, net of derivatives in a loss position with the same counterparty and cash collateral received. We minimize counterparty credit risk through credit approvals, limits, monitoring procedures, executing master netting arrangements and obtaining collateral, where appropriate. Counterparty credit risk related to derivatives is considered and, if material, provided for separately.

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In connection with the bankruptcy filing by Lehman Brothers in September 2008, we recognized a $106 million charge in noninterest income related to unsecured counterparty exposure on our derivative contracts with Lehman Brothers. The bankruptcy filing triggered an early termination of the derivative contracts that after consideration of the master netting arrangement and posted cash collateral, resulted in a net amount due to us of $106 million. We assessed the collectability of this receivable and determined it was not realizable. We took appropriate actions to replace, as necessary, the terminated derivative contracts in order to maintain our various risk management strategies that previously involved the Lehman Brothers derivative contracts.

Derivative Financial Instruments Summary Information

The gross positive fair value and net fair value for derivatives at September 30, 2008, and December 31, 2007, were:

	September 30, 2008		December 31, 2007	
(in millions)	**Gross positive fair value(2)**	**Net fair value**	Gross positive fair value(2)	Net fair value
ASSET/LIABILITY MANAGEMENT HEDGES				
Qualifying hedge contracts accounted for under FAS 133				
Interest rate contracts	**$ 1,311**	**$ 747**	$ 1,419	$ 1,147
Equity contracts				(3)
Foreign exchange contracts	**862**	**629**	1,399	1,376
Free-standing derivatives (economic hedges)				
Interest rate contracts (1)	**4,007**	**622**	2,183	1,455
Equity contracts	**1**	**1**		
Foreign exchange contracts	**150**	**150**	202	202
CUSTOMER ACCOMMODATION, TRADING AND OTHER FREE-STANDING DERIVATIVES				
Interest rate contracts	**5,192**	**673**	3,893	444
Commodity contracts	**1,399**	**127**	731	116
Equity contracts	**771**	**63**	571	86
Foreign exchange contracts	**1,062**	**58**	726	72
Credit contracts	**117**	**67**	75	51

(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)

Gross positive fair value represents those derivatives in a gain position prior to the consideration of derivatives in a loss position under master netting agreements, and related cash collateral. Including these effects, our net derivative assets (or amount of credit risk) at September 30,2008, totaled $5.7 billion. Cash collateral netted under the master netting arrangements totaled $2.5 billion.

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13. 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 MSRs 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 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.

Under 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 generally 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.

Under 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. The disclosures required under FAS 159 and FAS 157 are 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 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.

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The table below presents the balances of assets and liabilities measured at fair value on a recurring basis.

(in millions)	Total	Level 1	Level 2	Level 3
Balance at September 30, 2007				
Trading assets	$ 7,298	$ 1,403	$ 5,385	$ 510
Securities available for sale	57,440	32,734	20,969	3,737(2)
Mortgages held for sale	26,714		26,636	78
Mortgage servicing rights (residential)	18,223			18,223
Other assets (1)	1,060	791	249	20
Total	$ 110,735	$ 34,928	$ 53,239	$ 22,568
Other liabilities (1)	$ (3,079)	$ (1,936)	$ (822)	$ (321)
Balance at September 30, 2008				
Trading assets	**$ 9,097**	**$ 1,492**	**$ 7,150**	**$ 455**
Securities available for sale	**86,882**	**46,545**	**30,385**	**9,952(2)**
Mortgages held for sale	**17,290**		**12,135**	**5,155**
Mortgage servicing rights (residential)	**19,184**			**19,184**
Other assets (1)	**2,259**	**1,940**	**294**	**25**
Total	**$ 134,712**	**$ 49,977**	**$ 49,964**	**$ 34,771**
Other liabilities (1)	**$ (10,767)**	**$ (7,455)**	**$ (2,762)**	**$ (550)**

(1) Derivatives are included in this category.

(2) Non-rated asset-backed securities collateralized by auto leases and cash reserves represent most of this balance.

We continue to invest in asset-backed securities collateralized by auto leases and cash reserves that provide attractive yields and are structured equivalent to investment-grade securities. Based on our experience with underwriting auto leases and the significant overcollateralization of our interests, which results in retention by the counterparty of a significant amount of the primary risks of the investments (credit risk and residual value risk of the autos), we consider these assets to be of high credit quality. The securities are relatively short duration, therefore not as sensitive to market interest rate movements.

At September 30, 2008, trading assets included securities of $1,091 million and $1,058 million in Level 1 and Level 2, respectively, and securities available for sale included $45,075 million, $29,824 million and $1,726 million in Level 1, Level 2 and Level 3, respectively, for which the fair value measurement is obtained from independent brokers or pricing services.

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The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

(in millions)	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)
Quarter ended September 30, 2007						
Balance, beginning of quarter	$ 466	$ 2,014	$	$ 18,733	$ (79)	$ (277)
Total net gains (losses) for the quarter included in:						
Net income	(52)		(1)	(1,357)	124	(19)
Other comprehensive income		(8)				
Purchases, sales, issuances and settlements, net	96	1,731	16	847	(71)	21
Transfer into Level 3			63(3)			
Balance, end of quarter	$ 510	$ 3,737	$ 78	$ 18,223	$ (26)	$ (275)
Net unrealized losses included in net income for the quarter relating to assets and liabilities held at September 30, 2007 (1)	$ (37)(2)	$	$ (1)(4)	$ (603)(4)(5)	$ (17)(4)	$ (20)(4)
Quarter ended September 30, 2008						
Balance, beginning of quarter	**$ 547**	**$ 8,604**	**$ 5,276**	**$ 19,333**	**$ (47)**	**$ (357)**
Total net gains (losses) for the quarter included in:						
Net income	**(90)**	**(181)**	**14**	**(1,057)**	**(41)**	**(83)**
Other comprehensive income		**(19)**			**1**	
Purchases, sales, issuances and settlements, net	**(4)**	**1,092**	**(76)**	**908**	**(24)**	**28**
Transfers into (out of) Level 3		**456(3)**	**(59)**			

Balance, end of quarter	**$ 453**	**$ 9,952**	**$ 5,155**	**$ 19,184**	**$ (111)**	**$ (412)**
Net unrealized gains (losses) included in net income for the quarter relating to assets and liabilities held at September 30, 2008 (1)	**$ (72)(2)**	**$ (26)**	**$ 12(4)**	**$ (546)(4)(5)**	**$ (105)(4)**	**$ (82)(4)**
Nine months ended September 30, 2007						
Balance, beginning of period	$ 360	$ 3,447	$	$ 17,591	$ (68)	$ (282)
Total net losses for the period included in:						
Net income	(31)		(1)	(951)	(259)	(47)
Other comprehensive income		(8)				
Purchases, sales, issuances and settlements, net	181	298	16	1,583	297	54
Transfers into Level 3			63(3)		4	
Balance, end of period	$ 510	$ 3,737	$ 78	$ 18,223	$ (26)	$ (275)
Net unrealized gains (losses) included in net income for the period relating to assets and liabilities held at September 30, 2007 (1)	$ 15(2)	$	$ (1)(4)	$ 1,341(4)(5)	$ (22)(4)	$ (48)(4)
Nine months ended September 30, 2008						
Balance, beginning of period	**$ 418**	**$ 5,381**	**$ 146**	**$ 16,763**	**$ 6**	**$ (280)**
Total net gains (losses) for the period included in:						
Net income	**23**	**(258)**	**(34)**	**(143)**	**(531)**	**(184)**
Other comprehensive income		**(359)**			**1**	
Purchases, sales, issuances and settlements, net	**12**	**2,999**	**714**	**2,564**	**413**	**52**
Transfers into Level 3		**2,189(3)**	**4,329(3)**			
Balance, end of period	**$ 453**	**$ 9,952**	**$ 5,155**	**$ 19,184**	**$ (111)**	**$ (412)**

Net unrealized gains (losses) included in net income for the period relating to assets and liabilities held at September 30, 2008 (1)	**$ 93(2)**	**$ (94)**	**$ (33)(4)**	**$ 1,796(4)(5)**	**$ (113)(4)**	**$ (184)(4)**

(1) Represents only net 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.
(3) Represents transfers from Level 2 of residential mortgages held for sale and debt securities (including collateralized debt obligations) for which significant inputs to the valuation became unobservable, largely due to reduced levels of market liquidity. Related gains and losses for the period are included in above table.
(4) Included in mortgage banking noninterest income.
(5) Represents total unrealized losses of $546 million and $638 million, net of losses of nil and $35 million related to sales, for third quarter 2008 and 2007, respectively,

and total unrealized gains of $1,788 million and $1,364 million, net of gains (losses) of $(8) million and $23 million related to sales, for the nine months ended September 30, 2008 and 2007, respectively. These unrealized gains/losses relating to MSRs are substantially offset by losses/gains on derivatives economically hedging the risk in fair value changes of residential MSRs, as discussed further in Note 8 in this Report.

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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. For assets measured at fair value on a nonrecurring basis that were still held in the balance sheet at quarter 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 quarter end.

	Carrying value at quarter end				Total losses for nine months
(in millions)	Total	Level 1	Level 2	Level 3	ended
September 30, 2007					
Mortgages held for sale	$ 2,984	$	$ 2,984	$	$ (131)
Loans held for sale	668		668		(20)
Loans (1)	602		583	19	(2,134)
Private equity investments	37			37	(31)
Foreclosed assets (2)	362		362		(142)
Operating lease assets	46		46		(2)
`					$ (2,460)
September 30, 2008					
Mortgages held for sale	**$ 1,393**	**$**	**$ 1,220**	**$ 173**	**$ (153)**
Loans held for sale	**400**		**400**		**(25)**
Loans (1)	**1,118**		**1,054**	**64**	**(4,167)**
Private equity investments	**25**	**19**		**6**	**(29)**
Foreclosed assets (2)	**298**		**241**	**57**	**(136)**
Operating lease assets	**69**		**69**		**(6)**
					$ (4,516)

(1) Represents carrying value and related write-downs of loans for which adjustments are predominantly based on the appraised value of the collateral. The carrying value of loans fully charged-off, which includes 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 mortgages held for sale measured at fair value under FAS 159 and the aggregate unpaid principal amount we are contractually entitled to receive at maturity.

	September 30, 2008			September 30, 2007		
(in millions)	**Fair value carrying amount**	**Aggregate unpaid principal**	**Fair value carrying amount less aggregate unpaid principal**	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	**$ 17,290**	**$ 17,305**	**$ (15)(1)**	$ 26,714	$ 26,403	$ 311(1)
Nonaccrual loans	**104**	**216**	**(112)**	21	29	(8)
Loans 90 days or more past due and still accruing	**41**	**48**	**(7)**	11	11	

(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 included in earnings for these assets measured at fair value are shown, by income statement line item, below.

	Quarter ended September 30,	Nine months ended September 30,

(in millions)	**2008 Mortgages held for sale**	**2008 Other interests held**	2007 Mortgages held for sale	2007 Other interests held	**2008 Mortgages held for sale**	**2008 Other interests held**	2007 Mortgages held for sale	2007 Other interests held
Changes in fair value included in net income:								
Mortgage banking noninterest income:								
Net gains on mortgage loan origination/sales activities (1)	**$ 595**	**$**	$ 355	$	**$ 1,444**	**$**	$ 477	$
Other noninterest income		**(88)**		(52)		**27**		(32)

(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.

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14. 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.

	Shares issued and outstanding			Carrying amount (in millions)			Adjustable dividends rate	
	Sept. 30, 2008	Dec. 31, 2007	Sept. 30, 2007	**Sept. 30, 2008**	Dec. 31, 2007	Sept. 30, 2007	Minimum	Maximum
ESOP Preferred Stock (1):								
2008	**198,708**			**$ 198**	$	$	10.50%	11.50%
2007	**122,659**	135,124	181,016	**122**	135	181	10.75	11.75
2006	**92,749**	95,866	104,966	**93**	96	105	10.75	11.75
2005	**70,834**	73,434	81,134	**71**	73	81	9.75	10.75
2004	**53,750**	55,610	62,960	**54**	56	63	8.50	9.50
2003	**35,718**	37,043	43,143	**36**	37	43	8.50	9.50
2002	**24,889**	25,779	31,679	**25**	26	32	10.50	11.50
2001	**16,073**	16,593	21,593	**16**	17	21	10.50	11.50
2000	**8,844**	9,094	13,744	**9**	9	14	11.50	12.50
1999	**1,220**	1,261	3,961	**1**	1	4	10.30	11.30
1998			539			1	10.75	11.75
Total ESOP Preferred Stock	**625,444**	449,804	544,735	**$ 625**	$ 450	$ 545		
Unearned ESOP shares (2)				**$ (667)**	$ (482)	$ (583)		

(1) Liquidation preference $1,000. At September 30, 2008, December 31, 2007, and September 30, 2007, additional paid-in capital included $42 million, $32 million and $38 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.

The Emergency Economic Stabilization Act of 2008 authorizes the United States Treasury Department (Treasury Department) to use appropriated funds to restore liquidity and stability to the U.S. financial system. As part of this authority, on October 28, 2008, at the request of the Treasury Department and pursuant to a Letter Agreement and related Securities Purchase Agreement dated October 26, 2008, we issued 25,000 shares of Wells Fargo s Fixed Rate Cumulative Perpetual Preferred Stock, Series D without par value, having a liquidation amount per share equal to $1,000,000, for a total price of $25 billion. The shares of these preferred securities may be evidenced by depositary shares, with each depositary share representing 1/1,000 interest in one share of preferred stock. The preferred securities pay cumulative dividends at a rate of 5% per year for the first five years and thereafter at a rate of 9% per year. We may not redeem the preferred securities during the first three years except with the proceeds from a qualifying equity offering. After three years, we may, at our option, redeem the preferred securities at par value plus accrued and unpaid dividends. The preferred securities are generally non-voting. The preferred securities will be accounted for as a component of Tier 1 capital.

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15. 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).
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 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.
Under FAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, we are required to change our measurement date for our pension and postretirement plan assets and benefit obligations from November 30 to December 31 beginning in 2008. To reflect this change, we recorded an $8 million (after tax) adjustment to the 2008 beginning balance of retained earnings.
The net periodic benefit cost was:

	Pension benefits			Pension benefits		
(in millions)	**Qualified**	**Non-qualified**	**Other benefits**	Qualified	Non-qualified	Other benefits
Quarter ended September 30,			**2008**			2007
Service cost	**$ 73**	**$ 4**	**$ 3**	$ 71	$ 4	$ 4
Interest cost	**69**	**5**	**10**	60	4	10
Expected return on plan assets	**(119)**		**(10)**	(112)		(9)
Amortization of net actuarial loss (1)		**3**		8	4	1
Amortization of prior service cost		**(1)**	**(1)**		(1)	(1)
Net periodic benefit cost	**$ 23**	**$ 11**	**$ 2**	$ 27	$ 11	$ 5
Nine months ended September 30,						
Service cost	**$ 219**	**$ 11**	**$ 10**	$ 211	$ 12	$ 12
Interest cost	**207**	**16**	**30**	182	12	30
Expected return on plan assets	**(358)**		**(30)**	(337)		(27)
Amortization of net actuarial loss (1)		**10**		24	10	4
Amortization of prior service cost		**(4)**	**(3)**		(2)	(3)
Net periodic benefit cost	**$ 68**	**$ 33**	**$ 7**	$ 80	$ 32	$ 16

(1) Net actuarial loss is generally amortized over five years.

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16. 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.

(in millions, except per share amounts)	Quarter ended September 30, 2008	2007	Nine months ended September 30, 2008	2007
Net income (numerator)	**$ 1,637**	$ 2,173	**$ 5,389**	$ 6,696
EARNINGS PER COMMON SHARE				
Average common shares outstanding (denominator)	**3,316.4**	3,339.6	**3,309.6**	3,355.5
Per share	**$ 0.49**	$ 0.65	**$ 1.63**	$ 1.99
DILUTED EARNINGS PER COMMON SHARE				
Average common shares outstanding	**3,316.4**	3,339.6	**3,309.6**	3,355.5
Add: Stock options	**14.5**	34.3	**13.7**	37.3
Restricted share rights	**0.1**	0.1	**0.1**	0.1
Diluted average common shares outstanding (denominator)	**3,331.0**	3,374.0	**3,323.4**	3,392.9
Per share	**$ 0.49**	$ 0.64	**$ 1.62**	$ 1.97

At September 30, 2008 and 2007, options to purchase 173.7 million and 8.9 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.

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17. 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 the realignment of our corporate trust business from Community Banking into Wholesale Banking in first quarter 2008, balances 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, corporate trust fiduciary and agency services, 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

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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	
Quarter ended September 30,	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Net interest income (1)	**$ 4,205**	$ 3,303	**$ 1,054**	$ 918	**$ 1,122**	$ 1,059	**$ 6,381**	$ 5,280
Provision for credit losses	**1,431**	446	**294**	19	**770**	427	**2,495**	892
Noninterest income	**2,998**	3,020	**728**	1,239	**272**	314	**3,998**	4,573
Noninterest expense	**3,447**	3,713	**1,393**	1,230	**677**	728	**5,517**	5,671
Income (loss) before income tax expense (benefit)	**2,325**	2,164	**95**	908	**(53)**	218	**2,367**	3,290
Income tax expense (benefit)	**738**	717	**12**	317	**(20)**	83	**730**	1,117
Net income (loss)	**$ 1,587**	$ 1,447	**$ 83**	$ 591	**$ (33)**	$ 135	**$ 1,637**	$ 2,173
Average loans	**$ 220.5**	$ 197.4	**$ 116.2**	$ 87.5	**$ 67.5**	$ 65.8	**$ 404.2**	$ 350.7
Average assets (2)	**380.4**	348.1	**156.6**	115.9	**71.4**	71.7	**614.2**	541.5
Average core deposits	**254.9**	243.0	**65.2**	63.1			**320.1**	306.1
Nine months ended September 30,								
Net interest income (1)	**$ 11,977**	$ 9,678	**$ 3,106**	$ 2,661	**$ 3,336**	$ 3,147	**$ 18,419**	$ 15,486
Provision for credit losses	**4,739**	1,105	**700**	33	**2,096**	1,189	**7,535**	2,327
Noninterest income	**9,632**	8,731	**3,458**	4,007	**892**	961	**13,982**	13,699
Noninterest expense	**10,520**	10,873	**4,228**	3,783	**2,091**	2,268	**16,839**	16,924
Income before income tax expense	**6,350**	6,431	**1,636**	2,852	**41**	651	**8,027**	9,934
Income tax expense	**2,102**	1,983	**521**	1,007	**15**	248	**2,638**	3,238
Net income	**$ 4,248**	$ 4,448	**$ 1,115**	$ 1,845	**$ 26**	$ 403	**$ 5,389**	$ 6,696
Average loans	**$ 217.1**	$ 188.2	**$ 108.2**	$ 82.4	**$ 68.0**	$ 64.2	**$ 393.3**	$ 334.8
Average assets (2)	**367.7**	324.9	**148.4**	108.3	**72.8**	70.0	**594.7**	509.0

Average core deposits	**251.9**	241.1	**66.7**	58.0	**318.6**	299.1

(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 all periods presented.

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18. 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). The Wells Fargo Financial business segment for management reporting (see Note 17 in this Report) consists of WFFI and other affiliated finance entities managed by WFFI that are included within other consolidating subsidiaries in the following tables.

Condensed Consolidating Statement of Income

					Quarter ended September 30, 2008
(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Dividends from subsidiaries:					
Bank	$ 501	$	$	$ (501)	$
Nonbank					
Interest income from loans		1,312	5,590	(14)	6,888
Interest income from subsidiaries	716			(716)	
Other interest income	69	26	1,823	(32)	1,886
Total interest income	1,286	1,338	7,413	(1,263)	8,774
Deposits			1,128	(109)	1,019
Short-term borrowings	141	58	542	(249)	492
Long-term debt	686	443	157	(404)	882
Total interest expense	827	501	1,827	(762)	2,393
NET INTEREST INCOME	459	837	5,586	(501)	6,381
Provision for credit losses		648	1,847		2,495
Net interest income after provision for credit losses	459	189	3,739	(501)	3,886
NONINTEREST INCOME					
Fee income nonaffiliates		109	2,621		2,730
Other	(42)	39	1,699	(428)	1,268
Total noninterest income	(42)	148	4,320	(428)	3,998
NONINTEREST EXPENSE					
Salaries and benefits	(82)	151	3,050		3,119
Other	46	286	2,494	(428)	2,398
Total noninterest expense	(36)	437	5,544	(428)	5,517
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY	453	(100)	2,515	(501)	2,367

IN UNDISTRIBUTED INCOME OF SUBSIDIARIES					
Income tax expense (benefit)	(49)	(31)	810		730
Equity in undistributed income of subsidiaries	1,135			(1,135)	
NET INCOME (LOSS)	$ 1,637	$ (69)	$ 1,705	$ (1,636)	$ 1,637

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Condensed Consolidating Statement of Income

			Quarter ended September 30, 2007		
(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Dividends from subsidiaries:					
Bank	$ 418	$	$	$ (418)	$
Nonbank	18			(18)	
Interest income from loans		1,431	6,058	(12)	7,477
Interest income from subsidiaries	1,002			(1,002)	
Other interest income	38	29	1,681	(2)	1,746
Total interest income	1,476	1,460	7,739	(1,452)	9,223
Deposits			2,397	(179)	2,218
Short-term borrowings	152	120	531	(339)	464
Long-term debt	1,007	491	261	(498)	1,261
Total interest expense	1,159	611	3,189	(1,016)	3,943
NET INTEREST INCOME	317	849	4,550	(436)	5,280
Provision for credit losses		250	642		892
Net interest income after provision for credit losses	317	599	3,908	(436)	4,388
NONINTEREST INCOME					
Fee income nonaffiliates		105	2,636		2,741
Other	(7)	31	2,917	(1,109)	1,832
Total noninterest income	(7)	136	5,553	(1,109)	4,573
NONINTEREST EXPENSE					
Salaries and benefits	(9)	293	2,969		3,253
Other	189	263	3,075	(1,109)	2,418
Total noninterest expense	180	556	6,044	(1,109)	5,671
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	130	179	3,417	(436)	3,290
Income tax expense (benefit)	(158)	55	1,220		1,117
Equity in undistributed income of subsidiaries	1,885			(1,885)	

NET INCOME	$ 2,173	$ 124	$ 2,197	$ (2,321)	$ 2,173

Condensed Consolidating Statement of Income

	Nine months ended September 30, 2008				
(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Dividends from subsidiaries:					
Bank	$ 1,656	$	$	$ (1,656)	$
Nonbank	11			(11)	
Interest income from loans	2	4,058	16,894	(48)	20,906
Interest income from subsidiaries	2,286			(2,286)	
Other interest income	163	81	5,141	(121)	5,264
Total interest income	4,118	4,139	22,035	(4,122)	26,170
Deposits			4,055	(379)	3,676
Short-term borrowings	397	197	1,475	(795)	1,274
Long-term debt	2,201	1,402	479	(1,281)	2,801
Total interest expense	2,598	1,599	6,009	(2,455)	7,751
NET INTEREST INCOME	1,520	2,540	16,026	(1,667)	18,419
Provision for credit losses		1,628	5,907		7,535
Net interest income after provision for credit losses	1,520	912	10,119	(1,667)	10,884
NONINTEREST INCOME					
Fee income nonaffiliates		329	7,630		7,959
Other	325	139	6,903	(1,344)	6,023
Total noninterest income	325	468	14,533	(1,344)	13,982
NONINTEREST EXPENSE					
Salaries and benefits	(167)	635	9,295		9,763
Other	(14)	839	7,595	(1,344)	7,076
Total noninterest expense	(181)	1,474	16,890	(1,344)	16,839
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	2,026	(94)	7,762	(1,667)	8,027
Income tax expense (benefit)	47	(19)	2,610		2,638
	3,410			(3,410)	

Equity in undistributed income of subsidiaries					
NET INCOME (LOSS)	$ 5,389	$ (75)	$ 5,152	$ (5,077)	$ 5,389

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Condensed Consolidating Statement of Income

	Nine months ended September 30, 2007				
(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Dividends from subsidiaries:					
Bank	$ 3,684	$	$	$ (3,684)	$
Nonbank	22			(22)	
Interest income from loans		4,226	17,149	(34)	21,341
Interest income from subsidiaries	2,723			(2,723)	
Other interest income	105	81	4,413	(5)	4,594
Total interest income	6,534	4,307	21,562	(6,468)	25,935
Deposits			6,488	(472)	6,016
Short-term borrowings	291	346	1,183	(955)	865
Long-term debt	2,826	1,405	672	(1,335)	3,568
Total interest expense	3,117	1,751	8,343	(2,762)	10,449
NET INTEREST INCOME	3,417	2,556	13,219	(3,706)	15,486
Provision for credit losses		448	1,879		2,327
Net interest income after provision for credit losses	3,417	2,108	11,340	(3,706)	13,159
NONINTEREST INCOME					
Fee income nonaffiliates		276	7,596		7,872
Other	120	108	6,732	(1,133)	5,827
Total noninterest income	120	384	14,328	(1,133)	13,699
NONINTEREST EXPENSE					
Salaries and benefits	49	918	8,948		9,915
Other	247	828	7,067	(1,133)	7,009
Total noninterest expense	296	1,746	16,015	(1,133)	16,924
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	3,241	746	9,653	(3,706)	9,934
Income tax expense (benefit)	(201)	267	3,172		3,238
Equity in undistributed income of subsidiaries	3,254			(3,254)	

NET INCOME	$ 6,696	$ 479	$ 6,481	$ (6,960)	$ 6,696

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Condensed Consolidating Balance Sheet

					September 30, 2008
(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
ASSETS					
Cash and cash equivalents due from:					
Subsidiary banks	$ 19,658	$ 245	$	$ (19,903)	$
Nonaffiliates		168	20,786		20,954
Securities available for sale	2,290	2,064	82,535	(7)	86,882
Mortgages and loans held for sale			19,374		19,374
Loans	19	48,229	371,076	(8,275)	411,049
Loans to subsidiaries:					
Bank	11,400			(11,400)	
Nonbank	52,947			(52,947)	
Allowance for loan losses		(1,539)	(6,326)		(7,865)
Net loans	64,366	46,690	364,750	(72,622)	403,184
Investments in subsidiaries:					
Bank	50,870			(50,870)	
Nonbank	5,066			(5,066)	
Other assets	11,017	1,504	84,582	(5,136)	91,967
Total assets	$ 153,267	$ 50,671	$ 572,027	$ (153,604)	$ 622,361
LIABILITIES AND STOCKHOLDERS EQUITY					
Deposits	$	$	$ 366,884	$ (13,310)	$ 353,574
Short-term borrowings	11,942	12,691	98,359	(37,805)	85,187
Accrued expenses and other liabilities	5,789	1,279	26,471	(4,246)	29,293
Long-term debt	78,720	34,133	27,108	(32,611)	107,350
Indebtedness to subsidiaries	9,859			(9,859)	
Total liabilities	106,310	48,103	518,822	(97,831)	575,404
Stockholders equity	46,957	2,568	53,205	(55,773)	46,957
Total liabilities and stockholders equity	$ 153,267	$ 50,671	$ 572,027	$ (153,604)	$ 622,361

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Condensed Consolidating Balance Sheet

					September 30, 2007
(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
ASSETS					
Cash and cash equivalents due from:					
Subsidiary banks	$ 8,358	$ 194	$	$ (8,552)	$
Nonaffiliates		284	16,462		16,746
Securities available for sale	2,531	2,076	52,839	(6)	57,440
Mortgages and loans held for sale			30,710		30,710
Loans		50,405	320,896	(8,379)	362,922
Loans to subsidiaries:					
Bank	11,400			(11,400)	
Nonbank	51,253			(51,253)	
Allowance for loan losses		(846)	(2,983)		(3,829)
Net loans	62,653	49,559	317,913	(71,032)	359,093
Investments in subsidiaries:					
Bank	47,165			(47,165)	
Nonbank	5,775			(5,775)	
Other assets	7,201	1,724	79,149	(3,336)	84,738
Total assets	$ 133,683	$ 53,837	$ 497,073	$ (135,866)	$ 548,727
LIABILITIES AND STOCKHOLDERS EQUITY					
Deposits	$	$	$ 343,508	$ (8,552)	$ 334,956
Short-term borrowings	33	8,660	58,185	(25,149)	41,729
Accrued expenses and other liabilities	5,300	1,470	25,472	(3,358)	28,884
Long-term debt	72,025	40,424	20,406	(37,263)	95,592
Indebtedness to subsidiaries	8,759			(8,759)	
Total liabilities	86,117	50,554	447,571	(83,081)	501,161
Stockholders equity	47,566	3,283	49,502	(52,785)	47,566
Total liabilities and stockholders equity	$ 133,683	$ 53,837	$ 497,073	$ (135,866)	$ 548,727

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Condensed Consolidating Statement of Cash Flows

	Nine months ended September 30, 2008			
(in millions)	Parent	WFFI	Other consolidating subsidiaries/ eliminations	Consolidated Company
Cash flows from operating activities:				
Net cash provided by operating activities	$ 160	$ 1,419	$ 10,572	$ 12,151
Cash flows from investing activities:				
Securities available for sale:				
Sales proceeds	2,511	710	36,477	39,698
Prepayments and maturities		247	15,632	15,879
Purchases	(2,770)	(1,013)	(70,598)	(74,381)
Loans:				
Increase in banking subsidiaries loan originations, net of collections		(1,177)	(30,829)	(32,006)
Proceeds from sales (including participations) of loans originated for investment by banking subsidiaries			1,843	1,843
Purchases (including participations) of loans by banking subsidiaries			(4,329)	(4,329)
Principal collected on nonbank entities loans		11,614	3,848	15,462
Loans originated by nonbank entities		(11,085)	(2,795)	(13,880)
Net repayments from (advances to) subsidiaries	(5,146)		5,146	
Capital notes and term loans made to subsidiaries	(708)		708	
Principal collected on notes/loans made to subsidiaries	6,179		(6,179)	
Net decrease (increase) in investment in subsidiaries	(450)		450	
Net cash paid for acquisitions	(427)		(163)	(590)
Other, net	430	11	(5,697)	(5,256)
Net cash used by investing activities	(381)	(693)	(56,486)	(57,560)
Cash flows from financing activities:				
Net change in:				
Deposits			7,370	7,370
Short-term borrowings	8,006	5,360	18,432	31,798
Long-term debt:				
Proceeds from issuance	13,529	1,113	8,109	22,751
Repayment	(13,678)	(7,269)	5,508	(15,439)
Common stock:				
Proceeds from issuance	1,269			1,269
Repurchased	(1,162)			(1,162)
Cash dividends paid	(3,178)			(3,178)

Excess tax benefits related to stock option payments	104			104
Net cash provided (used) by financing activities	4,890	(796)	39,419	43,513
Net change in cash and due from banks	4,669	(70)	(6,495)	(1,896)
Cash and due from banks at beginning of period	14,989	483	(715)	14,757
Cash and due from banks at end of period	$ 19,658	$ 413	$ (7,210)	$ 12,861

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Condensed Consolidating Statement of Cash Flows

	Nine months ended September 30, 2007			
(in millions)	Parent	WFFI	Other consolidating subsidiaries/ eliminations	Consolidated Company
Cash flows from operating activities:				
Net cash provided (used) by operating activities	$ 2,970	$ 1,133	$ (3,251)	$ 852
Cash flows from investing activities:				
Securities available for sale:				
Sales proceeds	1,836	400	35,061	37,297
Prepayments and maturities		266	6,602	6,868
Purchases	(2,800)	(998)	(50,394)	(54,192)
Loans:				
Increase in banking subsidiaries loan originations, net of collections		(1,849)	(32,171)	(34,020)
Proceeds from sales (including participations) of loans originated for investment by banking subsidiaries			2,611	2,611
Purchases (including participations) of loans by banking subsidiaries			(7,543)	(7,543)
Principal collected on nonbank entities loans		14,512	1,949	16,461
Loans originated by nonbank entities		(15,960)	(3,230)	(19,190)
Net repayments from (advances to) subsidiaries	(9,143)		9,143	
Capital notes and term loans made to subsidiaries	(8,608)		8,608	
Principal collected on notes/loans made to subsidiaries	6,512		(6,512)	
Net decrease (increase) in investment in subsidiaries	(1,138)		1,138	
Net cash paid for acquisitions			(2,862)	(2,862)
Other, net		(706)	(1,279)	(1,985)
Net cash used by investing activities	(13,341)	(4,335)	(38,879)	(56,555)
Cash flows from financing activities:				
Net change in:				
Deposits			22,954	22,954
Short-term borrowings	2,924	2,112	23,724	28,760
Long-term debt:				
Proceeds from issuance	18,254	9,435	(5,120)	22,569
Repayment	(10,688)	(8,347)	4,189	(14,846)
Common stock:				
Proceeds from issuance	1,531			1,531
Repurchased	(4,765)			(4,765)
Cash dividends paid	(2,919)			(2,919)

Excess tax benefits related to stock option payments	185			185
Other, net	(2)	10	(602)	(594)
Net cash provided by financing activities	4,520	3,210	45,145	52,875
Net change in cash and due from banks	(5,851)	8	3,015	(2,828)
Cash and due from banks at beginning of period	14,209	470	349	15,028
Cash and due from banks at end of period	$ 8,358	$ 478	$ 3,364	$ 12,200

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19. 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 Office of the Comptroller of the Currency, respectively. We do not consolidate our wholly-owned trusts (the Trusts) formed solely to issue trust preferred securities. At September 30, 2008, the amount of trust preferred securities and perpetual preferred purchase securities issued by the Trusts that was includable in Tier 1 and Tier 2 capital in accordance with FRB risk-based capital guidelines was approximately $11.2 billion and $20 million, respectively. The junior subordinated debentures held by the Trusts were included in the Company s long-term debt.

(in billions)	Amount	Actual Ratio		For capital adequacy purposes Amount		Ratio		To be well capitalized under the FDICIA prompt corrective action provisions Amount		Ratio
As of September 30, 2008:										
Total capital (to risk-weighted assets)										
Wells Fargo & Company	$ 60.5	11.51%	≥	$ 42.1	≥	8.00%				
Wells Fargo Bank, N.A.	47.9	11.11	≥	34.5	≥	8.00	≥	$ 43.1	≥	10.00%
Tier 1 capital (to risk-weighted assets)										
Wells Fargo & Company	$ 45.2	8.59%	≥	$ 21.0	≥	4.00%				
Wells Fargo Bank, N.A.	33.5	7.77	≥	17.2	≥	4.00	≥	$ 25.9	≥	6.00%
Tier 1 capital (to average assets) (Leverage ratio)										
Wells Fargo & Company	$ 45.2	7.54%	≥	$ 24.0	≥	4.00%(1)				
Wells Fargo Bank, N.A.	33.5	6.77	≥	19.8	≥	4.00(1)	≥	$ 24.7	≥	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.

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 September 30, 2008, Wells Fargo Bank, N.A. met these requirements.

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PART II OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table shows Company repurchases of its common stock for each calendar month in the quarter ended September 30, 2008.

Calendar month	Total number of shares repurchased (1)	Weighted-average price paid per share	Maximum number of shares that may yet be repurchased under the authorizations
July	6,438,328	$ 28.09	17,931,365
August	4,862,084	30.74	13,069,281
September	8,885,308	35.12	29,183,973
Total	20,185,720		

(1) All shares were repurchased under two authorizations covering up to 75 million and 25 million shares of common stock approved by the Board of Directors and publicly announced by the Company on November 7, 2007, and September 23, 2008, respectively. Unless modified or revoked by the Board, these authorizations do not expire.

As discussed under Capital Management in this Report, prior to October 28, 2011, unless we have redeemed the preferred securities issued to the Treasury Department or the Treasury Department has transferred the preferred securities to a third party, the consent of the Treasury Department will be required for us to increase our common stock dividend.

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Item 6. Exhibits

A list of exhibits to this Form 10-Q is set forth on the Exhibit Index immediately preceding such exhibits and is incorporated herein by reference.

The Company s SEC file number is 001-2979. On and before November 2, 1998, the Company filed documents with the SEC under the name Norwest Corporation. The former Wells Fargo & Company filed documents under SEC file number 001-6214.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: October 30, 2008	WELLS FARGO & COMPANY
	By: /s/ RICHARD D. LEVY
	Richard D. Levy Executive Vice President and Controller (Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description	Location
2.1	Agreement and Plan of Merger, dated as of October 3, 2008, by and between Wells Fargo & Company and Wachovia Corporation.	Incorporated by reference to Exhibit 2.1 to the Company s Current Report on Form 8-K filed October 9, 2008.
2.2	Share Exchange Agreement, dated as of October 3, 2008, by and between Wells Fargo & Company and Wachovia Corporation.	Incorporated by reference to Exhibit 2.2 to the Company s Current Report on Form 8-K filed October 9, 2008.
3(a)	Restated Certificate of Incorporation.	Incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed September 28, 2006.
3(b)	Certificate of Designations for the Company s 2007 ESOP Cumulative Convertible Preferred Stock.	Incorporated by reference to Exhibit 3(a) to the Company s Current Report on Form 8-K filed March 19, 2007.
3(c)	Certificate Eliminating the Certificate of Designations for the Company s 1997 ESOP Cumulative Convertible Preferred Stock.	Incorporated by reference to Exhibit 3(b) to the Company s Current Report on Form 8-K filed March 19, 2007.
3(d)	Certificate of Designations for the Company s 2008 ESOP Cumulative Convertible Preferred Stock.	Incorporated by reference to Exhibit 3(a) to the Company s Current Report on Form 8-K filed March 18, 2008.
3(e)	Certificate Eliminating the Certificate of Designations for the Company s 1998 ESOP Cumulative Convertible Preferred Stock.	Incorporated by reference to Exhibit 3(b) to the Company s Current Report on Form 8-K filed March 18, 2008.
3(f)	Certificate of Designations for the Company s Non-Cumulative Perpetual Preferred Stock, Series A.	Incorporated by reference to Exhibit 4.8 to the Company s Current Report on Form 8-K filed May 19, 2008.
3(g)	Certificate of Designations for the Company s Non-Cumulative Perpetual Preferred Stock, Series B.	Incorporated by reference to Exhibit 4.8 to the Company s Current Report on Form 8-K filed September 10, 2008.
3(h)	By-Laws.	Incorporated by reference to Exhibit 3 to the Company s Current Report on Form 8-K filed September 29, 2008.
4(a)	See Exhibits 3(a) through 3(h).	
4(b)	The Company agrees to furnish upon request to the Commission a copy of each instrument	

	defining the rights of holders of senior and subordinated debt of the Company.	
10(a)	Amendments to Directors Stock Compensation and Deferral Plan, effective September 23, 2008.	Filed herewith.
12	Computation of Ratios of Earnings to Fixed Charges:	Filed herewith.

	Quarter ended September 30,		Nine months ended September 30,	
	2008	2007	**2008**	2007
Including interest on deposits	**1.97**	1.82	**2.01**	1.94
Excluding interest on deposits	**2.65**	2.85	**2.89**	3.16

Exhibit Number	Description	Location
31(a)	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31(b)	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32(a)	Certification of Periodic Financial Report by Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. § 1350.	Furnished herewith.
32(b)	Certification of Periodic Financial Report by Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. § 1350.	Furnished herewith.