Financial Statements

Wells Fargo & Company and Subsidiaries

Consolidated Statement of Income

(in millions, except per share amounts)		Year ended December 31,	
	2008	2007	2006
INTEREST INCOME			
Trading assets	$ 177	$ 173	$ 225
Securities available for sale	5,287	3,451	3,278
Mortgages held for sale	1,573	2,150	2,746
Loans held for sale	48	70	47
Loans	27,632	29,040	25,611
Other interest income	181	293	332
Total interest income	34,898	35,177	32,239
INTEREST EXPENSE			
Deposits	4,521	8,152	7,174
Short-term borrowings	1,478	1,245	992
Long-term debt	3,756	4,806	4,122
Total interest expense	9,755	14,203	12,288
NET INTEREST INCOME	25,143	20,974	19,951
Provision for credit losses	15,979	4,939	2,204
Net interest income after provision for credit losses	9,164	16,035	17,747
NONINTEREST INCOME			
Service charges on deposit accounts	3,190	3,050	2,690
Trust and investment fees	2,924	3,149	2,737
Card fees	2,336	2,136	1,747
Other fees	2,097	2,292	2,057
Mortgage banking	2,525	3,133	2,311
Operating leases	427	703	783
Insurance	1,830	1,530	1,340
Net gains (losses) on debt securities available for sale	1,037	209	(19)
Net gains (losses) from equity investments	(737)	734	738
Other	1,125	1,480	1,356
Total noninterest income	16,754	18,416	15,740
NONINTEREST EXPENSE			
Salaries	8,260	7,762	7,007
Commission and incentive compensation	2,676	3,284	2,885
Employee benefits	2,004	2,322	2,035
Equipment	1,357	1,294	1,252
Net occupancy	1,619	1,545	1,405
Operating leases	389	561	630
Other	6,356	6,056	5,623
Total noninterest expense	22,661	22,824	20,837
INCOME BEFORE INCOME TAX EXPENSE	3,257	11,627	12,650
Income tax expense	602	3,570	4,230
NET INCOME	$ 2,655	$ 8,057	$ 8,420
NET INCOME APPLICABLE TO COMMON STOCK	$ 2,369	$ 8,057	$ 8,420
EARNINGS PER COMMON SHARE	$ 0.70	$ 2.41	$ 2.50
DILUTED EARNINGS PER COMMON SHARE	$ 0.70	$ 2.38	$ 2.47
DIVIDENDS DECLARED PER COMMON SHARE	$ 1.30	$ 1.18	$ 1.08
Average common shares outstanding	3,378.1	3,348.5	3,368.3
Diluted average common shares outstanding	3,391.3	3,382.8	3,410.1

The accompanying notes are an integral part of these statements.

Wells Fargo & Company and Subsidiaries

Consolidated Balance Sheet (1)

(in millions, except shares)	December 31, 2008	2007
ASSETS		
Cash and due from banks	$ 23,763	$ 14,757
Federal funds sold, securities purchased under resale agreements and other short-term investments	49,433	2,754
Trading assets	54,884	7,727
Securities available for sale	151,569	72,951
Mortgages held for sale (includes $18,754 and $24,998 carried at fair value)	20,088	26,815
Loans held for sale (includes $398 carried at fair value at December 31, 2008)	6,228	948
Loans	864,830	382,195
Allowance for loan losses	(21,013)	(5,307)
Net loans	843,817	376,888
Mortgage servicing rights:		
Measured at fair value (residential MSRs)	14,714	16,763
Amortized	1,446	466
Premises and equipment, net	11,269	5,122
Goodwill	22,627	13,106
Other assets	109,801	37,145
Total assets	$1,309,639	$575,442
LIABILITIES		
Noninterest-bearing deposits	$ 150,837	$ 84,348
Interest-bearing deposits	630,565	260,112
Total deposits	781,402	344,460
Short-term borrowings	108,074	53,255
Accrued expenses and other liabilities	53,921	30,706
Long-term debt	267,158	99,393
Total liabilities	1,210,555	527,814
STOCKHOLDERS' EQUITY		
Preferred stock	31,332	450
Common stock – $1 2/3 par value, authorized 6,000,000,000 shares; issued 4,363,921,429 shares and 3,472,762,050 shares	7,273	5,788
Additional paid-in capital	36,026	8,212
Retained earnings	36,543	38,970
Cumulative other comprehensive income (loss)	(6,869)	725
Treasury stock – 135,290,540 shares and 175,659,842 shares	(4,666)	(6,035)
Unearned ESOP shares	(555)	(482)
Total stockholders' equity	99,084	47,628
Total liabilities and stockholders' equity	$1,309,639	$575,442

The accompanying notes are an integral part of these statements.

(1) Effective December 31, 2008, Wells Fargo & Company acquired Wachovia Corporation (Wachovia). Wachovia's assets and liabilities are included in the consolidated balance sheet at their respective acquisition date fair values.

Wells Fargo & Company and Subsidiaries

Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income

(in millions, except shares)	Preferred stock Shares	Preferred stock Amount	Common stock Shares	Common stock Amount
BALANCE DECEMBER 31, 2005	325,463	$ 325	3,355,166,064	$ 5,788
Cumulative effect of adoption of FAS 156				
BALANCE JANUARY 1, 2006	325,463	325	3,355,166,064	5,788
Comprehensive income:				
Net income				
Other comprehensive income, net of tax:				
Net unrealized losses on securities available for sale				
Net unrealized gains on derivatives and hedging activities				
Total comprehensive income				
Common stock issued			70,063,930	
Common stock repurchased			(58,534,072)	
Preferred stock issued to ESOP	414,000	414		
Preferred stock released to ESOP				
Preferred stock converted to common shares	(355,659)	(355)	10,453,939	
Common stock dividends				
Tax benefit upon exercise of stock options				
Stock option compensation expense				
Net change in deferred compensation and related plans				
Reclassification of share-based plans				
Adoption of FAS 158				
Net change	58,341	59	21,983,797	—
BALANCE DECEMBER 31, 2006	383,804	384	3,377,149,861	5,788
Cumulative effect of adoption of FSP 13-2				
BALANCE JANUARY 1, 2007	383,804	384	3,377,149,861	5,788
Comprehensive income:				
Net income				
Other comprehensive income, net of tax:				
Translation adjustments				
Net unrealized losses on securities available for sale				
Net unrealized gains on derivatives and hedging activities				
Unamortized gains under defined benefit plans, net of amortization				
Total comprehensive income				
Common stock issued			69,894,448	
Common stock issued for acquisitions			58,058,813	
Common stock repurchased			(220,327,473)	
Preferred stock issued to ESOP	484,000	484		
Preferred stock released to ESOP				
Preferred stock converted to common shares	(418,000)	(418)	12,326,559	
Common stock dividends				
Tax benefit upon exercise of stock options				
Stock option compensation expense				
Net change in deferred compensation and related plans				
Net change	66,000	66	(80,047,653)	—
BALANCE DECEMBER 31, 2007	449,804	450	3,297,102,208	5,788
Cumulative effect of adoption of EITF 06-4 and EITF 06-10				
FAS 158 change of measurement date				
BALANCE JANUARY 1, 2008	449,804	450	3,297,102,208	5,788
Comprehensive income:				
Net income				
Other comprehensive income, net of tax:				
Translation adjustments				
Net unrealized losses on securities available for sale				
Net unrealized gains on derivatives and hedging activities				
Unamortized losses under defined benefit plans, net of amortization				
Total comprehensive income				
Common stock issued			538,877,525	781
Common stock issued for acquisitions			429,084,786	704
Common stock repurchased			(52,154,513)	
Preferred stock issued	25,000	22,674		
Preferred stock discount accretion		67		
Preferred stock issued for acquisitions	9,566,921	8,071		
Preferred stock issued to ESOP	520,500	521		
Preferred stock released to ESOP				
Preferred stock converted to common shares	(450,404)	(451)	15,720,883	
Stock warrants issued				
Common stock dividends				
Preferred stock dividends and accretion				
Tax benefit upon exercise of stock options				
Stock option compensation expense				
Net change in deferred compensation and related plans				
Other				
Net change	9,662,017	30,882	931,528,681	1,485
BALANCE DECEMBER 31, 2008	10,111,821	$31,332	4,228,630,889	$7,273

The accompanying notes are an integral part of these statements.

Additional paid-in capital	Retained earnings	Cumulative other comprehensive income	Treasury stock	Unearned ESOP shares	Total stockholders' equity
$ 7,040	$ 30,580	$ 665	$ (3,390)	$ (348)	$ 40,660
	101				101
7,040	30,681	665	(3,390)	(348)	40,761
	8,420				8,420
		(31)			(31)
		70			70
					8,459
(67)	(245)		2,076		1,764
			(1,965)		(1,965)
29				(443)	—
(25)				380	355
41			314		—
	(3,641)				(3,641)
229					229
134					134
50			(27)		23
308			(211)		97
		(402)			(402)
699	4,534	(363)	187	(63)	5,053
7,739	35,215	302	(3,203)	(411)	45,814
	(71)				(71)
7,739	35,144	302	(3,203)	(411)	45,743
	8,057				8,057
		23			23
		(164)			(164)
		322			322
		242			242
					8,480
(132)	(276)		2,284		1,876
190			1,935		2,125
			(7,418)		(7,418)
34				(518)	—
(29)				447	418
13			405		—
	(3,955)				(3,955)
210					210
129					129
58			(38)		20
473	3,826	423	(2,832)	(71)	1,885
8,212	38,970	725	(6,035)	(482)	47,628
	(20)				(20)
	(8)				(8)
8,212	38,942	725	(6,035)	(482)	47,600
	2,655				2,655
		(58)			(58)
		(6,610)			(6,610)
		436			436
		(1,362)			(1,362)
					(4,939)
11,555	(456)		2,291		14,171
13,689			208		14,601
			(1,623)		(1,623)
					22,674
					67
					8,071
30				(551)	—
(27)				478	451
(61)			512		—
2,326					2,326
	(4,312)				(4,312)
	(286)				(286)
123					123
174					174
46			(19)		27
(41)					(41)
27,814	(2,399)	(7,594)	1,369	(73)	51,484
$36,026	$36,543	$(6,869)	$(4,666)	$(555)	$99,084

Wells Fargo & Company and Subsidiaries

Consolidated Statement of Cash Flows

(in millions)	2008	2007	2006
		Year ended December 31,	
Cash flows from operating activities:			
Net income	$ 2,655	$ 8,057	$ 8,420
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	15,979	4,939	2,204
Change in fair value of MSRs (residential) and MHFS carried at fair value	3,789	2,611	2,453
Depreciation and amortization	1,669	1,532	3,221
Other net gains (losses)	2,065	(1,407)	(1,701)
Preferred shares released to ESOP	451	418	355
Stock option compensation expense	174	129	134
Excess tax benefits related to stock option payments	(121)	(196)	(227)
Originations of MHFS	(213,498)	(223,266)	(237,841)
Proceeds from sales of and principal collected on mortgages originated for sale	220,254	216,270	238,800
Net change in:			
Trading assets	(3,045)	(3,388)	5,271
Loans originated for sale	(135)	(222)	(109)
Deferred income taxes	(1,642)	(31)	593
Accrued interest receivable	(2,676)	(407)	(291)
Accrued interest payable	1,634	(87)	455
Other assets, net	(21,443)	(365)	3,570
Other accrued expenses and liabilities, net	(10,941)	4,491	2,669
Net cash provided (used) by operating activities	(4,831)	9,078	27,976
Cash flows from investing activities:			
Net change in:			
Federal funds sold, securities purchased under resale agreements and other short-term investments	51,049	3,331	(717)
Securities available for sale:			
Sales proceeds	60,806	47,990	53,304
Prepayments and maturities	24,317	8,505	7,321
Purchases	(105,341)	(75,129)	(62,462)
Loans:			
Increase in banking subsidiaries' loan originations, net of collections	(54,815)	(48,615)	(37,730)
Proceeds from sales (including participations) of loans originated for investment by banking subsidiaries	1,988	3,369	38,343
Purchases (including participations) of loans by banking subsidiaries	(5,513)	(8,244)	(5,338)
Principal collected on nonbank entities' loans	21,846	21,476	23,921
Loans originated by nonbank entities	(19,973)	(25,284)	(26,974)
Net cash acquired from (paid for) acquisitions	11,203	(2,811)	(626)
Proceeds from sales of foreclosed assets	1,746	1,405	593
Changes in MSRs from purchases and sales	92	791	(3,539)
Other, net	(5,576)	(4,099)	(2,678)
Net cash used by investing activities	(18,171)	(77,315)	(16,582)
Cash flows from financing activities:			
Net change in:			
Deposits	7,697	27,058	(4,452)
Short-term borrowings	(14,888)	39,827	(11,156)
Long-term debt:			
Proceeds from issuance	35,701	29,360	20,255
Repayment	(29,859)	(18,250)	(12,609)
Common stock:			
Proceeds from issuance	14,171	1,876	1,764
Repurchased	(1,623)	(7,418)	(1,965)
Cash dividends paid	(4,312)	(3,955)	(3,641)
Preferred stock:			
Proceeds from issuance	22,674	—	—
Proceeds from issuance of stock warrants	2,326	—	—
Excess tax benefits related to stock option payments	121	196	227
Other, net	—	(728)	(186)
Net cash provided (used) by financing activities	32,008	67,966	(11,763)
Net change in cash and due from banks	9,006	(271)	(369)
Cash and due from banks at beginning of year	14,757	15,028	15,397
Cash and due from banks at end of year	$ 23,763	$ 14,757	$ 15,028
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 8,121	$ 14,290	$ 11,833
Income taxes	2,554	3,719	3,084
Noncash investing and financing activities:			
Transfers from trading assets to securities available for sale	$ —	$ 1,268	$ —
Transfers from securities available for sale to loans	283	—	—
Transfers from MHFS to securities available for sale	544	7,949	—
Transfers from MHFS to loans	1,195	2,133	—
Transfers from MHFS to foreclosed assets	136	—	—
Transfers from MHFS to MSRs	3,498	3,720	4,118
Transfers from loans to MHFS	—	—	32,383
Net transfers from loans to loans held for sale	1,640	—	—
Transfers from loans to foreclosed assets	3,031	2,666	1,918
Issuance of common and preferred stock for purchase accounting	22,672	2,125	—

The accompanying notes are an integral part of these statements.

Note 1: Summary of Significant Accounting Policies

Wells Fargo & Company is a diversified financial services company. We provide banking, insurance, investments, mortgage banking, investment banking, retail banking, brokerage, and consumer finance through banking stores, the internet and other distribution channels to consumers, businesses and institutions in all 50 states of the U.S. and in other countries. In this Annual Report, when we refer to "the Company," "we," "our" or "us" we mean Wells Fargo & Company and Subsidiaries (consolidated). Wells Fargo & Company (the Parent) is a financial holding company and a bank holding company. We also hold a majority interest in a retail brokerage subsidiary and a real estate investment trust, which has publicly traded preferred stock outstanding.

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 based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expenses during the reporting period and the related disclosures. Although our estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that in 2009 actual conditions could be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Management has made significant estimates in several areas, including the evaluation of other-than-temporary impairment on investment securities (Note 5), allowance for credit losses and loans accounted for under American Institute of Certified Public Accountants (AICPA) Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3) (Note 6), valuing residential mortgage servicing rights (MSRs) (Notes 8 and 9) and financial instruments (Note 17), pension accounting (Note 20) and income taxes (Note 21). Actual results could differ from those estimates. Among other effects, such changes could result in future impairments of investment securities, establishment of allowance for loan losses, as well as increased pension expense.

On October 3, 2008, we signed a definitive merger agreement with Wachovia Corporation (Wachovia) and the merger was consummated on December 31, 2008. Wachovia's assets and liabilities are included in the consolidated balance sheet at their respective acquisition date fair values. Because the acquisition was completed at the end of 2008, Wachovia's results of operations are not included in the income statement. The accounting policies of Wachovia have been conformed to those of Wells Fargo as described herein.

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

On January 1, 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.*

We adopted the following new accounting pronouncements, which were effective for year-end 2008 reporting:

- FSP FAS 140-4 and FIN 46(R)-8 – FASB Staff Position No. 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities;*
- FSP FAS 133-1 and FIN 45-4 – FASB 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;* and
- FSP EITF 99-20-1, FASB Staff Position No. EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20.*

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

On October 10, 2008, the FASB issued FSP FAS 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 is 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 was effective immediately and applied to prior periods for which financial statements have not been issued, including interim or annual periods ending on or before September 30, 2008. We adopted the FSP prospectively, beginning July 1, 2008. The adoption of the FSP did not have a material impact on our consolidated financial results or fair value determinations.

On December 11, 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8. This FSP is intended to improve disclosures about transfers of financial assets and continuing involvement with both qualifying special purpose entities (QSPEs) and variable interest entities (VIEs). The FSP requires qualitative and quantitative disclosures surrounding the nature of a company's continuing involvement with QSPEs and VIEs, the carrying amount and classification of related assets and liabilities, including the nature of any restrictions on those assets and liabilities; contractual or non-contractual support provided to either QSPEs or VIEs; and a company's maximum exposure to loss related to these activities. This FSP amends FAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125,* and FIN 46 (R), *Consolidation of Variable Interest Entities (revised December 2003) – an interpretation of ARB No. 51.* The FSP is effective for reporting periods (annual or interim) ending after December 15, 2008. Because the FSP amends only the disclosure requirements, the adoption of the FSP did not affect our consolidated financial results. For additional information, see Note 8.

On September 12, 2008, the FASB issued FSP FAS 133-1 and FIN 45-4. 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 FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others – an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34,* 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 did not affect our consolidated financial results.

On January 12, 2009, the FASB issued FSP EITF 99-20-1, which amends EITF 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets* (EITF 99-20), to achieve more consistent determinations of whether other-than-temporary impairments of available-for-sale or held-to-maturity debt securities have occurred. The provisions of the FSP are to be applied prospectively and are considered effective for reporting periods (annual or interim) ending after December 15, 2008. Beginning with our fourth quarter 2008 results, based on this FSP guidance, we recorded no other-than-temporary impairment for certain EITF 99-20 securities that otherwise may have been considered impaired.

The following is a description of our significant accounting policies.

Business Combinations

A business combination occurs when an entity acquires net assets that constitute a business, or acquires equity interests in one or more other entities that are businesses and obtains control over those entities. Business combinations may be effected through the transfer of consideration such as cash, other financial or nonfinancial assets, debt, or common or preferred shares. The assets and liabilities of an acquired entity or business are recorded at their respective fair values as of the closing date of the merger. Fair values are preliminary and subject to refinement for up to one year after the closing date of a merger as information relative to closing date fair values becomes available. The results of operations of an acquired entity are included in our consolidated results from the closing date of the merger, and prior periods are not restated. All business combinations are accounted for using the purchase method.

The purchase price of an acquired entity or business, to the extent the proceeds include our common stock, is based on the weighted average closing prices of our common stock for a period two trading days before the announcement and two trading days after the announcement of the merger, which includes the announcement date.

To the extent that an acquired entity's employees hold stock options, such options are typically converted into our options at the applicable exchange ratio for the common stock, and the exercise price is adjusted accordingly. The fair values of such options are determined using the Black-Scholes option pricing model with market assumptions. For vested options, including those that fully vested upon change in control, the fair value is included as a component of the purchase price. For options that continue to vest post-merger, the fair value is amortized in accordance with our policies for stock-based compensation as described herein.

Certain of the accounting for business combinations as described herein will change upon the adoption of FAS 141 (revised 2007), *Business Combinations,* which is effective for business combinations consummated on or after January 1, 2009.

Consolidation

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

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

Trading Assets

Trading assets are primarily securities, including corporate debt, U.S. government agency obligations and other securities that we acquire for short-term appreciation or other trading purposes, and the fair value of derivatives held for customer accommodation purposes or proprietary trading. Trading assets are carried at fair value, with realized and unrealized gains and losses recorded in noninterest income. Noninterest income from trading assets was $275 million in 2008 and $544 million in 2007 and 2006.

Securities

SECURITIES AVAILABLE FOR SALE Debt securities that we might not hold until maturity and marketable equity securities are classified as securities available for sale and reported at fair value. Unrealized gains and losses, after applicable taxes, are reported in cumulative other comprehensive income. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

We conduct other-than-temporary impairment analysis on a quarterly basis or more often if a potential loss-triggering event occurs. We recognize other-than-temporary impairment when it is probable that we will be unable to collect all amounts due according to the contractual terms of the security and the fair value of the investment security is less than its amortized cost. The other-than-temporary impairment loss is recorded in noninterest income. The initial indicator of other-than-temporary impairment for both debt and equity securities is a decline in market value below the amount recorded for an investment, and the severity and duration of the decline. In determining whether an impairment is other than temporary, we consider the length of time and the extent to which market value has been less than cost, any recent events specific to the issuer and economic conditions of its industry, and our ability and intent to hold the investment for a period of time, including maturity, sufficient to allow for any anticipated recovery in the fair value of the security.

We hold investments in perpetual preferred securities (PPS) that are structured in equity form, but have many of the characteristics of debt instruments, including periodic cash flows in the form of dividends, call features, ratings that are similar to debt securities and pricing like long-term callable bonds. The table on page 104 includes the gross unrealized losses and fair value of our investments in PPS, by the length of time they have been in a continuous loss position. Of our total gross unrealized losses at December 31, 2008, $327 million, or approximately 3%, related to PPS.

Because of the hybrid nature of these securities, we evaluate PPS for other-than-temporary impairment using the model we use for debt securities as described above. Among the factors we consider in our evaluation of PPS are whether there is any evidence of deterioration in the credit of the issuer as indicated by a decline in cash flows or a rating agency downgrade and the estimated recovery period. Additionally, in determining if there was evidence of credit deterioration, we evaluate: (1) the severity of decline in market value below cost, (2) the period of time for which the decline in fair value has existed, and (3) the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer. We consider PPS to be impaired on an other-than-temporary basis if it is probable that the issuer will be unable to make its contractual payments or if we no longer believe the security will recover within the estimated recovery period.

In 2008, we recorded $1,057 million of other-than-temporary impairment on PPS issued by Government Sponsored Enterprises and corporations. None of our investments in PPS that have not been impaired had been downgraded below investment grade, and management believes that there are no factors to suggest that we will not fully realize our investment in these instruments over a reasonable recovery period.

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

For debt securities and for PPS, which are treated as debt securities for the purpose of other-than-temporary impairment, we also consider:

- the cause of the price decline such as the 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;
- any change in agencies' ratings at evaluation date from acquisition date and any likely imminent action; and
- for asset-backed securities, the credit performance of the underlying collateral, including delinquency rates, cumulative losses to date, and the remaining credit enhancement compared to expected credit losses.

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

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

NONMARKETABLE EQUITY SECURITIES Nonmarketable equity securities include venture capital equity securities that are not publicly traded and securities acquired for various purposes, such as to meet regulatory requirements (for example, Federal Reserve Bank and Federal Home Loan Bank stock). These securities are accounted for under the cost or equity method or are carried at fair value and are included in other assets. We review those assets accounted for under the cost or equity method at least quarterly for possible other-than-temporary impairment. Our review typically includes an analysis of the facts and circumstances of each investment, the expectations for the investment's cash flows and capital needs, the viability of its business model and our exit strategy. We reduce the asset value when we consider declines in value to be other than temporary. We recognize the estimated loss as a loss from equity investments in noninterest income.

Nonmarketable equity securities that fall within the scope of the AICPA Investment Company Audit Guide are carried at fair value (principal investments). Principal investments, including certain public equity and non-public securities and certain investments in private equity funds, are recorded at fair value with realized and unrealized gains and losses included in gains and losses on equity investments in the income statement, and are included in other assets in the balance sheet. Public equity investments are valued using quoted market prices and discounts are only applied when there are trading restrictions that are an attribute of the investment.

Private direct investments are valued using metrics such as security prices of comparable public companies, acquisition prices for similar companies and original investment purchase price multiples, while also incorporating a portfolio company's financial performance and specific factors. For certain fund investments, where the best estimates of fair value were primarily determined based upon fund sponsor data, we use the net asset value (NAV) provided by the fund sponsor as an appropriate measure of fair value. In some cases, such NAVs require adjustments based on certain unobservable inputs. In situations where a portion of an investment in a non-public security or fund is sold, we recognize a realized gain or loss on the portion sold and an unrealized gain or loss on the portion retained.

Securities Purchased and Sold Agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are generally accounted for as collateralized financing transactions and are recorded at the acquisition or sale price plus accrued interest. It is our policy to take possession of securities purchased under resale agreements, which are primarily U.S. Government and Government agency securities. We monitor the market value of securities purchased and sold, and obtain collateral from or return it to counterparties when appropriate.

Mortgages Held for Sale

Mortgages held for sale (MHFS) include commercial and residential mortgages originated for sale and securitization in the secondary market, which is our principal market, or for sale as whole loans. Effective January 1, 2007, in connection with the adoption of FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* (FAS 159), we elected to measure new prime residential MHFS at fair value (see Note 17).

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

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

Loans Held for Sale

Loans held for sale are carried at the lower of cost or market value (LOCOM) or fair value under FAS 159. For loans carried at LOCOM, gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans

Loans are reported at their outstanding principal balances net of any unearned income, charge-offs, unamortized deferred fees and costs on originated loans and premiums or discounts on purchased loans, except for certain purchased loans that fall under the scope of SOP 03-3, which are recorded at fair value on their purchase date. See "Loans accounted for under SOP 03-3" on page 96. Unearned income, deferred fees and costs, and discounts and premiums are amortized to income over the contractual life of the loan using the interest method.

We offer a portfolio product known as relationship adjustable-rate mortgages (ARMs) that provides interest rate reductions to reward eligible banking customers who have an existing relationship or establish a new relationship with Wells Fargo. Accordingly, this product offering is generally underwritten to certain Company guidelines rather than secondary market standards and is typically originated for investment. At December 31, 2008 and 2007, we had $15.6 billion and $15.4 billion, respectively, of relationship ARMs in loans held for investment. Originations, net of collections and proceeds from the sale of these loans are reflected as investing cash flows consistent with their original classification.

Loans also include direct financing leases that are recorded at the aggregate of minimum lease payments receivable plus the estimated residual value of the leased property, less unearned income. Leveraged leases, which are a form of direct financing leases, are recorded net of related nonrecourse debt. Leasing income is recognized as a constant percentage of outstanding lease financing balances over the lease terms.

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

We pledge loans to secure borrowings from the Federal Home Loan Bank and the Federal Reserve Bank as part of our liquidity management strategy. At December 31, 2008, loans pledged where the secured party has the right to sell or repledge totaled $201 billion, and loans pledged where the secured party does not have the right to sell or repledge totaled $137 billion.

NONACCRUAL LOANS We generally place loans on nonaccrual status when:

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

Loans subject to SOP 03-3 are written down to an amount estimated to be collectible. Accordingly, such loans are no longer classified as nonaccrual even though they may be contractually past due, because we expect to fully collect the new carrying values of such loans (that is, the new cost basis arising out of purchase accounting).

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

When we place a loan on nonaccrual status, we reverse the accrued unpaid interest receivable against interest income and account for the loan on the cash or cost recovery method, until it qualifies for return to accrual status. Generally, we return a loan to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectibility is no longer doubtful.

Loan Charge-Off Policies

For commercial loans, we generally fully or partially charge down to the fair value of collateral securing the asset when:

- management judges the asset to be uncollectible;
- repayment is deemed to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either our internal loan review process or external examiners;
- the customer has filed bankruptcy and the loss becomes evident owing to a lack of assets; or
- the loan is 180 days past due unless both well secured and in the process of collection.

For consumer loans, our charge-off policies are as follows:

1-4 FAMILY FIRST AND JUNIOR LIEN MORTGAGES We generally charge down to the net realizable value when the loan is 180 days past due.

AUTO LOANS We generally charge down to the net realizable value when the loan is 120 days past due.

UNSECURED LOANS (CLOSED END) We generally charge-off when the loan is 120 days past due.

UNSECURED LOANS (OPEN-END) We generally charge-off when the loan is 180 days past due.

CREDIT CARD LOANS We generally fully charge-off when the loan is 180 days past due.

OTHER SECURED LOANS We generally fully or partially charge down to the net realizable value when the loan is 120 days past due.

IMPAIRED LOANS We consider a loan to be impaired when, based on current information and events, we determine that we will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. We assess and account for as impaired certain nonaccrual commercial and commercial real estate loans that are over $5 million and certain consumer, commercial and commercial real estate loans whose terms have been modified in a troubled debt restructuring.

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

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

In situations where, for economic or legal reasons related to a borrower's financial difficulties, we grant a concession to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring. The restructuring of a loan may include (1) the transfer from the borrower to the company of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan, (2) a modification of the loan terms, or (3) a combination of the above.

In cases where we grant the borrower new terms that provide for a reduction of either interest or principal, we measure any loss on the restructuring in accordance with the guidance concerning impaired loans set forth in FAS 114, *Accounting by Creditors for the Impairment of a Loan – an amendment of FASB Statements No. 5 and 15.*

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.

LOANS ACCOUNTED FOR UNDER SOP 03-3 Loans acquired by completion of a transfer or in a business combination, including those acquired from Wachovia, where there is evidence of credit deterioration since origination and it is probable at the date of acquisition that we will not collect all contractually required principal and interest payments are accounted for under SOP 03-3. SOP 03-3 requires that acquired credit-impaired loans be recorded at fair value and prohibits carry-over of the related allowance for loan losses. Some loans that otherwise meet the definition as credit impaired are specifically excluded from the scope of SOP 03-3, such as revolving loans where the borrower still has revolving privileges.

Evidence of credit quality deterioration as of the purchase date may include statistics such as past due and nonaccrual status, recent borrower credit scores and recent loan-to-value percentages. Generally, acquired loans that meet our definition for nonaccrual status fall within the scope of SOP 03-3.

Loans within the scope of SOP 03-3 are initially recorded at fair value. The application of the SOP, and the process estimating fair value involves estimating the principal and interest cash flows expected to be collected on the credit impaired loans and discounting those cash flows at a market rate of interest.

Under SOP 03-3, the excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan in situations where there is a reasonable expectation about the timing and amount of cash flows to be collected. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the nonaccretable difference. Subsequent decreases to the expected cash flows will generally result in a charge to the provision for credit losses resulting in an increase to the allowance for loan losses. Subsequent increases in cash flows result in reversal of nonaccretable discount (or allowance for loan losses to the extent any had been recorded) with a positive impact on interest income. Disposals of loans, which may include sales of loans, receipt of payments in full by the borrower, foreclosure, or troubled debt restructurings result in removal of the loan from the SOP 03-3 portfolio at its carrying amount.

Loans subject to SOP 03-3 are written down to an amount estimated to be collectible. Accordingly, such loans are no longer classified as nonaccrual even though they may be contractually past due. We expect to fully collect the new carrying values of such loans (that is, the new cost basis arising out of purchase accounting). If a loan, or a pool of loans, deteriorates post acquisition a provision for loan losses is recorded to increase the allowance for loan losses. Loans subject to SOP 03-3 are also excluded from the disclosure of loans 90 days or more past due and still accruing interest. Even though substantially all of them are 90 days or more contractually past due, they are considered to be accruing because the interest income on these loans relates to the establishment of an accretable yield in accordance with SOP 03-3.

Securitizations and Beneficial Interests

In certain asset securitization transactions that meet the applicable criteria to be accounted for as a sale, assets are sold to an entity referred to as a qualifying special purpose entity (QSPE), which then issues beneficial interests in the form of senior and subordinated interests collateralized by the assets. In some cases, we may retain up to 90% of the beneficial interests. Additionally, from time to time, we may also resecuritize certain assets in a new securitization transaction.

The assets and liabilities sold to a QSPE are excluded from our consolidated balance sheet, subject to a quarterly evaluation to ensure the entity continues to meet the requirements to be a QSPE. If our portion of the beneficial interests equals or exceeds 90%, a QSPE would no longer qualify for off-balance sheet treatment and we may be required to consolidate the SPE, subject to determining whether the entity is a VIE and to determining who is the primary beneficiary. In these cases, any beneficial interests that we previously held are derecognized from the balance sheet and we record the underlying assets and liabilities of the SPE at fair value to the extent interests were previously held by outside parties.

The carrying amount of the assets transferred to a QSPE, excluding servicing rights, is allocated between the assets sold and the retained interests based on their relative fair values at the date of transfer. We record a gain or loss in other fee income for the difference between the carrying amount and the fair value of the assets sold. Fair values are based on quoted market prices, quoted market prices for similar assets, or if market prices are not available, then the fair value is estimated using discounted cash flow analyses with assumptions for credit losses, prepayments and discount rates that are corroborated by and independently verified against market observable data, where possible. Retained interests from securitizations with off-balance sheet entities, including QSPEs and VIEs where we are the primary beneficiary, are classified as either available-for-sale securities, trading account assets or loans, and are accounted for as described herein.

Mortgage Servicing Rights

Under FAS 156, *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140*, servicing rights resulting from the sale or securitization of loans we originate (asset transfers) are initially measured at fair value at the date of transfer. We recognize the rights to service mortgage loans for others, or mortgage servicing rights (MSRs), as assets whether we purchase the MSRs or the MSRs result from an asset transfer. We determine the fair value of servicing rights at the date of transfer using the present value of estimated future net servicing income, using assumptions that market participants use in their estimates of values. We use quoted market prices when available to determine the value of other interests held. Gain or loss on sale of loans depends on (1) proceeds received and (2) the previous carrying amount of the financial assets transferred and any interests we continue to hold (such as interest-only strips) based on relative fair value at the date of transfer.

To determine the fair value of MSRs, we use a valuation model that calculates the present value of estimated future net servicing income. We use assumptions in the valuation model that market participants use in estimating future net servicing income, including estimates of prepayment speeds (including housing price volatility), discount rate, default rates, cost to service (including delinquency and foreclosure costs), escrow account earnings, contractual servicing fee income, ancillary income and late fees. This model is validated by an independent internal model validation group operating in accordance with a model validation policy approved by the Corporate Asset/Liability Management Committee (Corporate ALCO).

MORTGAGE SERVICING RIGHTS MEASURED AT FAIR VALUE We have elected to initially measure and carry our MSRs related to residential mortgage loans (residential MSRs) using the fair value method. Under the fair value method, these residential MSRs are carried in the balance sheet at fair value and the changes in fair value, primarily due to changes in valuation inputs and assumptions and to the collection/realization of expected cash flows, are reported in noninterest income in the period in which the change occurs.

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

Premises and Equipment

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

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

Goodwill and Identifiable Intangible Assets

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

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

We amortize core deposit and other customer relationship intangibles on an accelerated basis based on useful lives not exceeding 10 years. We review such intangibles for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment is indicated if the sum of undiscounted estimated future net cash flows is less than the carrying value of the asset. Impairment is permanently recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value.

Operating Lease Assets

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

Pension Accounting

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

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

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

The expected long-term rate of return is designed to approximate the actual long-term rate of return over time and is not expected to change significantly. Therefore, the pattern of income/expense recognition should closely match the stable pattern of services provided by our employees over the life of our pension obligation. To ensure that the expected rate of return is reasonable, we consider such factors as (1) long-term historical return experience for major asset class categories (for example, large cap and small cap domestic equities, international equities and domestic fixed income), and (2) forward-looking return expectations for these major asset classes. Differences between expected and actual returns in each year, if any, are included in our net actuarial gain or loss amount, which is recognized in other comprehensive income. We generally amortize any net actuarial gain or loss in excess of a 5% corridor (as defined in FAS 87) in net periodic pension expense calculations over the next five years.

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

Income Taxes

We file consolidated and separate company federal income tax returns, foreign tax returns and various combined and separate company state tax returns.

We account for income taxes in accordance with FAS 109, *Accounting for Income Taxes,* as interpreted by FASB

Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), resulting in two components of income tax expense: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the current period and includes income tax expense related to our uncertain tax positions. We determine deferred income taxes using the balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and recognizes enacted changes in tax rates and laws in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. A tax position that meets the "more likely than not" recognition threshold is measured to determine the amount of benefit to recognize. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. Foreign taxes paid are generally applied as credits to reduce federal income taxes payable. Interest and penalties are recognized as a component of income tax expense.

Stock-Based Compensation

We have stock-based employee compensation plans as more fully discussed in Note 19. Under FAS 123(R), *Share-Based Payment*, compensation cost recognized includes (1) compensation cost for share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with FAS 123, and (2) compensation cost for all share-based awards granted on or after January 1, 2006. In calculating the common stock equivalents for purposes of diluted earnings per share, we selected the transition method provided by FASB Staff Position FAS 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards.*

Earnings Per Common Share

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

Derivatives and Hedging Activities

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

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

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

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

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

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

In all other situations in which we discontinue hedge accounting, the derivative will be carried at its fair value in the balance sheet, with changes in its fair value recognized in current period earnings.

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

Revenue Recognition

We recognize revenue when the earnings process is complete, generally on the trade date, and collectability is assured. Specifically, brokerage commission fees are recognized in income on a trade date basis. We accrue asset management fees, measured by assets at a particular date, as earned. We recognize advisory and underwriting fees when the related transaction is complete. We record commission expenses when the related revenue is recognized.

For derivative contracts, we recognize gains and losses at inception only if the fair value of the contract is evidenced by a quoted market price in an active market, an observable price of other market transactions or other observable data supporting a valuation technique. For those gains and losses that are not evidenced by market data, we use the transaction price as the fair value of the contract, and do not recognize any gain or loss at inception. Any gains or losses not meeting the criteria for initial recognition are deferred and recognized when realized.

Note 2: Business Combinations

On December 31, 2008, we acquired all outstanding shares of Wachovia Corporation (Wachovia) common stock in a stock-for-stock transaction. Wachovia, based in Charlotte, North Carolina, was 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. In the merger, Wells Fargo exchanged 0.1991 shares of its common stock for each outstanding share of Wachovia common stock, issuing a total of 422.7 million shares of Wells Fargo common stock with a December 31, 2008, value of $12.5 billion to Wachovia shareholders. Shares of each outstanding series of Wachovia preferred stock were converted into shares (or fractional shares) of a corresponding series of Wells Fargo preferred stock having substantially the same rights and preferences. Because the acquisition was completed at the end of 2008, Wachovia's results of operations for 2008 are not included in our income statement.

The Wachovia acquisition was accounted for under the purchase method of accounting in accordance with FAS 141. The statement of net assets acquired as of December 31, 2008, purchase price and the computation of goodwill related to the merger of Wells Fargo and Wachovia are presented in the following table.

The assets and liabilities of Wachovia were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. Because the transaction closed on the last day of the annual reporting period, certain fair value purchase accounting adjustments were based on data as of an interim period with estimates through year end. Accordingly, we will be re-validating and, where necessary, refining our purchase accounting adjustments. We expect that the refinements will focus largely on loans with evidence of credit deterioration. The impact of any changes will be recorded as an adjustment to goodwill. Additional exit reserves related to costs associated with involuntary employee termination, contract termination penalties and closing duplicate facilities will be recorded within the next year as part of the further integration of Wachovia's employees, locations and operations with Wells Fargo. At December 31, 2008, $199 million of exit reserves in connection with management's finalized integration plans have been allocated to the purchase price and included in the following table.

The pro forma consolidated condensed statements of income for Wells Fargo and Wachovia for the years ended December 31, 2008 and 2007, are presented on the following page. The unaudited pro forma information presented does not necessarily reflect the results of operations that would have resulted had the merger been completed at the beginning of the applicable periods presented, nor does it indicate the results of operations in future periods.

The pro forma purchase accounting adjustments related to loans and leases, bank-owned life insurance, deposits and long-term debt are being accreted or amortized into income using methods that approximate a level yield over their respective estimated lives. Purchase accounting adjustments related to identifiable intangibles are being amortized and recorded as noninterest expense over their respective estimated lives using accelerated methods. The pro forma consolidated condensed statements of income do not reflect any adjustments to Wachovia's historical provision for credit losses and goodwill impairment charges.

Statement of Net Assets Acquired (at fair value)

(in millions) December 31, 2008

ASSETS	
Cash and cash equivalents	$109,534
Trading account assets	44,102
Securities	67,356
Loans	450,967
Allowance for loan losses	(7,487)
Loans, net	443,480
Goodwill	8,802
Other intangible assets	
Core deposit intangible	11,625
Brokerage relationship intangible	1,260
Other relationship intangibles	1,855
Other assets	18,507
Total assets	706,521
LIABILITIES	
Deposits	426,126
Short-term borrowings	69,383
Other liabilities	27,962
Long-term debt	159,958
Total liabilities	683,429
Net assets acquired	$ 23,092

Purchase Price and Goodwill	
Purchase price:	
Value of common shares	$ 14,621
Value of preferred shares	8,409
Other (value of share based awards and direct acquisition costs)	62
Total purchase price	23,092
Allocation of the purchase price:	
Wachovia tangible stockholders' equity, less prior purchase accounting adjustments and other basis adjustments eliminated in purchase accounting	19,394
Adjustments to reflect assets acquired and liabilities assumed at fair value:	
Loans and leases, net	(16,397)
Premises and equipment, net	(456)
Intangible assets	14,740
Other assets	(3,444)
Deposits	(4,434)
Accrued expenses and other liabilities (exit, termination and other liabilities)	(1,599)
Long-term debt	(190)
Deferred taxes	6,676
Fair value of net assets acquired	14,290
Goodwill resulting from the merger	$ 8,802

Pro Forma Consolidated Condensed Statements of Income (Unaudited)

(in millions, except per share data)	Year ended December 31, 2008				Year ended December 31, 2007			
	Wells Fargo	**Wachovia**	**Pro forma adjustments**	**Pro forma combined**	Wells Fargo	Wachovia	Pro forma adjustments	Pro forma combined
Interest income	**$34,898**	**$ 36,867**	**$ (2,123)**	**$ 69,642**	$35,177	$42,231	$ (2,123)	$75,285
Interest expense	**9,755**	**18,329**	**(2,577)**	**25,507**	14,203	24,101	(2,577)	35,727
Net interest income	**25,143**	**18,538**	**454**	**44,135**	20,974	18,130	454	39,558
Provision for credit losses [1]	**15,979**	**22,431**	**—**	**38,410**	4,939	2,261	—	7,200
Net interest income (loss) after provision for credit losses	**9,164**	**(3,893)**	**454**	**5,725**	16,035	15,869	454	32,358
Noninterest income	**16,754**	**3,875**	**—**	**20,629**	18,416	13,297	—	31,713
Noninterest expense [2]	**22,661**	**49,017**	**2,464**	**74,142**	22,824	20,393	2,464	45,681
Income (loss) before taxes (benefit)	**3,257**	**(49,035)**	**(2,010)**	**(47,788)**	11,627	8,773	(2,010)	18,390
Income taxes (benefit)	**602**	**(4,711)**	**(746)**	**(4,855)**	3,570	2,461	(746)	5,285
Net income (loss)	**$ 2,655**	**$(44,324)**	**$ (1,264)**	**$(42,933)**	$ 8,057	$ 6,312	$ (1,264)	$13,105
Net income (loss) applicable to common stock	**$ 2,369**	**$(44,873)**	**$ (1,264)**	**$(43,768)**	$ 8,057	$ 6,312	$ (1,264)	$13,105
Earnings (loss) per common share	**$ 0.70**	**$ (21.50)**	**$ —**	**$ (11.54)**	$ 2.41	$ 3.31	$ —	$ 3.52
Diluted earnings (loss) per common share	**$ 0.70**	**$ (21.50)**	**$ —**	**$ (11.54)**	$ 2.38	$ 3.26	$ —	$ 3.48
Average common shares outstanding	**3,378.1**	**2,087.4**	**(1,671.8)**	**3,793.7**	3,348.5	1,907.2	(1,527.5)	3,728.2
Diluted average common shares outstanding	**3,391.3**	**2,097.4**	**(1,679.8)**	**3,808.9**	3,382.8	1,934.2	(1,549.2)	3,767.8

(1) For 2008 includes $2.7 billion and $1.2 billion recorded by Wells Fargo and Wachovia, respectively, to conform credit reserve practices of both companies.
(2) For 2008 includes goodwill impairment of $24.8 billion recorded by Wachovia on a historical basis.

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.

In addition to the Wachovia acquisition, business combinations completed in 2008, 2007 and 2006 are presented below.

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

(in millions)	Date	Assets
2008		
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
Farmers State Bank of Fort Morgan Colorado, Fort Morgan, Colorado	December 6	186
Century Bancshares, Inc., Dallas, Texas	December 31	1,604
Wells Fargo Merchant Services, LLC (2)	December 31	1,251
Other (3)	Various	52
		$ 5,557
2007		
Placer Sierra Bancshares, Sacramento, California	June 1	$ 2,644
Certain assets of The CIT Group/Equipment Financing, Inc., Tempe, Arizona	June 29	2,888
Greater Bay Bancorp, East Palo Alto, California	October 1	8,204
Certain Illinois branches of National City Bank, Cleveland, Ohio	December 7	61
Other (4)	Various	61
		$13,858
2006		
Secured Capital Corp/Secured Capital LLC, Los Angeles, California	January 18	$ 132
Martinius Corporation, Rogers, Minnesota	March 1	91
Commerce Funding Corporation, Vienna, Virginia	April 17	82
Fremont National Bank of Canon City/Centennial Bank of Pueblo, Canon City and Pueblo, Colorado	June 7	201
Certain assets of the Reilly Mortgage Companies, McLean, Virginia	August 1	303
Barrington Associates, Los Angeles, California	October 2	65
EFC Partners LP (Evergreen Funding), Dallas, Texas	December 15	93
Other (5)	Various	20
		$ 987

(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) Represents a step acquisition resulting from the increase in Wells Fargo's ownership from a 47.5% interest to a 60% interest in the Wells Fargo Merchant Services, LLC joint venture.
(3) Consists of twelve acquisitions of insurance brokerage businesses.
(4) Consists of six acquisitions of insurance brokerage and third party health care payment processing businesses.
(5) Consists of seven acquisitions of insurance brokerage businesses.

Note 3: Cash, Loan and Dividend Restrictions

Federal Reserve Board regulations require that each of our subsidiary banks maintain reserve balances on deposit with the Federal Reserve Banks. The average required reserve balance was $2.6 billion in 2008 and $2.0 billion in 2007.

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

Dividends paid by our subsidiary banks are subject to various federal and state regulatory limitations. Dividends that may be paid by a national bank without the express approval of the Office of the Comptroller of the Currency (OCC) are limited to that bank's retained net profits for the preceding two calendar years plus retained net profits up to the date of any dividend declaration in the current calendar year. Retained net profits, as defined by the OCC, consist of net income less dividends declared during the period. We also have state-chartered subsidiary banks that are subject to state regulations that limit dividends. Under those provisions, our national and state-chartered subsidiary banks could have declared additional dividends of $471 million at December 31, 2008, without obtaining prior regulatory approval. Our nonbank subsidiaries are also limited by certain federal and state statutory provisions and regulations covering the amount of dividends that may be paid in any given year. Based on retained earnings at December 31, 2008, our nonbank subsidiaries could have declared additional dividends of $3.2 billion at December 31, 2008, without obtaining prior approval.

On October 28, 2008, the Parent issued to the United States Department of the Treasury 25,000 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series D without par value. Prior to October 28, 2011, unless the Parent has redeemed the Series D Preferred Stock or the Treasury Department has transferred the Series D Preferred Stock to a third party, the consent of the Treasury Department will be required for the Parent to increase its common stock dividend.

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

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

(in millions)	December 31, 2008	2007
Federal funds sold and securities purchased under resale agreements	$ 8,439	$1,700
Interest-earning deposits	39,890	460
Other short-term investments	1,104	594
Total	$49,433	$2,754

For resale agreements, which represent collateralized financing transactions, we hold collateral in the form of securities that we have the right to sell or repledge of $1.6 billion at December 31, 2008, and $1.1 billion at December 31, 2007, of which we sold or repledged $343 million and $705 million, respectively.

Note 5: Securities Available for Sale

The following table provides the cost and fair value for the major categories of securities available for sale carried at fair value. The net unrealized gains (losses) are reported on an after-tax basis as a component of cumulative other comprehensive income. There were no securities classified as held to maturity as of the periods presented.

(in millions)				2008				December 31, 2007
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Securities of U.S. Treasury and federal agencies	$ 3,187	$ 62	$ —	$ 3,249	$ 962	$ 20	$ —	$ 982
Securities of U.S. states and political subdivisions	14,062	116	(1,520)	12,658	6,128	135	(111)	6,152
Mortgage-backed securities:								
Federal agencies	64,726	1,711	(3)	66,434	34,092	898	(3)	34,987
Private collateralized mortgage obligations (1)	41,841	62	(8,595)	33,308	20,026	82	(126)	19,982
Total mortgage-backed securities	106,567	1,773	(8,598)	99,742	54,118	980	(129)	54,969
Other	31,379	116	(1,711)	29,784	8,185	45	(165)	8,065
Total debt securities	155,195	2,067	(11,829)	145,433	69,393	1,180	(405)	70,168
Marketable equity securities:								
Perpetual preferred securities	5,040	13	(327)	4,726	2,082	6	(236)	1,852
Other marketable equity securities	1,256	181	(27)	1,410	796	166	(31)	931
Total marketable equity securities	6,296	194	(354)	6,136	2,878	172	(267)	2,783
Total (2)	$161,491	$2,261	$(12,183)	$151,569	$72,271	$1,352	$(672)	$72,951

(1) A majority of the private collateralized mortgage obligations are AAA-rated bonds collateralized by 1-4 family residential first mortgages.
(2) At December 31, 2008, we held no securities of any single issuer (excluding the U.S. Treasury and federal agencies) with a book value that exceeded 10% of stockholders' equity.

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

(in millions)	Less than 12 months		12 months or more			Total
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
December 31, 2007						
Securities of U.S. Treasury and federal agencies	$ —	$ —	$ —	$ —	$ —	$ —
Securities of U.S. states and political subdivisions	(98)	1,957	(13)	70	(111)	2,027
Mortgage-backed securities:						
Federal agencies	(1)	39	(2)	150	(3)	189
Private collateralized mortgage obligations	(124)	7,722	(2)	54	(126)	7,776
Total mortgage-backed securities	(125)	7,761	(4)	204	(129)	7,965
Other	(140)	2,425	(25)	491	(165)	2,916
Total debt securities	(363)	12,143	(42)	765	(405)	12,908
Marketable equity securities:						
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
December 31, 2008						
Securities of U.S. Treasury and federal agencies	$ —	$ —	$ —	$ —	$ —	$ —
Securities of U.S. states and political subdivisions	(745)	3,483	(775)	1,702	(1,520)	5,185
Mortgage-backed securities:						
Federal agencies	(3)	83	—	—	(3)	83
Private collateralized mortgage obligations	(6,197)	14,112	(2,398)	2,540	(8,595)	16,652
Total mortgage-backed securities	(6,200)	14,195	(2,398)	2,540	(8,598)	16,735
Other	(952)	9,909	(759)	687	(1,711)	10,596
Total debt securities	(7,897)	27,587	(3,932)	4,929	(11,829)	32,516
Marketable equity securities:						
Perpetual preferred securities	(75)	265	(252)	360	(327)	625
Other marketable equity securities	(23)	72	(4)	9	(27)	81
Total marketable equity securities	(98)	337	(256)	369	(354)	706
Total	$(7,995)	$27,924	$(4,188)	$5,298	$(12,183)	$33,222

The unrealized losses associated with debt securities that had been in a continuous loss position for 12 months or more at December 31, 2008, were primarily due to extraordinarily wide asset spreads for residential mortgage, commercial mortgage and commercial loan asset-backed securities resulting from an illiquid market, which caused these assets to be valued at significant discounts to their acquisition cost. At December 31, 2008, we believed that it is probable that we will be able to collect all contractually due principal and interest on these securities. We evaluate these securities for impairment in accordance with our policies on a quarterly basis or more frequently if a loss-triggering event occurs. This evaluation includes evaluating whether there have been any changes in security ratings issued by ratings agencies, performance of the underlying collateral for asset-backed securities including delinquency rates, cumulative losses to date, and the remaining credit enhancement as compared to expected credit losses of the security.

The unrealized losses associated with private collateralized mortgage obligations related to securities backed by commercial mortgages and residential mortgages. Approximately 75% of the securities were AAA-rated by at least one major rating agency. We estimate loss projections for each security by assessing individual loans collateralizing the security and determining expected default rates and loss severities. In addition, based upon our assessment of expected credit losses of the security given the performance of the underlying collateral compared to our credit enhancement, we concluded that these securities were not other-than-temporarily impaired at December 31, 2008.

The unrealized losses associated with other securities related to securities backed by commercial loans and individual issuer companies. For securities with commercial loans as the underlying collateral, we have evaluated the expected credit losses in the security and concluded that we have sufficient credit enhancement when compared with our estimate of credit losses for the individual security. For individual issuers, we evaluate the financial performance of the issuer on a quarterly basis to determine if it is probable that the issuer can make all contractual principal and interest payments.

The unrealized losses associated with securities of U.S. states and political subdivisions are primarily driven by changes in interest rates and not due to the credit quality of the securities. These investments are almost exclusively investment grade and were generally underwritten in accordance with our own investment standards prior to the determination to purchase, without relying on a bond insurer's guarantee in making the investment decision. These securities will continue to be monitored as part of our on-going impairment analysis, but are expected to perform, even if the rating agencies reduce the credit rating of the bond insurers. As a result, we concluded that these securities were not other-than-temporarily impaired at December 31, 2008.

Because we have the ability and intent to hold these debt securities until a recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at December 31, 2008.

Our marketable equity securities included approximately $4.7 billion of investments in perpetual preferred securities at December 31, 2008. These securities provide very attractive tax-equivalent yields and were current as to periodic distributions in accordance with their respective terms as of December 31, 2008. We have opportunistically increased our holdings in these securities over the past 18 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 as a result of the continued widening of credit spreads. We evaluated these hybrid financial instruments for impairment using an evaluation methodology similar to that used for debt securities. Perpetual preferred securities were not other-than-temporarily impaired at December 31, 2008, if 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 these securities for recovery in their market value in accordance with our policy for determining other-than-temporary impairment. We have recorded impairment write-downs on perpetual preferred securities where there was evidence of credit deterioration.

The fair values of our investment securities could decline in the future if the underlying performance of the collateral for the private collateralized mortgage obligations or other securities deteriorate and our credit enhancement levels do not provide sufficient protection to our contractual principal and interest. As a result, there is a risk that significant other-than-temporary impairments may occur in the future given the current economic environment.

Securities pledged where the secured party has the right to sell or repledge totaled $10.1 billion at December 31, 2008, and $5.8 billion at December 31, 2007. Securities pledged where the secured party does not have the right to sell or repledge totaled $71.6 billion at December 31, 2008, and $44.9 billion at December 31, 2007, primarily to secure trust and public deposits and for other purposes as required or permitted by law.

The following table shows the net realized gains on the sales of securities from the securities available-for-sale portfolio, including marketable equity securities. Gross realized losses included other-than-temporary impairment of $1,790 million, $50 million and $22 million for 2008, 2007 and 2006, respectively. Other-than-temporary impairment for 2008 included $1,057 million related to perpetual preferred securities that were either downgraded to less than investment grade or evidenced other significant credit deterioration events.

(in millions)	Year ended December 31,		
	2008	2007	2006
Gross realized gains	$ 1,918	$ 472	$ 621
Gross realized losses	(1,883)	(127)	(295)
Net realized gains	$ 35	$ 345	$ 326

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

(in millions)			December 31, 2008							
			Remaining contractual principal maturity							
	Total amount	Weighted-average yield	Within one year		After one year through five years		After five years through ten years		After ten years	
			Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities of U.S. Treasury and federal agencies	$ 3,249	1.54%	$1,719	0.02%	$ 1,127	3.15%	$ 388	3.40%	$ 15	4.79%
Securities of U.S. states and political subdivisions	12,658	7.54	210	5.54	784	7.36	1,163	7.39	10,501	7.61
Mortgage-backed securities:										
Federal agencies	66,434	5.73	42	4.23	122	4.98	353	6.02	65,917	5.73
Private collateralized mortgage obligations	33,308	7.04	—	—	5	2.22	169	8.54	33,134	7.03
Total mortgage-backed securities	99,742	6.17	42	4.23	127	4.87	522	6.83	99,051	6.17
Other	29,784	5.27	475	5.34	11,874	6.59	4,367	5.97	13,068	3.85
Total debt securities at fair value (1)	$145,433	6.00%	$2,446	1.60%	$13,912	6.34%	$6,440	6.14%	$122,635	6.04%

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

Note 6: Loans and Allowance for Credit Losses

Certain loans acquired in the Wachovia acquisition are subject to SOP 03-3 (see Note 1). These include loans where it is probable that we will not collect all contractual principal and interest. Loans within the scope of SOP 03-3 are initially recorded at fair value, and no allowance is carried over or initially recorded. A summary of the major categories of loans outstanding showing those subject to SOP 03-3 is presented in the following table.

(in millions)						December 31,	
			2008	2007	2006	2005	2004
	SOP 03-3 loans	All other loans	Total				
Commercial and commercial real estate:							
Commercial	$ 4,580	$197,889	$202,469	$ 90,468	$ 70,404	$ 61,552	$ 54,517
Other real estate mortgage	7,762	95,346	103,108	36,747	30,112	28,545	29,804
Real estate construction	4,503	30,173	34,676	18,854	15,935	13,406	9,025
Lease financing	—	15,829	15,829	6,772	5,614	5,400	5,169
Total commercial and commercial real estate	16,845	339,237	356,082	152,841	122,065	108,903	98,515
Consumer:							
Real estate 1-4 family first mortgage	39,214	208,680	247,894	71,415	53,228	77,768	87,686
Real estate 1-4 family junior lien mortgage	728	109,436	110,164	75,565	68,926	59,143	52,190
Credit card	—	23,555	23,555	18,762	14,697	12,009	10,260
Other revolving credit and installment	151	93,102	93,253	56,171	53,534	47,462	34,725
Total consumer	40,093	434,773	474,866	221,913	190,385	196,382	184,861
Foreign	1,859	32,023	33,882	7,441	6,666	5,552	4,210
Total loans	$58,797	$806,033	$864,830	$382,195	$319,116	$310,837	$287,586

Outstanding loan balances are presented net of unearned income, net deferred loan fees, and unamortized discount and premium totaling $16,891 million and $4,083 million at December 31, 2008 and 2007, respectively. Loans subject to SOP 03-3 are presented net of the related accretable yield and nonaccretable difference.

Transactions with VIEs

Our transactions with VIEs include securitization, investment and financing activities involving collateralized debt obligations (CDOs) backed by asset-backed and commercial real estate securities, collateralized loan obligations (CLOs) backed by corporate loans or bonds, and other types of structured financing. We have various forms of involvement with SPEs, including holding senior or subordinated interests, entering into liquidity arrangements, credit default swaps and other derivative contracts.

A summary of our involvements with off-balance sheet (unconsolidated) VIEs is as follows:

(in millions)					December 31, 2008
	Total VIE assets [1]	Debt and equity interests	Derivatives	Other commit-ments and guarantees	Total
		Carrying value – asset (liability)			
CDOs	$ 48,802	$14,080	$ 1,053	$ —	$15,133
Wachovia administered ABCP conduit	10,767	—	—	—	—
Asset-based lending structures	11,614	9,232	(136)	—	9,096
Tax credit structures	22,882	4,366	—	(516)	3,850
CLOs	23,339	3,217	109	—	3,326
Investment funds	105,808	3,543	—	—	3,543
Credit-linked note structures	12,993	50	1,472	—	1,522
Money market funds	31,843	50	10	—	60
Other [2]	1,832	3,983	(36)	(141)	3,806
Total	$269,880	$38,521	$ 2,472	$ (657)	$40,336
		Maximum exposure to loss [3]			
CDOs		$14,080	$ 4,849	$1,514	$20,443
Wachovia administered ABCP conduit		—	15,824	—	15,824
Asset-based lending structures		9,346	136	—	9,482
Tax credit structures		4,366	—	560	4,926
CLOs		3,217	109	555	3,881
Investment funds		3,550	—	140	3,690
Credit-linked note structures		50	2,253	—	2,303
Money market funds		50	51	—	101
Other [2]		3,991	130	578	4,699
Total		$38,650	$23,352	$3,347	$65,349

(1) Represents the remaining principal balance of assets held by unconsolidated VIEs using the most current information available. For VIEs that obtain exposure to assets synthetically through derivative instruments, the remaining notional amount of the derivative is included in the asset balance.
(2) Contains investments in auction rate securities issued by VIEs that we do not sponsor and, accordingly, are unable to obtain the total assets of the entity.
(3) Represents the carrying amount of the continuing involvement plus remaining undrawn liquidity and lending commitments, notional amount of net written derivative contracts, and notional amount of other commitments and guarantees.

COLLATERALIZED DEBT OBLIGATIONS AND COLLATERALIZED LOAN OBLIGATIONS A CDO or CLO is a securitization where an SPE purchases a pool of assets consisting of asset-backed securities or loans and issues multiple tranches of equity or notes to investors. In some transactions a portion of the assets are obtained synthetically through the use of derivatives such as credit default swaps or total return swaps. Generally, CDOs and CLOs are structured on behalf of a third party asset manager that typically selects and manages the assets for the term of the CDO or CLO. Typically, the asset manager has some discretion to manage the sale of assets of, or derivatives used by the CDOs and CLOs.

Prior to the securitization, we may provide all or substantially all of the warehouse financing to the asset manager. The asset manager uses this financing to purchase the assets into a bankruptcy remote SPE during the warehouse period. At the completion of the warehouse period, the assets are sold to the CDO or CLO and the warehouse financing is repaid with the proceeds received from the securitization's investors. The warehousing period is generally less than 12 months in duration. In the event the securitization does not take place, the assets in the warehouse are liquidated. We consolidate the warehouse SPEs when we are the primary beneficiary. We are the primary beneficiary when we provide substantially all of the financing and therefore absorb the majority of the variability. Sometimes we have loss sharing arrangements whereby a third party asset manager agrees to absorb the credit and market risk during the warehousing period or upon liquidation of the collateral in the event a securitization does not take place. In those circumstances we do not consolidate the warehouse SPE because the third party asset manager absorbs the majority of the variability through the loss sharing arrangement.

In addition to our role as arranger and warehouse financing provider, we may have other forms of involvement with these transactions. Such involvements may include underwriter, liquidity provider, derivative counterparty, secondary market maker or investor. For certain transactions, we may also act as the collateral manager or servicer. We receive fees in connection with our role as collateral manager or servicer. We also earn fees for arranging these transactions and distributing the securities.

We assess whether we are the primary beneficiary of CDOs and CLOs at inception of the transactions based on our expectation of the variability associated with our continuing involvement. Subsequently, we monitor our ongoing involvement in these transactions to determine if a more frequent assessment of variability is necessary. Variability in these transactions may be created by credit risk, market risk, interest rate risk or liquidity risk associated with the CDO's or CLO's assets. Our assessment of the variability is performed qualitatively because our continuing involvement is typically senior in priority to the third party investors in transactions. In most cases, we are not the primary beneficiary of these transactions because we do not retain the subordinate interests in these transactions and, accordingly, do not absorb the majority of the variability.

MULTI-SELLER COMMERCIAL PAPER CONDUIT We administer a multi-seller asset-backed commercial paper (ABCP) conduit that arranges financing for certain client transactions. We acquired the relationship with this conduit in the Wachovia merger. This conduit is a bankruptcy remote entity that makes loans to, or purchases certificated interests from SPEs established by our clients (sellers) and which are secured by pools of financial assets. The conduit funds itself through the issuance of highly rated commercial paper to third party investors. The primary source of repayment of the commercial paper is the cash flows from the conduit's assets or the re-issuance of commercial paper upon maturity. The conduit's assets are structured with deal-specific credit enhancements generally in the form of overcollateralization provided by the seller, but also may include subordinated interests, cash reserve accounts, third party credit support facilities and excess spread capture. The table below summarizes the weighted average credit rating equivalents of the conduit's assets. These ratings are as of December 31, 2008, and are based on internal rating criteria. The weighted average life of the conduit's assets was 3.0 years at December 31, 2008.

The composition of the conduit's assets was as follows:

	December 31, 2008	
	Funded asset composition	Total committed exposure
Auto loans	34.1%	26.7%
Commercial and middle market loans	27.6	32.6
Equipment loans	14.4	11.4
Trade receivables	8.8	10.9
Credit cards	7.0	7.9
Leases	6.1	7.0
Other	2.0	3.5
Total	100%	100%

The credit rating of the conduit's assets was as follows:

	December 31, 2008	
	Funded asset composition	Total committed exposure
AAA	9.4%	10.4%
AA	8.3	11.7
A	52.2	51.5
BBB	30.1	26.4
Total	100%	100%

The timely repayment of the commercial paper is further supported by asset-specific liquidity facilities in the form of asset purchase agreements that we provide. Each facility is equal to 102% of the conduit's funding commitments to a client. The aggregate amount of liquidity must be equal to or greater than all the commercial paper issued by the conduit. At the discretion of the administrator, we may be required to purchase assets from the conduit at par value plus interest, including situations where the conduit is unable to issue commercial paper. Par value may be different from fair value.

We receive fees in connection with our role as administrator and liquidity provider. We may also receive fees related to the structuring of the conduit's transactions.

The weighted-average life of the commercial paper was 12.4 days in 2008 and the average yield on the commercial paper was 2.57%. The ability of the conduit to issue commercial paper, which is a function of general market conditions and the credit rating of the liquidity provider was challenging during 2008 as a result of the credit market disruption. Although investors continued to purchase the conduit's commercial paper, they did so at higher spreads and shorter maturities. When the conduit's commercial paper maturities exceeded investor demand, Wachovia purchased some of the conduit's commercial paper. During 2008, the maximum amount of commercial paper purchased on any given day was $3.9 billion, or 33.6%, of the then outstanding commercial paper. These purchases were made at market rates. At December 31, 2008, we did not hold any of the commercial paper issued by the conduit. All commercial paper purchased was repaid at maturity through the issuance of new commercial paper notes to third parties.

The conduit has issued a subordinated note to a third party investor. The subordinated note is designed to absorb the expected variability associated with the credit risk in the conduit's assets as well as assets that may be funded by us as a result of a purchase under the provisions of the liquidity purchase agreements. Actual credit losses incurred on the conduit's assets or assets purchased under the liquidity facilities are absorbed first by the subordinated note prior to any allocation to us as the liquidity provider. At December 31, 2008, the balance of the subordinated note was $13 million and it matures in 2016.

At least quarterly, or more often if circumstances dictate, we assess whether we are the primary beneficiary of the conduit based on our expectation of the variability associated with our liquidity facility and administrative fee arrangement. Such circumstances may include changes to deal-specific liquidity arrangements, changes to the terms of the conduit's assets or the purchase of the conduit's commercial paper. We assess variability using a quantitative expected loss model. The key inputs to the model include internally generated risk ratings that are mapped to third party rating agency loss-given-default assumptions. We do not consolidate the conduit because our expected loss model indicates that the holder of the subordinated note absorbs the majority of the variability of the conduits' assets. Although we are not required to consolidate the conduit, consolidation of the conduit would not have a material effect on our leverage ratio or Tier 1 capital.

ASSET-BASED LENDING STRUCTURES We engage in various forms of structured lending arrangements with VIEs that are collateralized by various asset classes including energy contracts, auto and other transportation leases, intellectual property, equipment and general corporate credit. We typically provide senior financing, and may act as an interest rate swap or commodity derivative counterparty when necessary. In most cases, we are not the primary beneficiary of these structures because we do not retain a majority of the variability in these transactions.

For example, we had investments in asset backed securities that were collateralized by auto leases and cash reserves. These fixed-rate securities have been structured as single-tranche, fully amortizing, unrated bonds that are equivalent to investment-grade securities due to their significant overcollateralization. The securities are issued by SPEs that have been formed and sponsored by third party auto financing institutions primarily because they require a source of liquidity to fund ongoing vehicle sales operations. The structures are designed to keep the overwhelming majority of the primary risks associated with structures (credit risk and residual value risk of the autos) with the sponsors of the SPEs.

TAX CREDIT STRUCTURES We make passive investments in affordable housing and sustainable energy projects that are designed to generate a return primarily through the realization of federal tax credits. In some instances, our investments in these structures may require that we fund future capital commitments at the discretion of the project sponsors. While the size of our investment in a single entity may at times exceed 50% of the outstanding equity interests, we do not consolidate these structures due to performance guarantees provided by the project sponsors giving them a majority of the variability.

INVESTMENT FUNDS We have investments of $2.1 billion and lending arrangements of $349 million with certain funds managed by one of our majority owned subsidiaries. In addition, we also provide a default protection agreement to a third party lender to one of these funds. Our involvements in these funds are either senior or of equal priority to third party investors. We do not consolidate the investment funds because we do not absorb the majority of the expected future variability associated with the funds' assets, including variability associated with credit, interest rate and liquidity risks.

We are also a passive investor in various investment funds that invest directly in private equity and mezzanine securities as well as funds sponsored by select private equity and venture capital groups. We also invest in hedge funds on behalf of clients. In these transactions, we use various derivative contracts that are designed to provide our clients with the returns of the underlying hedge fund investments. We do not consolidate these funds because we do not hold a majority of the subordinate interests in these funds.

MONEY MARKET FUNDS We entered into a capital support agreement in first quarter 2008 for up to $130 million related to an investment in a structured investment vehicle (SIV) held by our AAA-rated non-government money market funds. In third quarter 2008, we fulfilled our obligation under this agreement by purchasing the SIV investment from the funds. At December 31, 2008, the SIV investment was recorded as a debt security in our securities available-for-sale portfolio. In addition, at December 31, 2008, we had outstanding support agreements of $101 million to certain other funds to support the value of certain investments held by those funds. We recorded a guarantee liability of $10 million in fourth quarter 2008 in connection with these support agreements. We do not consolidate these funds because 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 agreements for the funds, we are not obligated and may elect not to provide additional support to these funds or other funds in the future.

CREDIT-LINKED NOTE STRUCTURES We structure transactions for clients designed to provide investors with specified returns based on the returns of an underlying security, loan or index. To generate regulatory capital for the Company, we also structure similar transactions that are indexed to the returns of a pool of underlying securities or loans that we own. These transactions result in the issuance of credit-linked notes. These transactions typically involve a bankruptcy remote SPE that synthetically obtains exposure to the underlying through a derivative instrument such as a written credit default swap or total return swap. The SPE issues notes to investors based on the referenced underlying. Proceeds received from the issuance of these notes are usually invested in investment grade financial assets. We are typically the derivative counterparty to these transactions and administrator responsible for investing the note proceeds. We do not consolidate these SPEs because we typically do not hold any of the notes that they issue.

OTHER TRANSACTIONS WITH VIEs In August 2008, Wachovia reached an agreement to purchase at par auction rate securities (ARS) that were sold to third party investors by two of its subsidiaries. See Note 15 for more information on the details of this agreement. ARS are debt instruments with long-term maturities, but which reprice more frequently. Certain of these securities were issued by VIEs. At December 31, 2008, we held in our securities available-for-sale portfolio $3.7 billion of ARS issued by VIEs that we redeemed pursuant to this agreement. At December 31, 2008, we had a liability in our balance sheet of $91 million for additional losses on anticipated future redemptions of ARS issued by VIEs. Were we to redeem all remaining ARS issued by VIEs that are subject to the agreement, our estimated maximum exposure to loss would be $620 million; however, certain of these securities may be repaid in full by the issuer prior to redemption. We do not consolidate the VIEs that issued the ARS because we do not expect to absorb the majority of the expected future variability associated with the VIEs' assets.

TRUST PREFERRED SECURITIES In addition to the involvements disclosed in the above table, we have $16.6 billion of debt financing through the issuance of trust preferred securities at December 31, 2008. In these transactions, VIEs that we wholly own issue preferred equity or debt securities to third party investors. All of the proceeds of the issuance are invested in debt securities that we issue to the VIEs. In certain instances, we may provide liquidity to third party investors that purchase long-term securities that reprice frequently issued by VIEs. The VIE's operations and cash flows relate only to the issuance, administration and repayment of the securities held by third parties. We do not consolidate these VIEs because the VIEs' sole assets are receivables from us. This is the case even though we own all of the VIEs' voting equity shares, have fully guaranteed the VIEs' obligations and may have the right to redeem the third party securities under certain circumstances. We report the debt securities that we issue to the VIEs as long-term debt in our consolidated balance sheet.

A summary of our transactions with VIEs accounted for as secured borrowings and involvements with consolidated VIEs is as follows:

(in millions)	Carrying value at December 31, 2008 (1)			
	Total assets	Consolidated assets	Third party liabilities	Minority interest
Secured borrowings:				
Municipal tender option bond securitizations	$ 6,358	$ 6,280	$ 4,765	$ —
Auto loan securitizations	2,134	2,134	1,869	—
Commercial real estate loans	1,294	1,294	1,258	—
Residential mortgage securitizations	1,124	995	699	—
Total secured borrowings	10,910	10,703	8,591	—
Consolidated VIEs:				
Structured asset finance	3,491	1,666	1,481	13
Investment funds	1,119	1,070	155	97
Other	1,007	1,007	774	11
Total consolidated VIEs	5,617	3,743	2,410	121
Total secured borrowings and consolidated VIEs	$16,527	$14,446	$11,001	$121

(1) Amounts exclude loan loss reserves, and total assets may differ from consolidated assets due to the different measurement methods used depending on the assets' classifications.

We have raised financing through the securitization of certain financial assets in transactions with VIEs accounted for as secured borrowings. We also consolidate VIEs where we are the primary beneficiary. In certain transactions we provide contractual support in the form of limited recourse and liquidity to facilitate the remarketing of short-term securities issued to third party investors. Other than this limited contractual support, the assets of the VIEs are the sole source of repayment of the securities held by third parties.

Note 9: Mortgage Banking Activities

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

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

(in millions)	Year ended December 31, 2008	2007	2006
Fair value, beginning of year	$16,763	$17,591	$12,547
Purchases	191	803	3,859
Acquired from Wachovia	479	—	—
Servicing from securitizations or asset transfers	3,450	3,680	4,107
Sales	(269)	(1,714)	(469)
Net additions	3,851	2,769	7,497
Changes in fair value:			
Due to changes in valuation model inputs or assumptions (1)	(3,341)	(571)	(9)
Other changes in fair value (2)	(2,559)	(3,026)	(2,444)
Total changes in fair value	(5,900)	(3,597)	(2,453)
Fair value, end of year	$14,714	$16,763	$17,591

(1) Principally reflects changes in discount rates and prepayment speed assumptions, mostly due to changes in interest rates.
(2) Represents changes due to collection/realization of expected cash flows over time.

The changes in amortized MSRs were:

(in millions)	Year ended December 31, 2008	2007	2006
Balance, beginning of year	$ 466	$377	$122
Purchases (1)	10	120	278
Acquired from Wachovia	1,021	—	—
Servicing from securitizations or asset transfers (1)	24	40	11
Amortization	(75)	(71)	(34)
Balance, end of year (2)	$1,446	$466	$377
Fair value of amortized MSRs:			
Beginning of year	$ 573	$457	$146
End of year	1,555	573	457

(1) Based on December 31, 2008, assumptions, the weighted-average amortization period for MSRs added during the year was approximately 7.6 years.
(2) There was no valuation allowance for the periods presented.

The components of our managed servicing portfolio were:

(in billions)	December 31, 2008	2007
Loans serviced for others (1)	$1,860	$1,430
Owned loans serviced (2)	268	98
Total owned servicing	2,128	1,528
Sub-servicing	26	23
Total managed servicing portfolio	$2,154	$1,551
Ratio of MSRs to related loans serviced for others	0.87%	1.20%

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

The components of mortgage banking noninterest income were:

(in millions)	Year ended December 31, 2008	2007	2006
Servicing income, net:			
Servicing fees (1)	$ 3,855	$ 4,025	$ 3,525
Changes in fair value of residential MSRs:			
Due to changes in valuation model inputs or assumptions (2)	(3,341)	(571)	(9)
Other changes in fair value (3)	(2,559)	(3,026)	(2,444)
Total changes in fair value of residential MSRs	(5,900)	(3,597)	(2,453)
Amortization	(75)	(71)	(34)
Net derivative gains (losses) from economic hedges (4)	3,099	1,154	(145)
Total servicing income, net	979	1,511	893
Net gains on mortgage loan origination/sales activities	1,183	1,289	1,116
All other	363	333	302
Total mortgage banking noninterest income	$ 2,525	$ 3,133	$ 2,311
Market-related valuation changes to MSRs, net of economic hedge results (2) + (4)	$ (242)	$ 583	$ (154)

(1) Includes contractually specified servicing fees, late charges and other ancillary revenues. Also includes impairment write-downs on other interests held of $26 million for 2006. There were no impairment write-downs for 2007 or 2008.
(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 16 – Free-Standing Derivatives for additional discussion and detail.

Note 10: Intangible Assets

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

(in millions)	2008 Gross carrying amount	2008 Accumulated amortization	December 31, 2007 Gross carrying amount	December 31, 2007 Accumulated amortization
Amortized intangible assets:				
MSRs (1)	$ 1,672	$ 226	$ 617	$ 151
Core deposit intangibles	14,188	2,189	2,539	2,104
Customer relationship and other intangibles	3,988	486	731	426
Total intangible assets	$19,848	$2,901	$ 3,887	$2,681
MSRs (fair value) (1)	$14,714		$16,763	
Trademark	14		14	

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

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

(in millions)	Core deposit intangibles	Customer relationship and other intangibles	Amortized commercial MSRs	Total
Year ended December 31, 2008	$ 126	$ 60	$ 75	$ 261
Estimate for year ended December 31,				
2009	$2,005	$650	$275	$2,930
2010	1,747	503	228	2,478
2011	1,463	409	206	2,078
2012	1,291	369	171	1,831
2013	1,148	334	137	1,619

We based our projections of amortization expense shown above on existing asset balances at December 31, 2008. Future amortization expense will vary based on additional core deposit or other intangibles acquired through business combinations.

Note 11: Goodwill

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

(in millions)	Community Banking (1)	Wholesale Banking (1)	Wells Fargo Financial	Consolidated Company
December 31, 2006	$ 7,357	$ 3,552	$ 366	$ 11,275
Goodwill from business combinations	1,224	550	49	1,823
Foreign currency translation adjustments	—	—	8	8
December 31, 2007	**8,581**	**4,102**	**423**	**13,106**
Reduction in goodwill related to divested businesses	**—**	**(1)**	**—**	**(1)**
Goodwill and revisions to goodwill from business combinations	**7,171**	**2,361**	**—**	**9,532**
Foreign currency translation adjustments	**—**	**—**	**(10)**	**(10)**
December 31, 2008	**$15,752**	**$6,462**	**$413**	**$22,627**

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

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

(in millions)	Community Banking (1)	Wholesale Banking (1)	Wells Fargo Financial	Enterprise	Consolidated Company
December 31, 2007	$ 4,734	$ 2,152	$423	$ 5,797	$ 13,106
December 31, 2008	**11,905**	**4,512**	**413**	**5,797**	**22,627**

(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.

Note 12: Deposits

The total of time certificates of deposit and other time deposits issued by domestic offices was $210,540 million and $46,351 million at December 31, 2008 and 2007, respectively. Substantially all of these deposits were interest bearing. The contractual maturities of these deposits follow.

(in millions)	December 31, 2008
2009	$160,380
2010	19,468
2011	7,571
2012	4,492
2013	15,436
Thereafter	3,193
Total	$210,540

Of these deposits, the amount of time deposits with a denomination of $100,000 or more was $90,123 million and $16,890 million at December 31, 2008 and 2007, respectively. The contractual maturities of these deposits follow.

(in millions)	December 31, 2008
Three months or less	$24,925
After three months through six months	17,599
After six months through twelve months	24,631
After twelve months	22,968
Total	$90,123

Time certificates of deposit and other time deposits issued by foreign offices with a denomination of $100,000 or more represent a major portion of all of our foreign deposit liabilities of $40,941 million and $54,549 million at December 31, 2008 and 2007, respectively.

Demand deposit overdrafts of $1,067 million and $845 million were included as loan balances at December 31, 2008 and 2007, respectively.

Note 13: Short-Term Borrowings

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

(in millions)	2008		2007		2006	
	Amount	Rate	Amount	Rate	Amount	Rate
As of December 31,						
Commercial paper and other short-term borrowings	$ 45,871	0.93%	$30,427	4.45%	$ 1,122	4.06%
Federal funds purchased and securities sold under agreements to repurchase	62,203	1.12	22,828	2.94	11,707	4.88
Total	$108,074	1.04	$53,255	3.80	$12,829	4.81
Year ended December 31,						
Average daily balance						
Commercial paper and other short-term borrowings	$ 43,792	2.43%	$ 8,765	4.96%	$ 7,701	4.61%
Federal funds purchased and securities sold under agreements to repurchase	22,034	1.88	17,089	4.74	13,770	4.62
Total	$ 65,826	2.25	$25,854	4.81	$21,471	4.62
Maximum month-end balance						
Commercial paper and other short-term borrowings (1)	$ 76,009	N/A	$30,427	N/A	$14,580	N/A
Federal funds purchased and securities sold under agreements to repurchase (2)	62,203	N/A	23,527	N/A	16,910	N/A

N/A – Not applicable.

(1) Highest month-end balance in each of the last three years was in August 2008, December 2007 and February 2006.

(2) Highest month-end balance in each of the last three years was in December 2008, September 2007 and May 2006.

Note 14: Long-Term Debt

Following is a summary of our long-term debt based on original maturity (reflecting unamortized debt discounts and premiums, and purchase accounting adjustments for debt assumed in the Wachovia acquisition, where applicable):

(in millions)	Maturity date(s)	Stated interest rate(s)	December 31, 2008	2007
Wells Fargo & Company (Parent only)				
Senior				
Fixed-Rate Notes (1)(2)	2009-2035	3.00-6.75%	$ 49,019	$25,105
Floating-Rate Notes (2)(3)	2009-2048	Varies	51,220	31,679
Extendable Notes (4)	2009-2013	Varies	8	5,369
FixFloat Notes	2010	5.51% through mid-2008, varies	—	2,200
Market-Linked Notes (5)	2009-2018	Varies	933	871
Convertible Debentures (6)(7)	2033	Varies	—	3,000
Total senior debt – Parent			101,180	68,224
Subordinated				
Fixed-Rate Notes (1)	2009-2035	4.375-6.65%	12,204	4,550
Floating-Rate Notes	2015-2016	Varies	1,074	—
Total subordinated debt – Parent			13,278	4,550
Junior Subordinated				
Fixed-Rate Notes (1)(8)(9)(10)(11)	2026-2068	5.625-8.625%	10,111	4,342
FixFloat Preferred Purchase Securities (8)(12)(13)	2013-2044	7.50-9.25% to 2013, varies	4,308	—
Floating-Rate Notes (14)	2027-2036	Varies	245	—
FixFloat Notes (14)	2036	6.28% to 2011, varies	10	—
Fixed-Rate Notes – Hybrid trust securities (1)(8)(15)(16)(17)	2037-2047	6.375-7.85%	2,449	—
FixFloat Notes – Income trust securities (8)(18)	2011-2042	5.20% to 2011, varies	2,445	—
Total junior subordinated debt – Parent			19,568	4,342
Total long-term debt – Parent			134,026	77,116
Wells Fargo Bank, N.A. and its subsidiaries (WFB, N.A.)				
Senior				
Fixed-Rate Notes (1)	2009-2013	3.12-5.094%	63	34
Floating-Rate Notes	2009-2012	Varies	1,026	504
Fixed-Rate Advances – Federal Home Loan Bank (FHLB)	2012	5.20%	202	203
Market-Linked Notes (5)	2009-2015	0.053-7.05%	437	658
Obligations of subsidiaries under capital leases (Note 7)	2009-2025	Varies	97	20
Total senior debt – WFB, N.A.			1,825	1,419
Subordinated				
Fixed-Rate Notes (1)	2010-2036	4.75-7.55%	6,941	6,151
Floating-Rate Notes	2016	Varies	500	500
Other notes and debentures	2009-2013	4.70-5.40%	9	11
Total subordinated debt – WFB, N.A.			7,450	6,662
Total long-term debt – WFB, N.A.			9,275	8,081
Wachovia Bank, N.A. (WB, N.A.)				
Senior				
Fixed-Rate Notes (1)	2013	6.00%	2,098	—
Fixed-Rate Advances – FHLB	2009-2018	1.00-5.26%	8	—
Floating-Rate Notes (3)	2009-2011	Varies	3,963	—
Floating-Rate Advances – FHLB (3)	2009-2011	Varies	5,527	—
Primarily notes issued under global bank note programs (3)(19)	2009-2040	Varies	20,529	—
Obligations of subsidiaries under capital leases (Note 7)	2014	11.659%	6	—
Total senior debt – WB, N.A.			32,131	—
Subordinated				
Fixed-Rate Notes (1)	2010-2038	4.75-9.625%	12,856	—
Floating-Rate Notes (3)	2014-2017	Varies	1,388	—
Mortgage rates and other debt	Varies	Varies	8,225	—
Total subordinated debt – WB, N.A.			22,469	—
Total long-term debt – WB, N.A.			$ 54,600	$ —

(continued on following page)

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(in millions)	Maturity date(s)	Stated interest rate(s)	December 31, 2008	2007
Wells Fargo Financial, Inc., and its subsidiaries (WFFI)				
Senior				
Fixed-Rate Notes	2009-2034	3.60-6.85%	$ 6,456	$ 8,103
Floating-Rate Notes	2009-2010	Varies	1,075	1,405
Total senior debt – WFFI			7,531	9,508
Subordinated				
Other notes and debentures	2009-2017	3.50-5.125%	6	—
Total subordinated – WFFI			6	—
Total long-term debt – WFFI			7,537	9,508
Other consolidated subsidiaries				
Senior				
Fixed-Rate Notes (1)	2009-2049	0.00-7.50%	2,489	951
Fixed-Rate Notes – Auto secured financing	2009-2015	1.36-9.05%	1,804	—
Fixed-Rate Advances – FHLB	2009-2031	2.85-8.45%	2,545	—
Floating-Rate Notes (3)	2009-2011	Varies	2,641	—
Floating-Rate Advances – FHLB (3)	2009-2013	Varies	46,282	1,250
Other notes and debentures – Floating-Rate	2009-2049	Varies	3,347	1,752
Total senior debt – Other consolidated subsidiaries			59,108	3,953
Subordinated				
Fixed-Rate Notes		6.25%	—	202
Floating-Rate Notes (3)	2013	Varies	421	—
Floating-Rate Notes – Preferred units (3)	Varies	Varies	349	—
Other notes and debentures – Floating-Rate	2011-2016	Varies	84	83
Total subordinated debt – Other consolidated subsidiaries			854	285
Junior Subordinated				
Fixed-Rate Notes (8)	2011-2031	5.50-10.875%	116	112
Floating-Rate Notes (3)(8)	2026-2036	Varies	763	257
FixFloat Notes	2036	7.06% through mid-2011, varies	80	81
Total junior subordinated debt – Other consolidated subsidiaries			959	450
Mortgage notes and other debt of subsidiaries	Varies	Varies	799	—
Total long-term debt – Other consolidated subsidiaries			61,720	4,688
Total long-term debt			$267,158	$99,393

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

(2) On December 10, 2008, Wells Fargo issued $3 billion of 3% fixed senior unsecured notes and $3 billion of floating senior unsecured notes both maturing on December 9, 2011. These notes are guaranteed under the FDIC's Temporary Liquidity Guarantee Program and are backed by the full faith and credit of the United States.

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

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

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

(6) On April 15, 2003, we issued $3 billion of convertible senior debentures as a private placement. In November 2004, we amended the indenture under which the debentures were issued to eliminate a provision in the indenture that prohibited us from paying cash upon conversion of the debentures if an event of default as defined in the indenture exists at the time of conversion. We then made an irrevocable election under the indenture on December 15, 2004, that upon conversion of the debentures, we must satisfy the accreted value of the obligation (the amount of accrued benefit of the holder exclusive of the conversion spread) in cash and may satisfy the conversion spread (the excess conversion value over the accreted value) in either cash or stock.

(7) On May 1, 2008, the $3 billion of convertible senior debentures were remarketed at a rate of 3.55175% per annum. Upon the remarketing event the debentures were no longer convertible securities.

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

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

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

(11) On March 12, 2008, Wells Fargo Capital XII issued 7.875% Enhanced Trust Preferred Securities (Enhanced TRUPS®) (the First 2008 Capital Securities) and used the proceeds to purchase from the Parent 7.875% Junior Subordinated Deferrable Interest Debentures due 2068 (the First 2008 Notes). When it issued the First 2008 Notes, the Parent entered into a Replacement Capital Covenant (the First 2008 Covenant) in which it agreed for the benefit of the holders of the Parent's 5.375% Junior Subordinated Debentures due 2035 that it will not repay, redeem or repurchase, and that none of its subsidiaries will purchase, any part of the First 2008 Notes or the First 2008 Capital Securities on or before March 15, 2048, unless the repayment, redemption or repurchase is made from the net cash proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the First 2008 Covenant. For more information, refer to the First 2008 Covenant, which was filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed March 12, 2008.

(12) On May 19, 2008, Wells Fargo Capital XIII issued 7.70% Fixed-to-Floating Rate Normal Preferred Purchase Securities (PPS) (the Second 2008 Capital Securities). The proceeds were used to purchase Remarketable 7.50% Junior Subordinated Notes maturing in 2044 (the Second 2008 Notes) from the Parent. In connection with the issuance of the Second 2008 Capital Securities, the Trust and the Parent entered into a forward stock purchase contract that obligates the Trust to purchase the Parent's Noncumulative Perpetual Preferred Stock, Series A (the Series A Preferred Stock) and obligates the Parent to make payments to the Trust of 0.20% per annum through the stock purchase date, expected to be March 26, 2013 (the Series A Stock Purchase Date). Prior to the Series A Stock Purchase Date, the Trust is required to remarket and sell the Second 2008 Notes to third party investors to generate cash proceeds to satisfy its obligation to purchase the Series A Preferred Stock. When it issued the Second 2008 Notes, the Parent entered into a Replacement Capital Covenant (the Second 2008 Covenant) in which it agreed for the benefit of the holders of the Parent's 5.375% Junior Subordinated Debentures due 2035 (the Covered Debt) that, after the date it notifies the holders of the Covered Debt of the Second 2008 Covenant, it will not repay, redeem or repurchase, and that none of its subsidiaries will purchase, (i) any part of the Second 2008 Notes prior to the Series A Stock Purchase Date or (ii) any part of the Second 2008 Capital Securities or the Series A Preferred Stock prior to the date that is 10 years after the Series A Stock Purchase Date, unless the repayment, redemption or repurchase is made from the net cash proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the Second 2008 Covenant. For more information, refer to the Second 2008 Covenant, which was filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed May 19, 2008.

(13) On September 10, 2008, Wells Fargo Capital XV issued 9.75% Fixed-to-Floating Rate Normal PPS (the Third 2008 Capital Securities). The proceeds were used to purchase Remarketable 9.25% Junior Subordinated Notes maturing in 2044 (the Third 2008 Notes) from the Parent. In connection with the issuance of the Third 2008 Capital Securities, the Trust and the Parent entered into a forward stock purchase contract that obligates the Trust to purchase the Parent's Noncumulative Perpetual Preferred Stock, Series B (the Series B Preferred Stock) and obligates the Parent to make payments to the Trust of 0.50% per annum through the stock purchase date, expected to be September 26, 2013 (the Series B Stock Purchase Date). Prior to the Series B Stock Purchase Date, the Trust is required to remarket and sell the Third 2008 Notes to third party investors to generate cash proceeds to satisfy its obligation to purchase the Series B Preferred Stock. When it issued the Third 2008 Notes, the Parent entered into a Replacement Capital Covenant (the Third 2008 Covenant) in which it agreed for the benefit of the holders of the Covered Debt that, after the date it notifies the holders of the Covered Debt of the Third 2008 Covenant, it will not repay, redeem or repurchase, and that none of its subsidiaries will purchase, (i) any part of the Third 2008 Notes prior to the Series B Stock Purchase Date or (ii) any part of the Third 2008 Capital Securities or the Series B Preferred Stock prior to the date that is 10 years after the Series B Stock Purchase Date, unless the repayment, redemption or repurchase is made from the net cash proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the Third 2008 Covenant. For more information, refer to the Third 2008 Covenant, which was filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed September 10, 2008.

(14) On July 1, 2008, Wells Fargo & Company acquired the assets and liabilities of United Bancorporation of Wyoming, Inc., which included Trust Preferred Securities.

(15) On February 15, 2007, Wachovia Capital Trust IV issued 6.375% Trust Preferred Securities (the Second Wachovia Trust Securities) and used the proceeds to purchase from Wachovia 6.375% Extendible Long Term Subordinated Notes (the Second Wachovia Notes). When it issued the Second Wachovia Notes, Wachovia entered into a Replacement Capital Covenant (the Second Wachovia Covenant) in which it agreed for the benefit of the holders of the Wachovia Covered Debt that it will not repay, redeem or repurchase, and that none of its subsidiaries will purchase, any part of the Second Wachovia Notes or the Second Wachovia Trust Securities on or after the scheduled maturity date of the Second Wachovia Notes and prior to the date that is 20 years prior to the final repayment date of the Second Wachovia Notes, unless the repayment, redemption or repurchase is made from the net cash proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the Second Wachovia Covenant. In connection with the Wachovia acquisition, the Parent assumed all of Wachovia's obligations under the Second Wachovia Covenant. For more information, refer to the Second Wachovia Covenant, which was filed as Exhibit 99.1 to Wachovia's Current Report on Form 8-K filed February 15, 2007.

(16) On May 8, 2007, Wachovia Capital Trust IX issued 6.375% Trust Preferred Securities (the Third Wachovia Trust Securities) and used the proceeds to purchase from Wachovia 6.375% Extendible Long Term Subordinated Notes (the Third Wachovia Notes). When it issued the Third Wachovia Notes, Wachovia entered into a Replacement Capital Covenant (the Third Wachovia Covenant) in which it agreed for the benefit of the holders of the Wachovia Covered Debt that it will not repay, redeem or repurchase, and that none of its subsidiaries will purchase, any part of the Third Wachovia Notes or the Third Wachovia Trust Securities (i) on or after the earlier of the date that is 30 years prior to the final repayment date of the Third Wachovia Notes and the scheduled maturity date of the Third Wachovia Notes and (ii) prior to the later of the date that is 20 years prior to the final repayment date of the Third Wachovia Notes and June 15, 2057, unless the repayment, redemption or repurchase is made from the net cash proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the Third Wachovia Covenant. In connection with the Wachovia acquisition, the Parent assumed all of Wachovia's obligations under the Third Wachovia Covenant. For more information, refer to the Third Wachovia Covenant, which was filed as Exhibit 99.1 to Wachovia's Current Report on Form 8-K filed May 8, 2007.

(17) On November 21, 2007, Wachovia Capital Trust X issued 7.85% Trust Preferred Securities (the Fourth Wachovia Trust Securities) and used the proceeds to purchase from Wachovia 7.85% Extendible Long Term Subordinated Notes (the Fourth Wachovia Notes). When it issued the Fourth Wachovia Notes, Wachovia entered into a Replacement Capital Covenant (the Fourth Wachovia Covenant) in which it agreed for the benefit of the holders of the Wachovia Covered Debt that it will not repay, redeem or repurchase, and that none of its subsidiaries will purchase, any part of the Fourth Wachovia Notes or the Fourth Wachovia Trust Securities (i) on or after the earlier of the date that is 30 years prior to the final repayment date of the Fourth Wachovia Notes and the scheduled maturity date of the Fourth Wachovia Notes and (ii) prior to the later of the date that is 20 years prior to the final repayment date of the Fourth Wachovia Notes and December 15, 2057, unless the repayment, redemption or repurchase is made from the net cash proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the Fourth Wachovia Covenant. In connection with the Wachovia acquisition, the Parent assumed all of Wachovia's obligations under the Fourth Wachovia Covenant. For more information, refer to the Fourth Wachovia Covenant, which was filed as Exhibit 99.1 to Wachovia's Current Report on Form 8-K filed November 21, 2007.

(18) On February 1, 2006, Wachovia Capital Trust III issued 5.80% Fixed-to-Floating Rate Wachovia Income Trust Securities (the First Wachovia Trust Securities) and used the proceeds to purchase from Wachovia Remarketable Junior Subordinated Notes due 2042 (the First Wachovia Notes). In connection with the issuance of the First Wachovia Trust Securities, the Trust and Wachovia entered into a forward stock purchase contract that obligates the Trust to purchase Wachovia's Noncumulative Perpetual Class A Preferred Stock, Series I (the Series I Preferred Stock) and obligates Wachovia to make payments to the Trust of 0.60% per annum through the stock purchase date, expected to be March 15, 2011 (the Series I Stock Purchase Date). Prior to the Series I Stock Purchase Date, the Trust is required to remarket and sell the First Wachovia Notes to third party investors to generate cash proceeds to satisfy its obligation to purchase the Series I Preferred Stock. When it issued the First Wachovia Notes, Wachovia entered into a Declaration of Covenant (the First Wachovia Covenant) in which it agreed for the benefit of the holders of the Wachovia's Floating Rate Junior Subordinated Deferrable Interest Debentures due January 15, 2027 (the Wachovia Covered Debt) that it will repurchase the First Wachovia Trust Securities or redeem or repurchase shares of the Series I Preferred Stock only if and to the extent that the total redemption or repurchase price is equal to or less than the net cash proceeds of the issuance of certain qualified securities as described in the First Wachovia Covenant. In connection with the Wachovia acquisition, the Parent assumed all of Wachovia's obligations under the First Wachovia Covenant. For more information, refer to the First Wachovia Covenant, which was filed as Exhibit 99.1 to Wachovia's Current Report on Form 8-K filed February 1, 2006.

(19) At December 31, 2008, bank notes of $19.9 billion had floating rates of interest ranging from 0.14% to 5.53%, and $644 million of the notes had fixed rates of interest ranging from 1.00% to 5.00%.

Wells Fargo is participating in the Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guarantee Program (TLGP). The TLGP has two components: the Debt Guarantee Program, which provides a temporary guarantee of newly issued senior unsecured debt issued by eligible entities; and the Transaction Account Guarantee Program, which provides a temporary unlimited guarantee of funds in noninterest bearing transaction accounts at FDIC insured institutions. Under the Debt Guarantee Program, we have $91.7 billion of remaining capacity to issue guaranteed debt as of December 31, 2008. Eligible entities will be assessed fees payable to the FDIC for coverage under the program. This assessment will be in addition to risk-based deposit insurance assessments currently imposed under FDIC rules and regulations.

The aggregate annual maturities of long-term debt obligations (based on final maturity dates) as of December 31, 2008, follow.

(in millions)	Parent	Company
2009	$ 16,799	$ 53,893
2010	20,829	42,433
2011	22,487	38,630
2012	11,159	23,622
2013	4,846	15,228
Thereafter	57,906	93,352
Total	$134,026	$267,158

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

As part of our long-term and short-term borrowing arrangements, we are subject to various financial and operational covenants. Some of the agreements under which debt has been issued have provisions that may limit the merger or sale of certain subsidiary banks and the issuance of capital stock or convertible securities by certain subsidiary banks. At December 31, 2008, we were in compliance with all the covenants.

Note 15: Guarantees and Legal Actions

Guarantees

Guarantees are contracts that contingently require us to make payments to a guaranteed party based on an event or a change in an underlying asset, liability, rate or index. Guarantees are generally in the form of securities lending indemnifications, standby letters of credit, liquidity agreements, written put options, recourse obligations, residual value guarantees and contingent consideration. The following table shows carrying amount, maximum risk of loss on our guarantees, and for December 31, 2008, the amount with a higher risk of payment.

(in millions)					December 31,
			2008		2007
	Carrying amount	Maximum risk of loss	Higher payment risk	Carrying amount	Maximum risk of loss
Standby letters of credit	$ 130	$ 47,191	$17,293	$ 7	$12,530
Securities and other lending indemnifications	—	30,120	1,907	—	—
Liquidity agreements	30	17,602	—	—	—
Written put options	1,376	10,182	5,314	48	2,569
Loans sold with recourse	53	6,126	2,038	—	2
Residual value guarantees	—	1,121	—	—	—
Contingent consideration	11	187	—	67	246
Other guarantees	—	38	—	1	59
Total guarantees	$1,600	$112,567	$26,552	$123	$15,406

The amounts shown in the table above as having a higher payment risk represent the amount of exposure for which there is a high likelihood that we will be required to make a payment or perform under the guarantee. Such payment may not result in a loss and, accordingly, the higher payment risk column is not an indication of loss probability. The risk of payment or performance is considered high if the underlying assets under the guarantee have an external rating that is below investment grade or an internal credit default grade that is equivalent to a below investment grade external rating. In rare circumstances for which neither external nor internal ratings are available, we determine the current status of payment risk based on whether historical experience indicates a higher likelihood of performance. We assumed substantially all of the guarantees in the table above in the Wachovia acquisition.

We issue standby letters of credit, which include performance and financial guarantees, for customers in connection with contracts between our customers and third parties. Standby letters of credit are agreements where we are obligated to make payment to a third party on behalf of a customer in the event the customer fails to meet their contractual obligations. We consider the credit risk in standby letters of credit and commercial and similar letters of credit in determining the allowance for credit losses.

As a securities lending agent, we loan client securities, on a fully collateralized basis, to third party broker/dealers. We indemnify our clients against broker default and, in certain cases, against collateral losses. We support these guarantees with collateral, generally in the form of cash or highly liquid securities, that is marked to market daily. At December 31, 2008, there was $31.0 billion in collateral supporting the $30.1 billion loaned.

We enter into other types of 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, 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 provide liquidity facilities on all commercial paper issued by the conduit we administer. We also provide liquidity to certain off-balance sheet entities that hold securitized fixed rate municipal bonds and consumer or commercial assets that are partially funded with the issuance of money market and other short-term notes. See Note 8 for additional information on these arrangements.

Written put options are contracts that give the counterparty the right to sell to us an underlying instrument held by the counterparty at a specified price, and include options, floors, caps and credit default swaps. These written put option contracts generally permit net settlement. While these derivative transactions expose us to risk in the event the option is exercised, we manage this risk by entering into offsetting trades or by taking short positions in the underlying instrument. We offset substantially all put options written to customers with purchased options. Additionally, for certain of these contracts, we require the counterparty to pledge the underlying instrument as collateral for the transaction. Our ultimate obligation under written put options is based on future market conditions and is only quantifiable at settlement. See Note 8 for additional information regarding transactions with VIEs and Note 16 for additional information regarding written derivative contracts.

In certain loan sales or securitizations, we provide recourse to the buyer whereby we are required to repurchase loans at par value plus accrued interest on the occurrence of certain credit-related events within a certain period of time. The maximum risk of loss represents the outstanding principal balance of the loans sold or securitized that are subject to recourse provisions, but the likelihood of the repurchase of the entire balance is remote and amounts paid can be recovered in whole or in part from the sale of collateral. In 2008 and in 2007, we did not repurchase a significant amount of loans associated with these agreements.

We provide residual value guarantees as part of certain leasing transactions of corporate assets, principally railcars. The lessors in these leases are generally large financial institutions or their leasing subsidiaries. These guarantees protect the lessor from loss on sale of the related asset at the end of the lease term. To the extent that a sale of the leased assets results in proceeds less than a stated percent (generally 80% to 89%) of the asset's cost less depreciation, we would be required to reimburse the lessor under our guarantee.

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.

We have entered into various contingent performance guarantees through credit risk participation arrangements. Under these agreements, if a customer defaults on its obligation to perform under certain credit agreements with third parties, we will be required to make payments to the third parties.

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 in March 2008, 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 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.

Legal Actions

Wells Fargo and certain of our subsidiaries are involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising from the conduct of our business activities. These proceedings include actions brought against Wells Fargo and/or our subsidiaries with respect to corporate related matters and transactions in which Wells Fargo and/or our subsidiaries were involved. In addition, Wells Fargo and our subsidiaries may be requested to provide information or otherwise cooperate with governmental authorities in the conduct of investigations of other persons or industry groups.

Although there can be no assurance as to the ultimate outcome, Wells Fargo and/or our subsidiaries have generally denied, or believe we have a meritorious defense and will deny, liability in all significant litigation pending against us, including the matters described below, and we intend to defend vigorously each case, other than matters we describe as having settled. Reserves are established for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts reserved for those claims.

ADELPHIA LITIGATION Wachovia Bank, N.A. and Wachovia Capital Markets, LLC, are defendants in an adversary proceeding previously pending in the United States Bankruptcy Court for the Southern District of New York related to the bankruptcy of Adelphia Communications Corporation (Adelphia). The Official Committee of Unsecured Creditors in Adelphia's bankruptcy case filed the claims; the current plaintiff is the Adelphia Recovery Trust, which was substituted as the plaintiff pursuant to Adelphia's confirmed plan of reorganization. In February 2006, an order was entered moving the case to the United States District Court for the Southern District of New York. The complaint asserts claims against the defendants under state law, bankruptcy law and the Bank Holding Company Act and seeks equitable relief and an unspecified amount of compensatory and punitive damages. On June 11, 2007, the Bankruptcy Court granted in part and denied in part the motions to dismiss filed by the two Wachovia entities and other defendants. On January 17, 2008, the District Court affirmed the decision of the Bankruptcy Court on the motion to dismiss with the exception that it dismissed one additional claim. On July 17, 2008, the District Court issued a ruling dismissing all of the bankruptcy related claims. The remaining claims essentially allege the banks should be liable to Adelphia on theories of aiding and abetting a breach of fiduciary duty and violation of the Bank Holding Company Act. The case is now in discovery.

AUCTION RATE SECURITIES On August 15, 2008, Wachovia Securities, LLC and Wachovia Capital Markets, LLC (collectively the Wachovia Securities Affiliates) announced they had reached settlements in principle with the Secretary of State for the State of Missouri (as the lead state in the North American Securities Administrators Association task force investigating the marketing and sale of auction rate securities), and with the New York State Attorney General's Office of their respective investigations of sales practice and other issues related to the sales of auction rate securities (ARS). Wachovia Securities also announced a settlement in principle with the Securities and Exchange Commission (SEC) of its similar investigation. Without admitting or denying liability, the agreements in principle require that the Wachovia Securities Affiliates purchase certain ARS sold to customers in accounts at the Wachovia Securities Affiliates, reimburse investors who sold ARS purchased at the Wachovia Securities Affiliates for less than par, provide liquidity loans to customers at no net interest until the ARS are repurchased, offer to participate in special arbitration procedures with customers who claim consequential damages from the lack of liquidity in ARS and refund refinancing fees to certain municipal issuers who issued ARS and later refinanced those securities through the Wachovia Securities Affiliates. Without admitting or denying liability, the Wachovia Securities Affiliates will also pay a total fine of $50 million to the state regulatory agencies and agreed to entry of consent orders by the two state regulators and Wachovia Securities, LLC agreed to entry of an injunction by the SEC. All three settlements in principle have been finalized. The Wachovia Securities Affiliates began the buy back of ARS in November 2008. The second and final phase of the buy back will take place in June 2009.

Wells Fargo Investments, LLC (WFI), Wells Fargo Brokerage Services, LLC, and Wells Fargo Institutional Securities, LLC are engaged in discussions with regulators concerning the sale of ARS. On November 20, 2008, the State of Washington Department of Financial Institutions filed a proceeding entitled *In the Matter of determining whether there has been a violation of the Securities Act of Washington by: Wells Fargo Investments, LLC; Wells Fargo Brokerage Services, LLC; and Wells Fargo Institutional Securities, LLC.* The action seeks a cease and desist order against violations of the anti-fraud and suitability provisions of the Washington Securities Act.

In addition, several purported civil class actions relating to the sale of ARS are currently pending against various Wells Fargo affiliated defendants.

DATA TREASURY LITIGATION Wells Fargo & Company, Wells Fargo Bank, N.A., Wachovia Bank, N.A. and Wachovia Corporation are among over 55 defendants named in two actions asserting patent infringement claims filed by Data Treasury Corporation in the U.S. District Court for the Eastern District of Texas. Data Treasury seeks a declaration that its patents are valid and have been infringed, and seeks damages and permanent injunctive relief. The cases are currently in discovery.

ELAVON LITIGATION On January 16, 2009, Elavon, Inc., a provider of merchant processing services, filed a complaint in the U.S. District Court for the Northern District of Georgia against Wachovia Corporation, Wachovia Bank, N.A., Wells Fargo & Company, and Wells Fargo Bank, N.A. The complaint seeks equitable relief, including specific performance, and damages for Wachovia Bank's allegedly wrongful termination of its merchant referral contract with Elavon. The complaint also seeks damages, including punitive damages, against the Wells Fargo entities for tortious interference with contractual relations.

ERISA LITIGATION Seven purported class actions have been filed against Wachovia Corporation, its board of directors and certain senior officers in the U.S. District Court for the Southern District of New York on behalf of employees of Wachovia Corporation and its affiliates who held shares of Wachovia Corporation common stock in their Wachovia Savings Plan accounts. The plaintiffs allege breach of fiduciary duty under ERISA, among other things, claiming that the defendants should not have permitted Wachovia Corporation common stock to remain an investment option in the Savings Plan because alleged misleading disclosures relating to the Golden West mortgage portfolio, exposure to CDOs and other problem loans, and other alleged misstatements made its stock a risky and imprudent investment for employee retirement accounts.

GOLDEN WEST AND RELATED LITIGATION A purported securities class action, *Lipetz v. Wachovia Corporation, et al.*, was filed on July 7, 2008, in the U.S. District Court for the Southern District of New York by purported Wachovia Corporation shareholders alleging violations of Sections 10 and 20 of the Securities Exchange Act of 1934. An amended complaint was filed on December 15, 2008. Among other allegations, plaintiffs allege Wachovia Corporation's common stock price was artificially inflated as a result of allegedly misleading disclosures relating to the Golden West Financial Corp. (Golden West) mortgage portfolio, Wachovia Corporation's exposure to other mortgage related products such as CDOs, control issues and auction rate securities. The defendants have until February 27, 2009, to respond to the complaint.

A purported class action, *Miller, et al. v. Wachovia Corporation, et al.*, was filed on January 31, 2008, against Wachovia Corporation, its board of directors and certain senior officers in the New York Supreme Court for the County of Nassau, relating to Wachovia Corporation's May 2007 issuance of trust preferred securities. The plaintiffs allege violations of Sections 11, 12 and 15 of the Securities Act of 1933 as a result of allegedly misleading disclosures relating to the Golden West mortgage portfolio. Wachovia Corporation removed the case to the U.S. District Court for the Eastern District of New York. On January 16, 2009, the case was voluntarily dismissed by the plaintiff and, on the same day, was refiled in the Superior Court of the State of California, Alameda County. A similar case, *Swiskay v. Wachovia Corporation, et al.*, was filed on December 19, 2008, in the same court. The *Swiskay* case is essentially identical to the *Miller* case except it includes allegations relating to additional Wachovia preferred offerings. On January 21, 2009, a third case, *Orange County Employees' Retirement System, et al. v. Wachovia Corporation, et al.*, was also filed in the same California Superior Court on behalf of Orange County Employees' Retirement System and others. The complaint contains similar allegations to the *Miller* and *Swiskay* cases, except it includes some additional individuals and non-affiliated entities as defendants and adds claims relating to additional issuances of preferred stock and debt securities. Wells Fargo will file appropriate venue and other motions in response to these actions.

Several government agencies are investigating matters similar to the issues raised in this litigation. Wells Fargo and its affiliates are cooperating fully.

INTERCHANGE LITIGATION Wells Fargo Bank, N.A., Wells Fargo & Company, Wachovia Bank, N.A. and Wachovia Corporation are named as defendants, separately or in combination, in putative class actions filed on behalf of a plaintiff class of merchants and individual actions brought by individual merchants with regard to the interchange fees associated with Visa and MasterCard payment card transactions. These actions have been consolidated in the United States District Court for the Eastern District of New York. Visa, MasterCard and several banks and bank holding companies are named as defendants in various of these actions. The amended and consolidated complaint asserts claims against defendants based on alleged violations of federal and state antitrust laws and seeks damages, as well as injunctive relief. Plaintiff merchants allege that Visa, MasterCard and their member banks unlawfully colluded to set interchange rates. Plaintiffs also allege that enforcement of certain Visa and MasterCard rules and alleged tying and bundling of services offered to merchants are anticompetitive. Wells Fargo and Wachovia, along with other members of Visa, are parties to Loss and Judgment Sharing Agreements, which provide that they, along with other member banks of Visa, will share, based on a formula, in any losses from certain litigation specified in the Agreements, including the Interchange Litigation.

LE-NATURE'S, INC. Wachovia Bank, N.A. is the administrative agent on a $285 million credit facility extended to Le-Nature's, Inc. in September 2006, of which approximately $270 million was syndicated to other lenders by Wachovia Capital Markets, LLC. Le-Nature's was the subject of a Chapter 7 bankruptcy petition which was converted to a Chapter 11 bankruptcy petition in November 2006 in the U.S. Bankruptcy Court for the Western District of Pennsylvania. The filing was precipitated by an apparent fraud relating to Le-Nature's financial condition. On March 14, 2007, the two Wachovia entities filed an action against several hedge funds in the Superior Court for the State of North Carolina, Mecklenburg County, alleging that the hedge fund defendants had acquired a significant quantity of the outstanding debt with full knowledge of Le-Nature's fraud and with the intention of pursuing alleged fraud and other tort claims against the two Wachovia entities purportedly related to their role in Le-Nature's credit facility. A preliminary injunction was entered by the Court that, among other things, prohibited defendants from asserting any such claims in any other forum. On September 18, 2007, these defendants filed an action in the U.S. District Court for the Southern District of New York against Wachovia Capital Markets, a third party and two members of Le-Nature's management asserting claims arising under federal RICO laws. On March 13, 2008, the North Carolina judge granted Defendants' motion to stay the North Carolina action and modified the injunction to allow the Defendants to attempt to assert claims in the New York action. The Wachovia entities have appealed. Wachovia Capital Markets filed a motion to dismiss the New York action which was granted on August 26, 2008. Plaintiffs have appealed that ruling. Plaintiffs subsequently filed a case asserting similar allegations in the New York State Supreme Court for the County of Manhattan. On April 28, 2008, holders of Le-Nature's Senior Subordinated Notes, an offering which was underwritten by Wachovia Capital Markets in June 2003, sued alleging various fraud claims; this case is pending in the U.S. District Court for the Western District of Pennsylvania. On October 30, 2008, the liquidation trust in Le-Nature's bankruptcy filed suit against a number of individuals and entities, including Wachovia Capital Markets, LLC, and Wachovia Bank, N.A., in the U.S. District Court for the Western District of Pennsylvania, asserting a variety of claims on behalf of the estate.

MERGER RELATED LITIGATION On October 4, 2008, Citigroup, Inc. (Citigroup) purported to commence an action in the Supreme Court of the State of New York for the County of Manhattan, captioned *Citigroup, Inc. v. Wachovia Corp., et al.*, naming as defendants Wachovia Corporation (Wachovia), Wells Fargo & Company (Wells Fargo), and the directors of both companies. The complaint alleged that Wachovia Corporation breached an exclusivity agreement with Citigroup, which by its terms was to expire on October 6, 2008, by entering into negotiations and an eventual acquisition agreement with Wells Fargo, and that Wells Fargo and the individual defendants had tortiously interfered with the same contract. In the complaint, Citigroup seeks $20 billion in compensatory damages and $40 billion in punitive damages. After significant procedural activity over the week of October 4-9, 2008, including a voluntary dismissal and re-filing of the action in amended form, the case was removed on October 9, 2008, to the U.S. District Court for the Southern District of New York. On October 10, 2008, Citigroup filed a motion to remand the case to the New York state court, and filed a new proposed amended complaint. The proposed amended complaint includes claims for breach of contract, tortious interference with contract, unjust enrichment, promissory estoppel, and quantum meruit. In the proposed amended complaint, which the court has not yet approved, Citigroup seeks $20 billion in compensatory damages, $20 billion in restitutionary and unjust enrichment damages, and $40 billion in punitive damages. On October 24, 2008, Wachovia Corporation and Wells Fargo filed a joint response to the motion to remand.

On October 4, 2008, Wachovia Corporation filed a complaint in the U.S. District Court for the Southern District of New York, captioned *Wachovia Corp. v. Citigroup, Inc.* The complaint seeks declaratory relief, stating that the Wells Fargo merger agreement is valid, proper, and not prohibited by the exclusivity agreement. On October 5, 2008, Wachovia filed a motion for a preliminary injunction seeking to prevent Citigroup from interfering with or impeding its merger with Wells Fargo. On October 9, 2008, Citigroup issued a press release stating that Citigroup would no longer seek to enjoin the merger, but would continue to seek compensatory and punitive damages against Wachovia Corporation and Wells Fargo. On October 14, 2008, Wells Fargo filed a related complaint in the U.S. District Court for the Southern District of New York, captioned *Wells Fargo v. Citigroup, Inc.* The complaint seeks declaratory and injunctive relief, stating that the Wells Fargo merger agreement is valid, proper, and not prohibited by the exclusivity agreement. Citigroup has moved to dismiss the complaint. The cases have been assigned to the same judge for further proceedings.

MUNICIPAL DERIVATIVES BID PRACTICES INVESTIGATION
The Department of Justice (DOJ) and the SEC, beginning in November 2006, have been requesting information from a number of financial institutions, including Wachovia Bank, N.A.'s municipal derivatives group, generally with regard to competitive bid practices in the municipal derivative markets. In connection with these inquiries, Wachovia Bank has received subpoenas from both the DOJ and SEC as well as requests from the OCC and several states seeking documents and information. The DOJ and the SEC have advised Wachovia Bank that they believe certain of its employees engaged in improper conduct in conjunction with certain competitively bid transactions and, in November 2007, the DOJ notified two Wachovia Bank employees, both of whom have since been terminated, that they are regarded

as targets of the DOJ's investigation. Wachovia Bank has been cooperating and continues to fully cooperate with the government investigations.

Wachovia Bank, along with a number of other banks and financial services companies, has also been named as a defendant in a number of substantially identical purported class actions, filed in various state and federal courts by various municipalities alleging they have been damaged by the activity which is the subject of the governmental investigations. A number of the federal matters have been consolidated for pre trial proceedings.

PAYMENT PROCESSING CENTER On February 17, 2006, the U.S. Attorney's Office for the Eastern District of Pennsylvania filed a civil fraud complaint against a former Wachovia Bank, N.A. customer, Payment Processing Center (PPC). PPC was a third party payment processor for telemarketing and catalogue companies. On April 12, 2007, a civil class action, *Faloney et al. v. Wachovia Bank, N.A.*, was filed against Wachovia Bank in the U.S. District Court for the Eastern District of Pennsylvania by a putative class of consumers who made purchases through telemarketer customers of PPC. The suit alleges that between April 1, 2005 and February 21, 2006, Wachovia Bank conspired with PPC to facilitate PPC's purported violation of RICO. On February 15, 2008, a second putative class action, *Harrison v. Wachovia Bank, N.A.*, was filed in the U.S. District Court for the Eastern District of Pennsylvania by a putative class of consumers who made purchases through telemarketing customers of three other third party payment processors which banked with Wachovia Bank. This suit alleges that Wachovia Bank conspired with these payment processors to facilitate purported violations of RICO. On April 24, 2008, Wachovia and the Office of the Comptroller of the Currency (OCC) entered into an Agreement to resolve the OCC's investigation into Wachovia's relationship with PPC and three other companies. The Agreement provides, among other things, that (i) Wachovia will provide restitution to consumers, (ii) will create a segregated account in the amount of $125 million to cover the estimated maximum cost of the restitution, (iii) will fund organizations that provide education for consumers over a two year period in the amount of $8.9 million, (iv) will make various changes to its policies and procedures related to customers that use remotely created checks and (v) will appoint a special Compliance Committee to oversee compliance with the Agreement. Wachovia Bank and the OCC also entered into a Consent Order for Payment of a Civil Money Penalty whereby Wachovia, without admitting or denying the allegations contained therein, agreed to payment of a $10 million civil money penalty. The OCC Agreement was amended on December 8, 2008, to provide for direct restitution payments and those payments were mailed to consumers on December 11, 2008. Wachovia Bank is cooperating with government officials to administer the OCC settlement and in their further inquiries.

On August 14, 2008, Wachovia Bank reached agreements to settle the *Faloney* and *Harrison* class action lawsuits. The settlements received approval from the U.S. District Court for the Eastern District of Pennsylvania on January 23, 2009.

OTHER REGULATORY MATTERS AND GOVERNMENT INVESTIGATIONS In the course of its banking and financial services businesses, Wells Fargo and its affiliates are subject to information requests and investigations by governmental and self-regulatory authorities. These authorities have instituted various ongoing investigations of various practices in the banking, securities and mutual fund industries, including those relating to anti-money laundering, sales practices, record retention and other laws and regulations involving our customers and their accounts.

In general, the investigations cover advisory companies to mutual funds, broker-dealers, hedge funds and others and may involve the activities of customers or third parties with respect to accounts maintained by Wells Fargo affiliates or transactions in which Wells Fargo affiliates may be involved. Wells Fargo affiliates have received subpoenas and other requests for documents and testimony relating to the investigations, is endeavoring to comply with those requests, is cooperating with the investigations, and where appropriate, is engaging in discussions to resolve the investigations or take other remedial actions. These investigations include an investigation being conducted by the U.S. Attorney's Office for the Southern District of Florida into, among other matters, Wachovia Bank, N.A.'s correspondent banking relationship with certain non-domestic exchange houses and Bank Secrecy Act and anti-money laundering compliance. Wachovia Bank is cooperating fully with the U.S. Attorney's Office's investigation.

OUTLOOK Based on information currently available, advice of counsel, available insurance coverage and established reserves, Wells Fargo believes that the eventual outcome of the actions against Wells Fargo and/or its subsidiaries, including the matters described above, will not, individually or in the aggregate, have a material adverse effect on Wells Fargo's consolidated financial position or results of operations. However, in the event of unexpected future developments, it is possible that the ultimate resolution of those matters, if unfavorable, may be material to Wells Fargo's results of operations for any particular period.

Note 16: Derivatives

We use derivatives to manage exposure to market risk, interest rate risk, credit risk and foreign currency risk, to generate profits from proprietary trading and to assist customers with their risk management objectives. Derivative transactions are measured in terms of the notional amount, but this amount is not recorded on the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instruments. The notional amount is generally not exchanged, but is used only as the basis on which interest and other payments are determined. Our approach to managing interest rate risk includes the use of derivatives. This helps minimize significant, unplanned fluctuations in earnings, fair values of assets and liabilities, and cash flows caused by interest rate volatility. This approach involves modifying the repricing characteristics of certain assets and liabilities so that changes in interest rates do not have a significant adverse effect on the net interest margin and cash flows. As a result of interest rate fluctuations, hedged assets and liabilities will gain or lose market value. In a fair value hedging strategy, the effect of this unrealized gain or loss will generally be offset by the gain or loss on the derivatives linked to the hedged assets and liabilities. In a cash flow hedging strategy, we manage the variability of cash payments due to interest rate fluctuations by the effective use of derivatives linked to hedged assets and liabilities.

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

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

Fair Value Hedges

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, cross-currency interest rate swaps and forward contracts 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 and repurchase agreements. Prior to January 1, 2007, the ineffective portion of these fair value hedges was recorded as part of interest expense in the income statement. Subsequent to January 1, 2007, the ineffective portion of these fair value hedges is recorded as part of noninterest income. We made this change after converting these hedge relationships to the long-haul method of assessing hedge effectiveness, which results in recognition of more ineffectiveness compared to the short-cut method. Consistent with our asset/liability management strategy of converting fixed-rate debt to floating-rates, we believe interest expense should reflect only the current contractual interest cash flows on the liabilities and the related swaps. In addition, we use derivatives, such as Treasury 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. The ineffective portion of these fair value hedges is recorded as part of mortgage banking noninterest income. Finally, we use interest rate swaps to hedge against changes in fair value of certain debt securities that are classified as securities available for sale, due to changes in interest rates, foreign currency rates, or both. 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, certificates of deposit, repurchase agreements, commercial real estate loans, and debt securities, all parts of each derivative's gain or loss due to the hedged risk are included in the assessment of hedge effectiveness.

For certain fair value hedging relationships, we use statistical analysis to assess hedge effectiveness, both at inception of the hedging relationship and on an ongoing basis. Such analysis may include regression analysis or analysis of the price sensitivity of the hedging instrument relative to that of the hedged item. The regression analysis involves regressing the periodic change in fair value of the hedging instrument against the periodic changes in fair value of the asset or liability being hedged due to changes in the hedged risk(s). The assessment includes an evaluation of the quantitative measures of the regression results used to validate the conclusion of high effectiveness. Additionally, for other fair value hedging relationships, we use the cumulative dollar-offset approach to validate the effectiveness of the hedge on a retrospective basis.

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

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.

Cash Flow Hedges

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

We expect that $60 million of deferred net loss on derivatives in other comprehensive income at December 31, 2008, will be reclassified as earnings during the next twelve months, compared with $63 million and $53 million of net deferred gains at December 31, 2007 and 2006, respectively. We are hedging our exposure to the variability of future cash flows for all forecasted transactions for a maximum of seventeen years for both hedges of floating-rate debt and floating-rate commercial loans.

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

(in millions)		December 31,	
	2008	2007	2006
Net gains (losses) from fair value hedges (1) from:			
Change in value of derivatives excluded from the assessment of hedge effectiveness	$ —	$ 8	$ (5)
Ineffective portion of change in value of derivatives	**177**	19	11
Net gains (losses) from ineffective portion of change in the value of cash flow hedges (2)	**(4)**	26	45

(1) Includes hedges of long-term debt and certificates of deposit, commercial real estate and franchise loans, and debt and equity securities.

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

Free-Standing Derivatives

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

The derivatives used to hedge residential MSRs include swaps, swaptions, forwards, Eurodollar and Treasury futures and options contracts. Net derivative gains of $3,099 million for 2008 and net derivative gains of $1,154 million for 2007 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 $3,610 million at December 31, 2008, and $1,652 million at December 31, 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 most new prime residential MHFS carried at fair value under FAS 159, is hedged with free-standing derivatives (economic hedges) such as forwards and options, Eurodollar futures and 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 SEC Staff Accounting Bulletin No. 105, *Application of Accounting Principles to Loan Commitments*. 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 at December 31, 2008 and 2007, was a net asset of $125 million and $6 million, respectively, and is included in the caption "Interest rate contracts" under Customer Accommodation, Trading and Other Free-Standing Derivatives in the table on page 136.

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.

Credit Derivatives

We use credit derivatives to manage exposure to credit risk related to proprietary trading and to assist customers with their risk management objectives. This may include protection sold to offset purchased protection in structured product transactions, as well as liquidity agreements written to special purpose vehicles. The maximum exposure of sold credit derivatives is managed through posted collateral, purchased credit derivatives and similar products in order to achieve our desired credit risk profile. This credit risk management provides an ability to recover a significant portion of any amounts that would be paid under the sold credit derivatives. We would be required to perform under the noted credit derivatives in the event of default by the referenced obligors. Events of default include events such as bankruptcy, capital restructuring or lack of principal and/or interest payment. In certain cases, other triggers may exist, such as the credit downgrade of the referenced obligors or the inability of the special purpose vehicle for which we have provided liquidity to obtain funding.

The following table provides details of credit derivatives at December 31, 2008.

(in millions)			December 31, 2008	
	Fair value liability	Maximum exposure	Higher payment risk	Range of maturities
Credit default swaps on corporate bonds	$ 9,643	$ 83,446	$39,987	2009-2018
Credit default swaps on structured products	4,940	7,451	5,824	2009-2056
Credit protection on credit default swap index	2,611	35,943	6,364	2009-2017
Credit protection on commercial mortgage-backed securities index	2,231	7,291	2,938	2009-2052
Credit protection on asset-backed securities index	1,331	1,526	1,116	2037-2046
Loan deliverable credit default swaps	106	611	592	2009-2014
Other	18	845	150	2009-2020
Total credit derivatives	$20,880	$137,113	$56,971	

The higher payment risk category is based on the portion of the maximum loss exposure for which there is a greater risk that we will be required to make a payment or perform under the credit derivative. The current status of the risk of payment or performance being required is considered high if the underlying assets under the credit derivative have an external rating that is below investment grade or an internal credit default grade that would be equivalent to a below investment grade external rating. It is important to note that the higher payment risk represents the amount of exposure for which payment is of a high likelihood. Such payment may not result in a loss. As such, the higher payment risk column is not an indication of loss probability.

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 amounts 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. To the extent the master netting arrangements and other criteria meet the requirements of FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, as amended by FSP FIN 39-1, derivatives balances and related cash collateral amounts are shown net in the balance sheet. Counterparty credit risk related to derivatives is considered and, if material, provided for separately.

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.

The total notional or contractual amounts and fair values for derivatives were:

(in millions)	2008 Notional or contractual amount	2008 Fair value Asset derivatives	2008 Fair value Liability derivatives	December 31, 2007 Notional or contractual amount	2007 Fair value Asset derivatives	2007 Fair value Liability derivatives
ASSET/LIABILITY MANAGEMENT HEDGES						
Qualifying hedge contracts accounted for under FAS 133						
Interest rate contracts:						
Swaps	$ 115,597	$ 11,249	$ 2,963	$ 47,408	$ 1,411	$ 267
Futures	67,375	—	324	50	—	—
Floors and caps purchased	9,000	262	—	250	8	—
Floors and caps written	—	—	—	250	—	5
Equity contracts:						
Options purchased	—	—	—	1	—	—
Options written	—	—	—	3	—	3
Foreign exchange contracts:						
Swaps	19,022	1,117	1,191	12,048	1,399	23
Forwards and spots	19,364	21	7	—	—	—
Free-standing derivatives (economic hedges)						
Interest rate contracts (1):						
Swaps	218,922	7,902	7,674	43,835	933	421
Futures	118,718	—	—	56,023	—	—
Options purchased	13,613	1,021	—	16,250	156	—
Options written	12,950	—	744	3,500	—	20
Forwards	386,525	3,712	1,290	353,095	1,094	287
Foreign exchange contracts:						
Swaps	603	55	—	603	202	—
Forwards and spots	3,605	95	325	—	—	—
Credit contracts:						
Swaps	644	528	—	—	—	—
Other derivatives:						
Forward commitments	4,458	108	71	—	—	—
CUSTOMER ACCOMMODATION, TRADING AND OTHER FREE-STANDING DERIVATIVES						
Interest rate contracts:						
Swaps	3,127,009	133,551	132,186	195,144	3,584	3,196
Futures	48,011	—	140	33,443	—	—
Floors and caps purchased	104,355	2,000	1	21,629	143	—
Floors and caps written	111,674	—	1,609	24,466	—	124
Options purchased	89,813	6,480	3	2,573	88	—
Options written	138,912	159	6,796	19,074	35	95
Forwards	132,882	549	773	131,959	43	34
Commodity contracts:						
Swaps	58,579	4,170	4,226	5,053	367	415
Futures	11,004	821	480	1,417	—	—
Floors and caps purchased	6,566	899	—	1,869	290	—
Floors and caps written	7,142	—	1,249	1,738	—	151
Options purchased	1,885	227	—	761	74	—
Options written	1,184	—	113	552	—	49
Equity contracts:						
Swaps	1,563	76	81	291	63	44
Futures	282	—	23	138	—	—
Options purchased	18,658	3,003	1	4,966	508	—
Options written	16,488	—	2,496	4,416	—	433
Forwards	145	9	77	74	—	8
Foreign exchange contracts:						
Swaps	56,100	1,038	1,011	5,797	199	219
Futures	—	—	5	155	—	—
Floors and caps purchased	13	3	—	—	—	—
Options purchased	7,888	532	—	3,229	107	—
Options written	7,181	—	491	3,168	—	100
Forwards and spots	202,255	5,989	5,912	40,371	420	335
Credit contracts:						
Swaps	254,107	18,226	18,996	2,752	75	24
Other credit derivatives	18,615	3,727	2,791	—	—	—
Other derivatives:						
Total return swaps	5,264	523	385	—	—	—
Other	1,058	1	139	—	—	—
Subtotal		208,053	194,573		11,199	6,253
NETTING (2)		(168,690)	(182,435)		(3,709)	(3,709)
Total		$ 39,363	$ 12,138		$ 7,490	$ 2,544

(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) Represents netting of derivative asset and liability balances, and related cash collateral, with the same counterparty subject to master netting arrangements under FIN 39. The amount of cash collateral netted against derivative assets and liabilities was $17.7 billion and $22.2 billion, respectively, at December 31, 2008.

Note 17: Fair Values of Assets and Liabilities

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Trading assets, securities available for sale, derivatives, prime residential mortgages held for sale (MHFS), certain commercial loans held for sale (LHFS), residential MSRs, principal investments and securities sold but not yet purchased (short sale liabilities) 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, certain LHFS, 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 existed to reliably support fair value pricing models used for these loans. On December 31, 2008, we elected to measure at fair value prime residential MHFS acquired from Wachovia. 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) reduces certain timing differences and better matches changes in the value of these assets with changes in the value of derivatives used as economic hedges for these assets. There was no transition adjustment required upon adoption of FAS 159 for MHFS because we continued to account for MHFS originated prior to 2007 at the lower of cost or market value. At December 31, 2006, the book value of other interests held was equal to fair value and, therefore, a transition adjustment was not required.

Upon the acquisition of Wachovia, we elected to measure at fair value certain portfolios of LHFS that we intend to hold for trading purposes and that may be economically hedged with derivative instruments. In addition, we elected to measure at fair value certain letters of credit that are hedged with derivative instruments to better reflect the economics of the transactions. These letters of credit are included in trading account assets or liabilities.

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. Additionally, FAS 157 amended FAS 107, *Disclosure about Fair Value of Financial Instruments* (FAS 107), and, as such, we follow FAS 157 in determination of FAS 107 fair value disclosure amounts. The disclosures required under FAS 159, FAS 157 and FAS 107 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.

Determination of Fair Value

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

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

We incorporate lack of liquidity into our fair value measurement based on the type of asset measured and the valuation methodology used. For example, for residential mortgage loans held for sale and certain securities where the significant inputs have become unobservable due to the illiquid markets, we use a discounted cash flow technique to measure fair value. This technique incorporates forecasting of expected cash flows discounted at an appropriate market discount rate to reflect the lack of liquidity in the market that a market participant would consider. For other securities, we use unadjusted broker quotes or vendor prices to measure fair value, which inherently reflect any lack of liquidity in the market as the fair value measurement represents an exit price from a market participant viewpoint.

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

Assets

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

TRADING ASSETS AND SECURITIES AVAILABLE FOR SALE Trading assets and securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. Such instruments are classified within Level 1 of the fair value hierarchy. Examples include exchange-traded equity securities and some highly liquid government securities such as U.S. Treasuries.

When instruments are traded in secondary markets and quoted market prices do not exist for such securities, we generally rely on internal valuation techniques or on prices obtained from independent pricing services or brokers (collectively, vendors). Trading assets and liabilities are typically valued using trader prices that are subject to independent price verification procedures. The majority of fair values derived using internal valuation techniques are verified against multiple pricing sources, including prices obtained from independent vendors. Vendors compile prices from various sources and often apply matrix pricing for similar securities when no price is observable. We review pricing methodologies provided by the vendors in order to determine if observable market information is being used, versus unobservable inputs. When evaluating the appropriateness of an internal trader price compared to vendor prices, considerations include the range and quality of vendor prices. Vendor prices are used to ensure the reasonableness of a trader price; however valuing financial instruments involves judgments acquired from knowledge of a particular market and is not perfunctory. If a trader asserts that a vendor price is not reflective of market value, justification for using the trader price, including recent sales activity where possible, must be provided to and approved by the appropriate levels of management. Similarly, while securities available for sale traded in secondary markets are typically valued using a vendor price, these prices are reviewed and, if deemed inappropriate by a trader who has the most knowledge of a particular market, can be adjusted. Securities measured with these internal valuation techniques are generally classified as Level 2 of the hierarchy and often involve using quoted market prices for similar securities, pricing models or discounted cash flow analyses using inputs observable in the market where available. Examples include private CMOs, municipal bonds, U.S. government and agency mortgage-backed securities, and corporate debt securities.

Where significant inputs are unobservable in the market due to limited activity or a less liquid market, securities valued using models with such inputs are classified as Level 3 of the fair value hierarchy. Securities classified as Level 3 include private placement asset-backed securities, collateralized by auto leases and cash reserves, private CMOs, collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs), and certain residual and retained interests in residential mortgage loan securitizations. CDOs are valued using the prices of similar instruments, the pricing of completed or pending third party transactions or the pricing of the underlying collateral within the CDO. Where prices are not readily available, management's best estimate is used.

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

LOANS HELD FOR SALE (LHFS) Loans held for sale are carried at the lower of cost or market value, or at fair value for certain portfolios that we intend to hold for trading purposes. The fair value of LHFS is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, we classify those loans subjected to nonrecurring fair value adjustments as Level 2.

LOANS For the carrying value of loans, including loans accounted for under SOP 03-3, see Note 1 – Loans. We do not record loans at fair value on a recurring basis. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for FAS 107 disclosure purposes. However, from time to time, we record nonrecurring fair value adjustments to loans to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value.

The fair value estimates for FAS 107 purposes differentiate loans based on their financial characteristics, such as product classification, loan category, pricing features and remaining maturity. Prepayment and credit loss estimates are evaluated by product and loan rate.

The fair value of commercial and commercial real estate loans is calculated by discounting contractual cash flows, adjusted for credit loss estimates, using discount rates that reflect our current pricing for loans with similar characteristics and remaining maturity.

For real estate 1-4 family first and junior lien mortgages, fair value is calculated by discounting contractual cash flows, adjusted for prepayment and credit loss estimates, using discount rates based on current industry pricing (where readily available) or our own estimate of an appropriate risk-adjusted discount rate for loans of similar size, type, remaining maturity and repricing characteristics.

For credit card loans, the portfolio's yield is equal to our current pricing and, therefore, the fair value is equal to book value adjusted for estimates of credit losses inherent in the portfolio at the balance sheet date.

For all other consumer loans, the fair value is generally calculated by discounting the contractual cash flows, adjusted for prepayment and credit loss estimates, based on the current rates we offer for loans with similar characteristics.

Loan commitments, standby letters of credit and commercial and similar letters of credit are not included in the FAS 107 table on page 143. These instruments generate ongoing fees at our current pricing levels, which are recognized over the term of the commitment period. In situations where the credit quality of the counterparty to a commitment has declined, we record a reserve. A reasonable estimate of the fair value of these instruments is the carrying value of deferred fees plus the related reserve. This amounted to $719 million and $33 million at December 31, 2008 and 2007, respectively. Certain letters of credit that are hedged with derivative instruments are carried at fair value in trading assets or liabilities. For those letters of credit fair value is calculated based on readily quotable credit default spreads, using a market risk credit default swap model.

DERIVATIVES Quoted market prices are available and used for our exchange-traded derivatives, such as certain interest rate futures and option contracts, which we classify as Level 1. However, substantially all of our derivatives are traded in over-the-counter (OTC) markets where quoted market prices are not readily available. OTC derivatives are valued using internal valuation techniques. Valuation techniques and inputs to internally-developed models depend on the type of derivative and nature of the underlying rate, price or index upon which the derivative's value is based. Key inputs can include yield curves, credit curves, foreign-exchange rates, prepayment rates, volatility measurements and correlation of such inputs. Where model inputs can be observed in a liquid market and the model does not require significant judgment, such derivatives are typically classified as Level 2 of the fair value hierarchy. Examples of derivatives classified as Level 2 include generic interest rate swaps, foreign currency swaps, commodity swaps, and option contracts. When instruments are traded in less liquid markets and significant inputs are unobservable, such derivatives are classified within Level 3. Examples of derivatives classified as Level 3 include complex and highly structured derivatives, credit default swaps, interest rate lock commitments written for our residential mortgage loans that we intend to sell and long dated equity options where volatility is not observable. Additionally, significant judgments are required when classifying financial instruments within the fair value hierarchy, particularly between Level 2 and 3, as is the case for certain derivatives.

MORTGAGE SERVICING RIGHTS AND CERTAIN OTHER INTERESTS HELD IN SECURITIZATIONS Mortgage servicing rights (MSRs) and certain other interests held in securitizations (e.g., interest-only strips) do not trade in an active market with readily observable prices. Accordingly, we determine the fair value of MSRs using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds (including housing price volatility), discount rate, cost to service (including delinquency and foreclosure costs), escrow account earnings, contractual servicing fee income, ancillary income and late fees. Commercial MSRs are carried at lower of cost or market value, and therefore can be subject to fair value measurements on a nonrecurring basis. For other interests held in securitizations (such as interest-only strips) we use a valuation model that calculates the present value of estimated future cash flows. The model incorporates our own estimates of assumptions market participants use in determining the fair value, including estimates of prepayment speeds, discount rates, defaults and contractual fee income. Interest-only strips are recorded as trading assets. Fair value measurements of our MSRs and interest-only strips use significant unobservable inputs and, accordingly, we classify as Level 3. We may also retain securities from our loan securitization activities. The valuation technique for these securities is discussed in *Securities available for sale.*

FORECLOSED ASSETS Foreclosed assets include foreclosed properties securing residential, auto and GNMA loans. Foreclosed assets are adjusted to fair value less costs to sell upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value less costs to sell. Fair value is generally based upon independent market prices or appraised values of the collateral and, accordingly, we classify foreclosed assets as Level 2.

NONMARKETABLE EQUITY INVESTMENTS Nonmarketable equity investments are recorded under the cost or equity method of accounting. Nonmarketable equity securities that fall within the scope of the AICPA Investment Company Audit Guide are carried at fair value (principal investments). There are generally restrictions on the sale and/or liquidation of these investments, including federal bank stock. Federal bank stock carrying value approximates fair value. We use facts and circumstances available to estimate the fair value of our nonmarketable equity investments. We typically consider our access to and need for capital (including recent or projected financing activity), qualitative assessments of the viability of the investee, evaluation of the financial statements of the investee and prospects for its future. Principal investments, including certain public equity and non-public securities and certain investments in private equity funds, are recorded at fair value with realized and unrealized gains and losses included in gains and losses on equity investments in the income statement, and are included in other assets on the balance sheet. Public equity investments are valued using quoted market prices and discounts are only applied when there are trading restrictions that are an attribute of the investment. Investments in non-public securities are recorded at our estimate of fair value using metrics such as security prices of comparable public companies, acquisition prices for similar companies and original investment purchase price multiples, while also incorporating a portfolio company's financial performance and specific factors. For investments in private equity funds, we use the net asset value (NAV) provided by the fund sponsor as an appropriate measure of fair value. In some cases, such NAVs require adjustments based on certain unobservable inputs.

Liabilities

DEPOSIT LIABILITIES Deposit liabilities are carried at historical cost. FAS 107 states that the fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, interest-bearing checking, and market rate and other savings, is equal to the amount payable on demand at the measurement date. The fair value of other time deposits is calculated based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for like wholesale deposits with similar remaining maturities.

SHORT-TERM FINANCIAL LIABILITIES Short-term financial liabilities are carried at historical cost and include federal funds purchased and securities sold under repurchase agreements, commercial paper and other short-term borrowings. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

OTHER LIABILITIES Other liabilities recorded at fair value on a recurring basis, excluding derivative liabilities (see *Derivatives* section for derivative liabilities), includes short sale liabilities and repurchase obligations (due to standard representations and warranties) under our residential mortgage loan contracts. Short sale liabilities are classified as either Level 1 or Level 2, generally dependent upon whether the underlying securities have readily obtained quoted prices in active exchange markets. The value of the repurchase obligations is determined using a cash flow valuation technique consistent with what market participants would use in estimating the fair value. Key assumptions in the valuation process are estimates for repurchase demands and losses subsequent to repurchase. Such assumptions are unobservable and, accordingly, we classify repurchase obligations as Level 3.

LONG-TERM DEBT Long-term debt is carried at amortized cost. However, we are required to estimate the fair value of long-term debt under FAS 107. Generally, the discounted cash flow method is used to estimate the fair value of our long-term debt. Contractual cash flows are discounted using rates currently offered for new notes with similar remaining maturities and, as such, these discount rates include our current spread levels. The fair value estimates generated are corroborated against observable market prices. For foreign-currency denominated debt, we estimate fair value based upon observable market prices for the instruments.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

(in millions)	Level 1	Level 2	Level 3	Netting (1)	Total
December 31, 2007					
Trading assets (excluding derivatives)	$ 928	$ 2,753	$ 418	$ —	$ 4,099
Derivatives (trading assets)	113	5,665	—	(2,150)	3,628
Securities available for sale	38,178	29,392	5,381 (4)	—	72,951
Mortgages held for sale	—	24,852	146	—	24,998
Mortgage servicing rights (residential)	—	—	16,763	—	16,763
Other assets (2)	1,145	1,766	41	(1,559)	1,393
Total	$ 40,364	$ 64,428	$ 22,749	$ (3,709)	$ 123,832
Other liabilities (3)	$ (1,670)	$ (4,315)	$ (315)	$ 3,709	$ (2,591)
December 31, 2008					
Trading assets (excluding derivatives)	$ 911	$ 16,045	$ 3,495	$ —	$ 20,451
Derivatives (trading assets)	331	174,355	7,897	(148,150)	34,433
Securities available for sale	5,163	123,714	22,692 (4)	—	151,569
Mortgages held for sale	—	14,036	4,718	—	18,754
Loans held for sale	—	398	—	—	398
Mortgage servicing rights (residential)	—	—	14,714	—	14,714
Other assets (2)	3,975	21,751	2,041	(20,540)	7,227
Total	$10,380	$ 350,299	$55,557	$(168,690)	$247,546
Other liabilities (3)	$ (4,815)	$(187,098)	$ (9,308)	$ 182,435	$ (18,786)

(1) Derivatives are reported net of cash collateral received and paid and, to the extent that the criteria of FIN 39 are met, positions with the same counterparty are netted as part of a legally enforceable master netting agreement.

(2) Derivative assets other than trading and principal investments are included in this category.

(3) Derivative liabilities other than trading are included in this category.

(4) Includes investments in certain asset-backed securities, including those collateralized by auto leases and cash reserves, private CMOs, CDOs, CLOs and auction-rate preferred securities.

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.

For certain assets and liabilities, we obtain fair value measurements from independent brokers or independent third party pricing services. The detail by level is shown in the table below.

(in millions)						December 31, 2008
	Independent brokers			Third party pricing services		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Trading assets (excluding derivatives)	$ 190	$3,272	$ 12	$ 917	$ 1,944	$110
Derivatives (trading assets)	3,419	106	106	605	4,635	—
Securities available for sale	181	8,916	1,681	3,944	109,170	8
Loans held for sale	—	1	—	—	353	—
Other liabilities	1,105	175	128	2,208	5,171	1

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 assets (excluding derivatives)	Other liabilities (excluding derivatives)
Balance, December 31, 2006	$ 360	$ 3,447	$ —	$ 17,591	$ (68)	$ —	$ (282)
Total net gains (losses) for 2007 included in:							
Net income	(151)	(33)	1	(3,597)	(108)	—	(97)
Other comprehensive income	—	(12)	—	—	—	—	—
Purchases, sales, issuances and settlements, net	207	1,979	30	2,769	178	—	99
Net transfers into Level 3 (1)	2	—	115(4)	—	4	—	—
Balance, December 31, 2007	**418**	**5,381**	**146**	**16,763**	**6**	**—**	**(280)**
Total net gains (losses) for 2008 included in:							
Net income	**(115)**	**(347)**	**(280)**	**(5,900)**	**(275)**	**—**	**(228)**
Other comprehensive income	**—**	**(1,489)**	**—**	**—**	**1**	**—**	**—**
Purchases, sales, issuances and settlements, net	**3,197**	**17,216**	**561**	**3,878**	**303**	**1,231**	**(130)**
Net transfers into Level 3 (1)	**—**	**1,941(4)**	**4,291(4)**	**—**	**2**	**—**	**—**
Other	**(5)**	**(10)**	**—**	**(27)**	**—**	**—**	**—**
Balance, December 31, 2008	**$3,495**	**$22,692**	**$4,718**	**$14,714**	**$ 37**	**$1,231**	**$(638)**
Net unrealized gains (losses) included in net income for 2007 relating to assets and liabilities held at December 31, 2007 (2)	$ (86)(3)	$ (31)	$ 1(5)	$ (594)(5)(6)	$ 6(5)	$ —	$ (98)(5)
Net unrealized gains (losses) included in net income for 2008 relating to assets and liabilities held at December 31, 2008 (2)	**$ (23)(3)**	**$ (150)**	**$ (268)(5)**	**$ (3,333)(5)(7)**	**$ 93(5)**	**$ —**	**$(228)(5)**

(1) The amounts presented as transfers into and out of Level 3 represent the fair value as of the beginning of the period presented.

(2) Represents only net gains (losses) that are due to changes in economic conditions and management's estimates of fair value and excludes changes due to the collection/realization of cash flows over time.

(3) Included in other noninterest income in the income statement.

(4) Represents transfers from Level 2 of residential MHFS and debt securities (including CDOs) 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 the above table.

(5) Included in mortgage banking in the income statement.

(6) Represents total unrealized losses of $571 million, net of gains of $23 million related to sales.

(7) Represents total unrealized losses of $3,341 million, net of losses of $8 million related to sales.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

We may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The valuation methodologies used to measure these fair value adjustments are described previously in this Note. For assets measured at fair value on a nonrecurring basis in 2008 and 2007 that were still held in the balance sheet at the respective year ends, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at year end.

(in millions)	Carrying value at year end				Total losses
	Level 1	Level 2	Level 3	Total	for year ended
December 31, 2007					
Mortgages held for sale	$ —	$ 1,817	$ —	$ 1,817	$ (76)
Loans held for sale	—	691	—	691	(35)
Loans (1)	—	804	12	816	(3,080)
Private equity investments	—	—	22	22	(52)
Foreclosed assets (2)	—	454	—	454	(90)
Operating lease assets	—	49	—	49	(3)
					$ (3,336)
December 31, 2008					
Mortgages held for sale	$ —	$ 521	$534	$1,055	$ (28)
Loans held for sale	—	338	—	338	(105)
Loans (1)	—	1,487	107	1,594	(6,400)
Private equity investments	134	—	18	152	(81)
Foreclosed assets (2)	—	274	55	329	(165)
Operating lease assets	—	186	—	186	(28)
					$(6,807)

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

(in millions)	**2008**			December 31, 2007		
	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	**$18,754**	**$18,862**	**$(108)(1)**	$24,998	$24,691	$307(1)
Nonaccrual loans	**152**	**344**	**(192)**	59	85	(26)
Loans 90 days or more past due and still accruing	**58**	**63**	**(5)**	29	31	(2)
Loans held for sale reported at fair value:						
Total loans	**398**	**760**	**(362)**	—	—	—
Loans 90 days or more past due and still accruing	**1**	**17**	**(16)**	—	—	—

(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.

(in millions)	Year ended December 31, 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)	$2,111	$ —	$986	$ —
Other noninterest income	—	(109)	—	(153)

(1) Includes changes in fair value of servicing associated with MHFS.

Interest income on MHFS measured at fair value is calculated based on the note rate of the loan and is recorded in interest income in the income statement.

For MHFS measured at fair value under FAS 159, the estimated amount of losses included in earnings attributable to instrument-specific credit risk for the year ended December 31, 2008 and 2007, was $648 million and $515 million, respectively. For performing loans, instrument-specific credit risk gains or losses were derived principally by determining the change in fair value of the loans due to changes in the observable or implied credit spread. Credit spread is the market yield on the loans less the relevant risk-free benchmark interest rate. Since the second half of 2007, spreads have been significantly impacted by the lack of liquidity in the secondary market for mortgage loans. For nonperforming loans, we attribute all changes in fair value to instrument-specific credit risk.

FAS 107, *Disclosures about Fair Value of Financial Instruments*

The table below is a summary of fair value estimates as of December 31, 2008 and 2007, for financial instruments, as defined by FAS 107, excluding short-term financial assets and liabilities, for which carrying amounts approximate fair value, and excluding financial instruments recorded at fair value on a recurring basis. The carrying amounts in the following table are recorded in the balance sheet under the indicated captions.

In accordance with FAS 107, we have not included assets and liabilities that are not financial instruments in our disclosure, such as the value of the long-term relationships with our deposit, credit card and trust customers, amortized MSRs, premises and equipment, goodwill and other intangibles, deferred taxes and other liabilities. Additionally, the amounts in the table have not been updated since year end, therefore the valuations may have changed significantly since that point in time. For these reasons, the total of the fair value calculations presented does not represent, and should not be construed to represent, the underlying value of the Company.

(in millions)	December 31, 2008 Carrying amount	2008 Estimated fair value	2007 Carrying amount	2007 Estimated fair value
FINANCIAL ASSETS				
Mortgages held for sale (1)	$ 1,334	$ 1,333	$ 1,817	$ 1,817
Loans held for sale	5,830	5,876	948	955
Loans, net	843,817	829,603	376,888	377,219
Nonmarketable equity investments (cost method)	11,104	11,220	5,855	6,076
FINANCIAL LIABILITIES				
Deposits	$781,402	$781,964	$344,460	$344,484
Long-term debt (2)	267,055	266,023	99,373	98,449

(1) Balance excludes mortgages held for sale for which the fair value option under FAS 159 was elected, and therefore includes nonprime residential and commercial mortgages held for sale.

(2) The carrying amount and fair value exclude obligations under capital leases of $103 million and $20 million at December 31, 2008 and 2007, respectively.

Note 18: Preferred Stock

We are authorized to issue 20 million shares of preferred stock and 4 million shares of preference stock, both without par value. Preferred shares outstanding rank senior to common shares both as to dividends and liquidation preference but have no general voting rights. We have not issued any preference shares under this authorization.

The following table provides detail of preferred stock at December 31, 2008.

(in millions, except shares)	December 31, 2008			
	Shares issued and outstanding	Par value	Carrying amount	Discount
Series D (1)				
Fixed Rate Cumulative Perpetual Preferred Stock, Series D, $1,000,000 liquidation preference per share, 25,000 shares authorized	25,000	$25,000	$22,741	$2,259
DEP Shares				
Dividend Equalization Preferred Shares, $10 liquidation preference per share, 97,000 shares authorized	96,546	—	—	—
Series J (1)(2)				
8.00% Non-Cumulative Perpetual Class A Preferred Stock, Series J, $1,000 liquidation preference per share, 2,300,000 shares authorized	2,150,375	2,150	1,995	155
Series K (1)(2)				
7.98% Fixed-to-Floating Non-Cumulative Perpetual Class A Preferred Stock, Series K, $1,000 liquidation preference per share, 3,500,000 shares authorized	3,352,000	3,352	2,876	476
Series L (1)(2)				
7.50% Non-Cumulative Perpetual Convertible Class A Preferred Stock, Series L, $1,000 liquidation preference per share, 4,025,000 shares authorized	3,968,000	3,968	3,200	768
TOTAL	9,591,921	$34,470	$30,812	$3,658

(1) Series D, J, K and L preferred shares qualify as Tier 1 capital.
(2) In conjunction with the acquisition of Wachovia, at December 31, 2008, shares of Series J, K and L perpetual preferred stock were converted into shares of a corresponding series of Wells Fargo preferred stock having substantially the same rights and preferences. The carrying amount is par value adjusted to fair value in purchase accounting.

In addition to the preferred stock issued and outstanding described in the table above, we have the following preferred stock authorized with no shares issued and outstanding:

- Series A – Non-Cumulative Perpetual Preferred Stock, Series A, $100,000 liquidation preference per share, 25,001 shares authorized
- Series B – Non-Cumulative Perpetual Preferred Stock, Series B, $100,000 liquidation preference per share, 17,501 shares authorized
- Series G – 7.25% Class A Preferred Stock, Series G, $15,000 liquidation preference per share, 50,000 shares authorized
- Series H – Floating Class A Preferred Stock, Series H, $20,000 liquidation preference per share, 50,000 shares authorized
- Series I – 5.80% Fixed to Floating Class A Preferred Stock, Series I, $100,000 liquidation preference per share, 25,010 shares authorized

PREFERRED STOCK ISSUED TO THE DEPARTMENT OF THE TREASURY On October 28, 2008, we issued to the United States Department of the Treasury 25,000 shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series D without par value, having a liquidation preference per share equal to $1,000,000. The Series D Preferred Stock pays cumulative dividends at a rate of 5% per year for the first five years and thereafter at a rate of 9% per year. After three years, we may, at our option, subject to any necessary bank regulatory approval, redeem the Series D Preferred Stock at par value plus accrued and unpaid dividends. The Series D Preferred Stock is generally non-voting. Prior to October 28, 2011, unless we have redeemed the Series D Preferred Stock or the Treasury has transferred all of the Series D Preferred Stock to third parties, the consent of the Treasury will be required for us to declare or pay any dividends or make any distribution on our common stock, other than regular quarterly cash dividends not exceeding $0.34 or dividends payable only in shares of its common stock, 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 Agreement with the Treasury. Treasury, as part of the preferred stock issuance, received warrants to purchase approximately 110.3 million shares of Wells Fargo common stock at an initial exercise price of $34.01 (based on the trailing 20 day Wells Fargo average stock price as of October 10, 2008). The proceeds from Treasury were allocated based on the relative fair value of the warrants as compared with the fair value of the preferred stock. The fair value of the warrants was determined using a valuation model which incorporates assumptions including our common stock price, dividend yield, stock price volatility and the risk-free interest rate. The fair value of the preferred stock is determined based on assumptions regarding the discount rate (market rate) on the preferred stock which was estimated to be approximately 13% at the date of issuance. The discount on the preferred stock will be accreted to par value using a constant effective yield of 7.2% over a five-year term, which is the expected life of the preferred stock.

ESOP CUMULATIVE CONVERTIBLE PREFERRED STOCK All shares of our ESOP (Employee Stock Ownership Plan) Cumulative Convertible Preferred Stock (ESOP Preferred Stock) were issued to a trustee acting on behalf of the Wells Fargo & Company 401(k) Plan (the 401(k) Plan). Dividends on the ESOP Preferred Stock are cumulative from the date of initial issuance and are payable quarterly at annual rates ranging from 8.50% to 12.50%, depending upon the year of issuance. Each share of ESOP Preferred Stock released from the unallocated reserve of the 401(k) Plan is converted into shares of our common stock based on the stated value of the ESOP Preferred Stock and the then current market price of our common stock. The ESOP Preferred Stock is also convertible at the option of the holder at any time, unless previously redeemed. We have the option to redeem the ESOP Preferred Stock at any time, in whole or in part, at a redemption price per share equal to the higher of (a) $1,000 per share plus accrued and unpaid dividends or (b) the fair market value, as defined in the Certificates of Designation for the ESOP Preferred Stock.

	Shares issued and outstanding December 31,		Carrying amount (in millions) December 31,		Adjustable dividend rate	
	2008	2007	**2008**	2007	Minimum	Maximum
ESOP Preferred Stock (1):						
2008	**156,914**	—	**$ 157**	$ —	10.50%	11.50%
2007	**110,159**	135,124	**110**	135	10.75	11.75
2006	**83,249**	95,866	**83**	96	10.75	11.75
2005	**62,484**	73,434	**63**	73	9.75	10.75
2004	**45,950**	55,610	**46**	56	8.50	9.50
2003	**29,218**	37,043	**29**	37	8.50	9.50
2002	**18,889**	25,779	**19**	26	10.50	11.50
2001	**10,393**	16,593	**10**	17	10.50	11.50
2000	**2,644**	9,094	**3**	9	11.50	12.50
1999	**—**	1,261	**—**	1	10.30	11.30
Total ESOP Preferred Stock	**519,900**	449,804	**$ 520**	$ 450		
Unearned ESOP shares (2)			**$(555)**	$(482)		

(1) Liquidation preference $1,000. At December 31, 2008 and 2007, additional paid-in capital included $35 million and $32 million, respectively, related to preferred stock.

(2) In accordance with the AICPA Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*, we recorded a corresponding charge to unearned ESOP shares in connection with the issuance of the ESOP Preferred Stock. The unearned ESOP shares are reduced as shares of the ESOP Preferred Stock are committed to be released. For information on dividends paid, see Note 19.

Note 19: Common Stock and Stock Plans

Common Stock

The following table presents our reserved, issued and authorized shares of common stock at December 31, 2008.

	Number of shares
Dividend reinvestment and common stock purchase plans	6,194,500
Director plans	969,075
Stock plans (1)	761,273,606
Total shares reserved	768,437,181
Shares issued	4,363,921,429
Shares not reserved	867,641,390
Total shares authorized	6,000,000,000

(1) Includes employee option, restricted shares and restricted share rights, 401(k), profit sharing and compensation deferral plans.

Dividend Reinvestment and Common Stock Purchase Plans

Participants in our dividend reinvestment and common stock direct purchase plans may purchase shares of our common stock at fair market value by reinvesting dividends and/or making optional cash payments, under the plan's terms.

Employee Stock Plans

We offer the stock-based employee compensation plans described below. Effective January 1, 2006, we adopted FAS 123(R), *Share-Based Payment*, using the "modified prospective" transition method. FAS 123(R) requires that we measure the cost of employee services received in exchange for an award of equity instruments, such as stock options or restricted share rights (RSRs), based on the fair value of the award on the grant date. The cost is normally recognized in our income statement over the vesting period of the award; awards with graded vesting are expensed on a straight-line method. Awards to retirement-eligible employees are subject to immediate expensing upon grant. Total stock option compensation expense was $174 million in 2008, $129 million in 2007 and $134 million in 2006, with a related recognized tax benefit of $65 million, $49 million and $50 million for the same years, respectively. Stock option expense is based on the fair value of the awards at the date of grant. Prior to January 1, 2006, we did not record any compensation expense for stock options.

LONG-TERM INCENTIVE COMPENSATION PLANS Our Long-Term Incentive Compensation Plan provides for awards of incentive and nonqualified stock options, stock appreciation rights, restricted shares, RSRs, performance awards and stock awards without restrictions. Options must have an exercise price at or above fair market value (as defined in the plan) of the stock at the date of grant (except for substitute or replacement options granted in connection with mergers or other acquisitions) and a term of no more than 10 years. Except for options granted in 2004 and 2005, which generally vested in full upon grant, options generally become exercisable over three years beginning on the first anniversary of the date of grant. Except as otherwise permitted under the plan, if employment is ended for reasons other than retirement, permanent disability or death, the option exercise period is reduced or the options are canceled.

Options granted prior to 2004 may include the right to acquire a "reload" stock option. If an option contains the reload feature and if a participant pays all or part of the exercise price of the option with shares of stock purchased in the market or held by the participant for at least six months and, in either case, not used in a similar transaction in the last six months, upon exercise of the option, the participant is granted a new option to purchase, at the fair market value of the stock as of the date of the reload, the number of shares of stock equal to the sum of the number of shares used in payment of the exercise price and a number of shares with respect to related statutory minimum withholding taxes. Reload grants are fully vested upon grant and are expensed immediately under FAS 123(R) beginning in 2006.

Holders of RSRs are entitled to the related shares of common stock at no cost generally over three to five years after the RSRs were granted. Holders of RSRs granted prior to July 2007 may be entitled to receive cash payments equal to the cash dividends that would have been paid had the RSRs been issued and outstanding shares of common stock. Except in limited circumstances, RSRs are canceled when employment ends.

The compensation expense for RSRs equals the quoted market price of the related stock at the date of grant and is accrued over the vesting period. Total compensation expense for RSRs was not significant in 2008 or 2007.

For various acquisitions and mergers, we converted employee and director stock options of acquired or merged companies into stock options to purchase our common stock based on the terms of the original stock option plan and the agreed-upon exchange ratio. In addition, we converted restricted stock awards into awards that entitle holders to our stock after the vesting conditions are met. Holders receive cash dividends on outstanding awards if provided in the original award.

The total number of shares of common stock available for grant under the plans at December 31, 2008, was 235 million.

***PARTNERSHARES* PLAN** In 1996, we adopted the *PartnerShares*® Stock Option Plan, a broad-based employee stock option plan. It covers full- and part-time employees who generally were not included in the long-term incentive compensation plan described above. No options have been granted under the plan since 2002, and as a result of action taken by the Board of Directors on January 22, 2008, no future awards will be granted under the plan. The exercise date of options granted under the *PartnerShares* Plan is the earlier of (1) five years after the date of grant or (2) when the quoted market price of the stock reaches a predetermined price. These options generally expire 10 years after the date of grant. Because the exercise price of each *PartnerShares* Plan grant has been equal to or higher than the quoted market price of our common stock at the date of grant, we did not recognize any compensation expense in 2005 and prior years. In 2006, under FAS 123(R), we began to recognize expense related to these grants, based on the remaining vesting period. All of our *PartnerShares* Plan grants were fully vested as of December 31, 2008.

Director Plan

We grant common stock and options to purchase common stock to non-employee directors elected or re-elected at the annual meeting of stockholders and prorated awards to directors who join the Board at any other time. The stock award vests immediately. Options granted in 2008 or earlier can be exercised after six months through the tenth anniversary of the grant date. Stock awards and option grants were made to non-employee directors under the Directors Stock Compensation and Deferral Plan. As a result of action taken by the Board of Directors on September 30, 2008, future stock awards and option grants will be made under our Long-Term Incentive Compensation Plan.

The table below summarizes stock option activity and related information for 2008. Options assumed in mergers are included in the activity and related information for Incentive Compensation Plans if originally issued under an employee plan, and in the activity and related information for Director Plans if originally issued under a director plan.

	Number	Weighted-average exercise price	Weighted-average remaining contractual term (in yrs.)	Aggregate intrinsic value (in millions)
Incentive Compensation Plans				
Options outstanding as of December 31, 2007	238,629,924	$ 28.87		
Granted	48,890,048	31.40		
Canceled or forfeited	(4,123,158)	32.61		
Exercised	(25,986,596)	23.66		
Acquisitions	26,197,039	198.07		
Options outstanding as of December 31, 2008	283,607,257	45.36	5.7	$414
As of December 31, 2008:				
Options exercisable and expected to be exercisable (1)	281,180,115	45.47	5.7	414
Options exercisable	200,077,486	50.76	4.5	413
***PartnerShares* Plan**				
Options outstanding as of December 31, 2007	24,365,561	$ 23.50		
Canceled or forfeited	(543,896)	21.12		
Exercised	(6,159,198)	21.34		
Options outstanding as of December 31, 2008	17,662,467	24.33	2.6	$ 91
As of December 31, 2008:				
Options exercisable and expected to be exercisable (1)	17,662,467	24.33	2.6	91
Options exercisable	17,662,467	24.33	2.6	91
Director Plans				
Options outstanding as of December 31, 2007	827,285	$ 27.72		
Granted	146,860	29.88		
Canceled	(34,080)	34.51		
Exercised	(32,956)	19.32		
Options outstanding as of December 31, 2008	907,109	28.12	5.6	$ 2
As of December 31, 2008:				
Options exercisable and expected to be exercisable (1)	907,109	28.12	5.6	2
Options exercisable	907,109	28.12	5.6	2

(1) Adjusted for estimated forfeitures.

As of December 31, 2008, there was $140 million of unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 1.9 years.

The total intrinsic value of options exercised during 2008 and 2007 was $348 million and $588 million, respectively.

Cash received from the exercise of options for 2008 and 2007 was $747 million and $1,026 million, respectively. The actual tax benefit recognized in stockholders' equity for the tax deductions from the exercise of options totaled $123 million and $210 million, respectively, for 2008 and 2007.

We do not have a specific policy on repurchasing shares to satisfy share option exercises. Rather, we have a general policy on repurchasing shares to meet common stock issuance requirements for our benefit plans (including share option exercises), conversion of its convertible securities, acquisitions, and other corporate purposes. Various factors determine the amount and timing of our share repurchases, including our capital requirements, the number of shares we expect to issue for acquisitions and employee benefit plans, market conditions (including the trading price of our stock), and legal considerations. These factors can change at any time, and there can be no assurance as to the number of shares we will repurchase or when we will repurchase them.

Effective with the adoption of FAS 123(R), the fair value of each option award granted on or after January 1, 2006, is estimated using a Black-Scholes valuation model. The expected term of options granted is generally based on the historical exercise behavior of full-term options. Our expected volatilities are based on a combination of the historical volatility of our common stock and implied volatilities for traded options on our common stock. The risk-free rate is based on the U.S. Treasury zero-coupon yield curve in effect at the time of grant. Both expected volatility and the risk-free rates are based on a period commensurate with our expected term. The expected dividend is based on the current dividend, consideration of our historical pattern of dividend increases and the market price of our stock.

Effective with the adoption of FAS 123(R), we changed our method of estimating our volatility assumption. Prior to 2006, we used a volatility based on historical stock price changes. Effective January 1, 2006, we used a volatility based on a combination of historical stock price changes and implied volatilities of traded options as both volatilities are relevant in estimating our expected volatility.

The following table presents the weighted-average per share fair value of options granted and the assumptions used, based on a Black-Scholes option valuation model.

	Year ended December 31,		
	2008	2007	2006
Per share fair value of options granted:			
Incentive Compensation Plans	**$4.06**	$4.03	$4.03
Director Plans	**4.33**	4.05	4.67
Expected volatility	**22.4%**	13.3%	15.9%
Expected dividends	**4.1**	3.4	3.4
Expected term (in years)	**4.4**	4.2	4.3
Risk-free interest rate	**2.7%**	4.6%	4.5%

At December 31, 2008, there was $5 million of total unrecognized compensation cost related to nonvested RSRs. The cost is expected to be recognized over a weighted-average period of 2.4 years. The total fair value of RSRs that vested during 2008 and 2007 was $1 million for both years.

A summary of the status of our RSRs and restricted share awards at December 31, 2008, and changes during 2008 is in the following table:

	Number	Weighted-average grant-date fair value
Nonvested at January 1, 2008	112,396	$32.01
Granted	201,910	29.68
Vested	(40,045)	25.94
Acquisitions	751,905	29.48
Nonvested at December 31, 2008	1,026,166	29.79

The weighted-average grant-date fair value of RSRs granted during 2007 was $34.76.

Employee Stock Ownership Plan

Under the Wells Fargo & Company 401(k) Plan (the 401(k) Plan), a defined contribution ESOP, the 401(k) Plan may borrow money to purchase our common or preferred stock. Since 1994, we have loaned money to the 401(k) Plan to purchase shares of our ESOP Preferred Stock. As we release and convert ESOP Preferred Stock into common shares, we record compensation expense equal to the current market price of the common shares. Dividends on the common shares allocated as a result of the release and conversion of the ESOP Preferred Stock reduce retained earnings and the shares are considered outstanding for computing earnings per share. Dividends on the unallocated ESOP Preferred Stock do not reduce retained earnings, and the shares are not considered to be common stock equivalents for computing earnings per share. Loan principal and interest payments are made from our contributions to the 401(k) Plan, along with dividends paid on the ESOP Preferred Stock. With each principal and interest payment, a portion of the ESOP Preferred Stock is released and, after conversion of the ESOP Preferred Stock into common shares, allocated to the 401(k) Plan participants.

The balance of ESOP shares, the dividends on allocated shares of common stock and unreleased preferred shares paid to the 401(k) Plan and the fair value of unearned ESOP shares were:

(in millions, except shares)	Shares outstanding December 31,		
	2008	2007	2006
Allocated shares (common)	**74,916,583**	76,265,880	74,536,040
Unreleased shares (preferred)	**519,900**	449,804	383,804
Fair value of unearned ESOP shares	**$520**	$450	$384
	Dividends paid Year ended December 31,		
	2008	2007	2006
Allocated shares (common)	**$100**	$ 88	$ 79
Unreleased shares (preferred)	**66**	57	47

Deferred Compensation Plan for Independent Sales Agents

WF Deferred Compensation Holdings, Inc. is a wholly-owned subsidiary of the Parent formed solely to sponsor a deferred compensation plan for independent sales agents who provide investment, financial and other qualifying services for or with respect to participating affiliates. The Nonqualified Deferred Compensation Plan for Independent Contractors, which became effective January 1, 2002, allows participants to defer all or part of their eligible compensation payable to them by a participating affiliate. The Parent has fully and unconditionally guaranteed the deferred compensation obligations of WF Deferred Compensation Holdings, Inc. under the plan.

Note 20: Employee Benefits and Other Expenses

Employee Benefits

We sponsor noncontributory qualified defined benefit retirement plans including the Wells Fargo & Company Cash Balance Plan (Cash Balance Plan), which covers eligible employees of the legacy Wells Fargo and the Wachovia Corporation Pension Plan (Pension Plan), a cash balance plan that covers eligible employees of the legacy Wachovia Corporation.

Under the Cash Balance Plan, eligible employees' Cash Balance Plan accounts are allocated a compensation credit based on a percentage of their qualifying compensation. The compensation credit percentage is based on age and years of credited service. In addition, investment credits are allocated to participants quarterly based on their accumulated balances. Prior to January 1, 2008, employees became vested in their Cash Balance Plan accounts after completing five years of vesting service or reaching age 65, if earlier. Effective January 1, 2008, employees become vested in their Cash Balance Plan accounts after completing three years of vesting service or reaching age 65, if earlier.

Under the Pension Plan, eligible employees who were hired prior to January 1, 2008, are allocated an annual compensation credit based on a percentage of their qualifying compensation. The compensation credit is based on their level of compensation. In addition, investment credits are allocated to participants annually based on their accumulated balances. Effective January 1, 2008, employees become vested in their Pension Plan accounts after completing three years of vesting service.

We made a $250 million contribution to our Cash Balance Plan in 2008 although a contribution was not required. We expect that we will not be required to make a contribution to the Cash Balance Plan or the Pension Plan in 2009, however, this is dependent on the finalization of participant data. Our decision of whether to make a contribution in 2009 will be based on various factors including the maximum deductible contribution under the Internal Revenue Code and the actual investment performance of plan assets during 2009. Given these uncertainties, we cannot estimate at this time the amount, if any, that we will contribute in 2009 to the Cash Balance Plan or Pension Plan. The total amount contributed for our other pension plans in 2008 was $33 million. For the unfunded nonqualified pension plans and postretirement benefit plans, we will contribute the minimum required amount in 2009, which equals the benefits paid under the plans. In 2008, we paid $65 million in benefits for the postretirement plans, which included $39 million in retiree contributions.

We sponsor defined contribution retirement plans including the Wells Fargo & Company 401(k) Plan (401(k) Plan) and the Wachovia Savings Plan (Savings Plan). We also have a frozen defined contribution plan resulting from a company acquired by Wachovia. No contributions are permitted to that plan. Under the 401(k) Plan, after one month of service, eligible employees may contribute up to 25% of their pre-tax qualifying compensation, although there may be a lower limit for certain highly compensated employees in order to maintain the qualified status of the 401(k) Plan. Eligible employees who complete one year of service are eligible for matching company contributions, which are generally a 100% match up to 6% of an employee's qualifying compensation. The matching contributions generally vest over four years.

Under the Savings Plan, after one month of service, eligible employees may contribute up to 30% of their qualifying compensation on a pre-tax or after-tax basis, although there may be a lower limit for certain highly compensated employees in order to maintain the qualified status of this Savings Plan. Eligible employees who complete one year of service are eligible for matching company contributions, which are generally a 100% match up to 6% of an employee's qualifying compensation. The matching contributions vest immediately.

Expenses for defined contribution retirement plans were $411 million, $426 million and $373 million in 2008, 2007 and 2006, respectively.

We provide health care and life insurance benefits for certain retired employees and reserve the right to terminate or amend any of the benefits at any time.

The information set forth in the following tables is based on current actuarial reports using the measurement date of December 31 for our pension and postretirement benefit plans.

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 were required to change the 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 changes in the projected benefit obligation of pension benefits and the accumulated benefit obligation of other benefits and the fair value of plan assets during 2008 and 2007, the funded status at December 31, 2008 and 2007, and the amounts recognized in the balance sheet at December 31, 2008 and 2007, were:

(in millions)	2008			December 31, 2007		
	Pension benefits			Pension benefits		
	Qualified	Non-qualified	Other benefits	Qualified	Non-qualified	Other benefits
Change in benefit obligation:						
Benefit obligation at beginning of year	$ 4,565	$ 366	$ 663	$4,443	$ 301	$ 739
Service cost	291	15	13	281	15	15
Interest cost	276	22	40	246	18	41
Plan participants' contributions	—	—	39	—	—	39
Amendments	—	—	—	—	(24)	—
Plan mergers (1)	—	—	—	—	64	—
Actuarial loss (gain)	(197)	(15)	(94)	(105)	16	(105)
Benefits paid	(317)	(24)	(65)	(310)	(24)	(70)
Foreign exchange impact	—	—	—	10	—	4
Acquisitions (2)	4,359	317	727	—	—	—
Measurement date adjustment (3)	—	3	2	—	—	—
Benefit obligation at end of year	$ 8,977	$ 684	$1,325	$4,565	$ 366	$ 663
Change in plan assets:						
Fair value of plan assets at beginning of year	$ 5,617	$ —	$ 458	$5,351	$ —	$ 412
Actual return on plan assets	(1,750)	—	(128)	560	—	56
Employer contribution	260	24	22	7	24	21
Plan participants' contributions	—	—	39	—	—	39
Benefits paid	(317)	(24)	(65)	(310)	(24)	(70)
Foreign exchange impact	—	—	—	9	—	—
Acquisitions (2)	4,132	—	46	—	—	—
Measurement data adjustment (3)	(79)	—	(4)	—	—	—
Fair value of plan assets at end of year	$ 7,863	$ —	$ 368	$5,617	$ —	$ 458
Funded status at end of year	$(1,114)	$(684)	$ (957)	$1,052	$(366)	$(205)
Amounts recognized in the balance sheet at end of year:						
Assets	$ —	$ —	$ —	$1,061	$ —	$ —
Liabilities	(1,114)	(684)	(957)	(9)	(366)	(205)
	$(1,114)	$(684)	$ (957)	$1,052	$(366)	$(205)

(1) Represents acquisition of Greater Bay Bancorp on October 1, 2007.
(2) Excludes foreign benefit plans of Wachovia with a total benefit obligation of $32 million, a fair value of plan assets of $30 million, and an underfunded status of $2 million.
(3) Represents change in benefit obligation and plan assets during December 2007 to reflect an additional month of activity due to the change in measurement date from November 30 to December 31 as required by FAS 158.

Amounts recognized in accumulated other comprehensive income (pre tax) for the year ended December 31, 2008 and 2007, consist of:

(in millions)	2008			December 31, 2007		
	Pension benefits			Pension benefits		
	Qualified	Non-qualified	Other benefits	Qualified	Non-qualified	Other benefits
Net actuarial loss	$2,349	$ 50	$ 91	$248	$ 79	$ 13
Net prior service credit	(7)	(37)	(38)	(7)	(42)	(42)
Net transition obligation	—	—	3	—	—	3
Translation adjustments	(2)	—	(2)	3	—	2
	$2,340	$ 13	$ 54	$244	$ 37	$(24)

The net actuarial loss and net prior service credit for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2009 are $430 million and $5 million, respectively. The net actuarial loss and net prior service credit for the other postretirement plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2009 are $3 million and $4 million, respectively.

The weighted-average assumptions used to determine the projected benefit obligation were:

	Year ended December 31, 2008		2007	
	Pension benefits (1)	Other benefits	Pension benefits (1)	Other benefits
Discount rate	6.75%	6.75%	6.25%	6.25%
Rate of compensation increase	4.0	—	4.0	—

(1) Includes both qualified and nonqualified pension benefits.

The accumulated benefit obligation for the defined benefit pension plans was $9,423 million and $4,734 million at December 31, 2008 and 2007, respectively.

We seek to achieve the expected long-term rate of return with a prudent level of risk given the benefit obligations of the pension plans and their funded status. We target the asset allocation for our Cash Balance Plan and Pension Plan at a target mix range of 35-65% equities, 20–50% fixed income, and approximately 15% in real estate, venture capital, private equity and other investments. The target ranges referenced above account for the employment of an asset allocation methodology designed to overweight stocks or bonds when a compelling opportunity exists. The Employee Benefit Review Committee (EBRC), which includes several members of senior management, formally reviews the investment risk and performance of our Cash Balance Plan on a quarterly basis and will incorporate the Pension Plan into this process starting in 2009. Annual Plan liability analysis and periodic asset/liability evaluations are also conducted.

The weighted-average allocation of plan assets was:

	Percentage of plan assets at December 31,			
	2008		2007	
	Pension plan assets	**Other benefit plan assets** (1)	Pension plan assets	Other benefit plan assets
Equity securities	54%	54%	67%	63%
Debt securities	34	41	26	34
Real estate	5	2	4	2
Other	7	3	3	1
Total	100%	100%	100%	100%

(1) Excludes approximately $46 million in assets associated with Wachovia Retiree Medical Benefit plans, which are invested in a combination of municipal bonds, money market investments and a Trust Owned Life insurance policy for the purpose of paying claims.

The table below provides information for pension plans with benefit obligations in excess of plan assets.

(in millions)	December 31,	
	2008	2007
Projected benefit obligation	**$9,661**	$463
Accumulated benefit obligation	**9,423**	422
Fair value of plan assets	**7,863**	88

The components of net periodic benefit cost were:

(in millions)	Year ended December 31,								
	2008			2007			2006		
	Pension benefits			Pension benefits			Pension benefits		
	Qualified	**Non-qualified**	**Other benefits**	Qualified	Non-qualified	Other benefits	Qualified	Non-qualified	Other benefits
Service cost	$ 291	$ 15	$ 13	$ 281	$ 15	$ 15	$ 247	$16	$ 15
Interest cost	276	22	40	246	18	41	224	16	39
Expected return on plan assets	(478)	—	(41)	(452)	—	(36)	(421)	—	(31)
Amortization of net actuarial loss (1)	1	13	1	32	13	5	56	6	5
Amortization of prior service cost	—	(5)	(4)	—	(3)	(4)	—	(1)	(4)
Special termination benefits	—	—	—	—	—	—	2	—	—
Curtailment gain	—	—	—	—	—	—	—	—	(9)
Settlement	—	—	—	1	—	—	5	3	—
Net periodic benefit cost	90	45	9	108	43	21	$ 113	$40	$ 15
Other changes in plan assets and benefit obligations recognized in other comprehensive income:									
Net actuarial loss (gain)	2,102	(16)	79	(213)	16	(126)			
Amortization of net actuarial loss	(1)	(13)	(1)	(33)	(13)	(5)			
Prior service cost	—	—	—	—	(24)	—			
Amortization of prior service cost	—	5	4	—	3	4			
Translation adjustments	(5)	—	(4)	3	—	2			
Total recognized in other comprehensive income	2,096	(24)	78	(243)	(18)	(125)			
Total recognized in net periodic benefit cost and other comprehensive income	$2,186	$ 21	$ 87	$(135)	$ 25	$(104)			

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

The weighted-average assumptions used to determine the net periodic benefit cost were:

	Year ended December 31, 2008		2007		2006	
	Pension benefits (1)	Other benefits	Pension benefits (1)	Other benefits	Pension benefits (1)	Other benefits
Discount rate	**6.25%**	**6.25%**	5.75%	5.75%	5.75%	5.75%
Expected return on plan assets	**8.75**	**8.75**	8.75	8.75	8.75	8.75
Rate of compensation increase	**4.0**	—	4.0	—	4.0	—

(1) Includes both qualified and nonqualified pension benefits.

The long-term rate of return assumptions above were derived based on a combination of factors including (1) long-term historical return experience for major asset class categories (for example, large cap and small cap domestic equities, international equities and domestic fixed income), and (2) forward-looking return expectations for these major asset classes.

To account for postretirement health care plans we use health care cost trend rates to recognize the effect of expected changes in future health care costs due to medical inflation, utilization changes, new technology, regulatory requirements and Medicare cost shifting. We assumed average annual increases of approximately 9% (before age 65) and 8.5% (after age 65) for health care costs for 2009. The rates of average annual increases are assumed to trend down 0.5% each year until the trend rates reach an ultimate trend of 5% in 2017 (before age 65) and 2016 (after age 65). Increasing the assumed health care trend by one percentage point in each year would increase the benefit obligation as of December 31, 2008, by $60 million and the total of the interest cost and service cost components of the net periodic benefit cost for 2008 by $5 million. Decreasing the assumed health care trend by one percentage point in each year would decrease the benefit obligation as of December 31, 2008, by $55 million and the total of the interest cost and service cost components of the net periodic benefit cost for 2008 by $4 million.

The investment strategy for assets held in the Retiree Medical Plan Voluntary Employees' Beneficiary Association (VEBA) trust and other pension plans is maintained separate from the strategy for the assets in the Cash Balance Plan and Pension Plan. The general target asset mix is 45–65% equities and 35–55% fixed income. In addition, the strategy for the VEBA trust assets considers the effect of income taxes by utilizing a combination of variable annuity and low turnover investment strategies. Members of the EBRC formally review the investment risk and performance of these assets on a quarterly basis.

Future benefits, reflecting expected future service that we expect to pay under the pension and other benefit plans, follow.

(in millions)	Pension benefits		
	Qualified	Non-qualified	Other benefits
Year ended December 31,			
2009	$ 802	$ 82	$117
2010	825	80	121
2011	823	80	125
2012	849	69	127
2013	971	65	129
2014-2018	4,659	330	653

Other benefits payments are expected to be reduced by prescription drug subsidies from the federal government provided by the Medicare Prescription Drug, Improvement and Modernization Act of 2003, as follows:

(in millions)	Other benefits subsidy receipts
Year ended December 31,	
2009	$19
2010	20
2011	22
2012	23
2013	24
2014-2018	84

Other Expenses

Expenses exceeding 1% of total interest income and noninterest income in any of the years presented that are not otherwise shown separately in the financial statements or Notes to Financial Statements were:

(in millions)	Year ended December 31, 2008	2007	2006
Outside professional services	**$847**	$899	$942
Insurance	**725**	416	257
Travel and entertainment	**447**	474	542
Contract services	**407**	448	579

Note 21: Income Taxes

The components of income tax expense were:

(in millions)	Year ended December 31, 2008	2007	2006
Current:			
Federal	$ 2,043	$3,181	$2,993
State and local	171	284	438
Foreign	30	136	239
	2,244	3,601	3,670
Deferred:			
Federal	(1,506)	(32)	491
State and local	(136)	1	69
	(1,642)	(31)	560
Total	$ 602	$3,570	$4,230

The tax benefit related to the exercise of employee stock options recorded in stockholders' equity was $123 million, $210 million and $229 million for 2008, 2007 and 2006, respectively.

We had a net deferred tax asset of $13,864 million for 2008 and a net deferred tax liability of $4,657 million for 2007. Our net deferred tax asset (liability) and the tax effects of temporary differences that gave rise to significant portions of these deferred tax assets and liabilities are presented in the table on the right.

We have determined that a valuation reserve is required for 2008 in the amount of $973 million primarily attributable to deferred tax assets in various state and foreign jurisdictions where we believe it is more likely than not that these deferred tax assets will not be realized. In these jurisdictions, carry back limitations, lack of sources of taxable income, and tax planning strategy limitations contributed to our conclusion that the deferred tax assets would not be realizable. We have concluded that it is more likely than not that the remaining deferred tax assets will be realized based on our history of earnings, sources of taxable income in carry back periods, and our ability to implement tax planning strategies.

At December 31, 2008, we had net operating loss and credit carry forwards with related deferred tax assets of $424 million and $96 million, respectively. If these carry forwards are not utilized, they will expire in varying amounts through 2028.

(in millions)	December 31, 2008	2007
Deferred tax assets		
Allowance for loan losses	$ 7,859	$ 1,977
Deferred compensation and employee benefits	2,016	576
Accrued expenses, deductible when paid	1,536	451
SOP 03-3 loans	13,806	—
Mark to market, net	194	—
Net unrealized losses on securities available for sale	3,887	—
Net operating loss and tax credit carry forwards	520	—
Other	1,421	1,358
Total deferred tax assets	31,239	4,362
Deferred tax assets valuation allowance	(973)	—
Deferred tax liabilities		
Mortgage servicing rights	(5,606)	(5,103)
Leasing	(2,617)	(1,737)
Basis difference in investments	(325)	—
Mark to market, net	—	(427)
Intangible assets	(5,625)	(360)
Net unrealized gains on securities available for sale	—	(242)
Other	(2,229)	(1,150)
Total deferred tax liabilities	(16,402)	(9,019)
Net deferred tax asset (liability)	$ 13,864	$(4,657)

Deferred taxes related to net unrealized losses on securities available for sale, net unrealized gains on derivatives, foreign currency translation, and employee benefit plan adjustments are recorded in cumulative other comprehensive income.

At December 31, 2008, Wachovia had undistributed foreign earnings of $2.2 billion related to foreign subsidiaries. We intend to reinvest these earnings indefinitely outside the U.S. and accordingly have not provided $669 million of income tax liability on these earnings.

The table below reconciles the statutory federal income tax expense and rate to the effective income tax expense and rate.

(in millions)	2008 Amount	2008 Rate	2007 Amount	2007 Rate	2006 Amount	2006 Rate
					Year ended December 31,	
Statutory federal income tax expense and rate	$1,140	35.0%	$4,070	35.0%	$4,428	35.0%
Change in tax rate resulting from:						
State and local taxes on income, net of federal income tax benefit	94	2.9	359	3.1	331	2.6
Tax-exempt interest	(130)	(4.0)	(81)	(0.7)	(76)	(0.6)
Excludable dividends	(186)	(5.7)	(23)	(0.2)	(12)	(0.1)
Other deductible dividends	(71)	(2.2)	(70)	(0.6)	(63)	(0.5)
Tax credits	(266)	(8.2)	(256)	(2.2)	(215)	(1.7)
Life insurance	(67)	(2.0)	(58)	(0.5)	(63)	(0.5)
Other	88	2.7	(371)	(3.2)	(100)	(0.8)
Effective income tax expense and rate	$ 602	18.5%	$3,570	30.7%	$4,230	33.4%

Income tax expense for 2008 and the effective tax rate included FIN 48 tax benefits of $126 million, as well as the impact of lower pre-tax earnings and higher levels of tax-exempt income and tax credits.

The change in unrecognized tax benefits in 2008 and 2007 follows:

(in millions)	2008	2007
Balance at beginning of year	$2,695	$2,875
Additions:		
For tax positions related to the current year	420	203
For tax positions related to prior years	452	105
For tax positions from business combinations (1)	4,308	—
Reductions:		
For tax positions related to prior years	(266)	(82)
Lapse of statute of limitations	(80)	(244)
Settlements with tax authorities	(8)	(162)
Balance at end of year	$7,521	$2,695

(1) Unrecognized tax benefits from the Wachovia acquisition.

Of the $7,521 million of unrecognized tax benefits at December 31, 2008, approximately $2,718 million would, if recognized, affect the effective tax rate. The remaining $4,803 million of unrecognized tax benefits relates to income tax positions on temporary differences.

We recognize interest and penalties as a component of income tax expense. At the end of 2008 and 2007, we accrued approximately $1,560 million and $230 million for the payment of interest, respectively. The increase in accrued interest is primarily related to interest accrued by Wachovia prior to the acquisition. Interest expense of $62 million (after tax) and interest income of $34 million (after tax) was recognized for 2008 and 2007, respectively, as a component of income tax expense.

We are subject to U.S. federal income tax as well as income tax in numerous state and foreign jurisdictions. With few exceptions, Wells Fargo and its subsidiaries are not subject to federal income tax examinations for taxable years prior to 2005, and state, local and foreign income tax examinations for taxable years prior to 2004. Wachovia Corporation and its subsidiaries, with few exceptions, are no longer subject to federal income tax examinations for taxable years prior to 2003, and state, local and foreign income tax examinations for taxable years prior to 2000.

We are routinely examined by tax authorities in various jurisdictions. The Internal Revenue Service (IRS) is currently examining Wachovia Corporation and its Subsidiaries for tax years 2003 through 2005 and certain non-consolidated Wachovia subsidiaries for tax years 2001 through 2006. In addition, Wachovia is appealing various issues related to their 2000 through 2002 tax years. Wachovia is also currently subject to examination by various state, local and foreign taxing authorities. While it is possible that one or more of these examinations may be resolved within the next twelve months, we do not anticipate that there will be a significant impact to the unrecognized tax benefits as a result of these examinations. In October of 2008, Wachovia submitted a nonbinding acceptance to participate in the IRS resolution offer related to sale-in, lease-out (SILO) transactions. We are awaiting further information from the IRS to evaluate the full impact of the resolution offer on our financial statements. Acceptance of the resolution offer could significantly impact our unrecognized tax benefits.

The IRS is examining the 2005 and 2006 consolidated federal income tax returns of Wells Fargo & Company and its Subsidiaries. We anticipate the audit phase of this examination will be completed in 2009. We are also litigating or appealing various issues related to our prior IRS examinations for the periods 1997-2004. We have paid the IRS the contested income tax associated with these issues and refund claims have been filed for the respective years. We are also under examination in numerous other taxing jurisdictions. While it is possible that one or more of these examinations may be resolved within the next 12 months, we do not anticipate that these examinations will significantly impact our uncertain tax positions. We are estimating that our unrecognized tax benefits could decrease by between $350 million and $3.5 billion during the next 12 months primarily related to the potential resolution of the Wachovia SILO transactions, statute expirations and settlements.

Note 22: Earnings Per Common Share

The table below shows earnings per common share and diluted earnings per common share and reconciles the numerator and denominator of both earnings per common share calculations.

At December 31, 2008, options and warrants to purchase 172.4 million and 110.3 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 were antidilutive. At December 31, 2007 and 2006, options to purchase 13.8 million and 6.7 million shares, respectively, were antidilutive.

(in millions, except per share amounts)		Year ended December 31,	
	2008	2007	2006
Net income	**$ 2,655**	$ 8,057	$ 8,420
Less: Preferred stock dividends and accretion	**286**	—	—
Net income applicable to common stock (numerator)	**$ 2,369**	$ 8,057	$ 8,420
EARNINGS PER COMMON SHARE			
Average common shares outstanding (denominator)	**3,378.1**	3,348.5	3,368.3
Per share	**$ 0.70**	$ 2.41	$ 2.50
DILUTED EARNINGS PER COMMON SHARE			
Average common shares outstanding	**3,378.1**	3,348.5	3,368.3
Add: Stock options	**13.1**	34.2	41.7
Restricted share rights	**0.1**	0.1	0.1
Diluted average common shares outstanding (denominator)	**3,391.3**	3,382.8	3,410.1
Per share	**$ 0.70**	$ 2.38	$ 2.47

Note 23: Other Comprehensive Income

The components of other comprehensive income and the related tax effects were:

(in millions)								Year ended December 31,	
			2008			2007			2006
	Before tax	**Tax effect**	**Net of tax**	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Translation adjustments	**$ (93)**	**$ (35)**	**$ (58)**	$ 36	$ 13	$ 23	$ —	$ —	$ —
Securities available for sale:									
Net unrealized gains (losses) arising during the year	**(10,546)**	**(3,958)**	**(6,588)**	86	36	50	264	93	171
Reclassification of gains included in net income	**(35)**	**(13)**	**(22)**	(345)	(131)	(214)	(326)	(124)	(202)
Net unrealized losses arising during the year	**(10,581)**	**(3,971)**	**(6,610)**	(259)	(95)	(164)	(62)	(31)	(31)
Derivatives and hedging activities:									
Net unrealized gains arising during the year	**955**	**363**	**592**	645	246	399	46	16	30
Reclassification of net losses (gains) on cash flow hedges included in net income	**(252)**	**(96)**	**(156)**	(124)	(47)	(77)	64	24	40
Net unrealized gains arising during the year	**703**	**267**	**436**	521	199	322	110	40	70
Defined benefit pension plans:									
Net actuarial gain (loss)	**(2,165)**	**(799)**	**(1,366)**	347	132	215	—	—	—
Amortization of net actuarial (gain) loss and prior service cost included in net income	**6**	**2**	**4**	44	17	27	—	—	—
Net gains (losses) arising during the year	**(2,159)**	**(797)**	**(1,362)**	391	149	242	—	—	—
Other comprehensive income	**$(12,130)**	**$(4,536)**	**$(7,594)**	$ 689	$ 266	$ 423	$ 48	$ 9	$ 39

Cumulative other comprehensive income balances were:

(in millions)	Translation adjustments	Net unrealized gains (losses) on securities available for sale	Net unrealized gains on derivatives and hedging activities	Defined benefit pension plans	Cumulative other comprehensive income
Balance, December 31, 2005	$ 29	$ 593	$ 43	$ —	$ 665
Net change	—	(31)	70	(402)[1]	(363)
Balance, December 31, 2006	29	562	113	(402)	302
Net change	23	(164)	322	242	423
Balance, December 31, 2007	52	398	435	(160)	725
Net change	**(58)**	**(6,610)**	**436**	**(1,362)**	**(7,594)**
Balance, December 31, 2008	**$ (6)**	**$(6,212)**	**$871**	**$(1,522)**	**$(6,869)**

(1) Adoption of FAS 158.

Note 24: Operating Segments

We have three lines of business for management reporting: Community Banking, Wholesale Banking and Wells Fargo Financial. The results for these lines of business are based on our management accounting process, which assigns balance sheet and income statement items to each responsible operating segment. This process is dynamic and, unlike financial accounting, there is no comprehensive, authoritative guidance for management accounting equivalent to generally accepted accounting principles. The management accounting process measures the performance of the operating segments based on our management structure and is not necessarily comparable with similar information for other financial services companies. We define our operating segments by product type and customer segments. If the management structure and/or the allocation process changes, allocations, transfers and assignments may change. Because the Wachovia acquisition was completed on December 31, 2008, Wachovia's results are not included in the segment results or average balances for 2008. To reflect the realignment of our corporate trust business from Community Banking into Wholesale Banking in 2008, results for prior periods have been revised.

The Community Banking Group offers a complete line of diversified financial products and services to consumers and small businesses with annual sales generally up to $20 million in which the owner generally is the financial decision maker. Community Banking also offers investment management and other services to retail customers and high net worth individuals, securities brokerage through affiliates and venture capital financing. These products and services include the *Wells Fargo Advantage Funds*℠, 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*℠ 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 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 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 **Other** column includes certain items recorded at the enterprise level. The provision for credit losses for 2008 represents the $1.2 billion provision for credit losses to conform Wachovia estimated loss emergence periods to Wells Fargo policies. Average assets for 2008 and 2007 consist of unallocated goodwill.

(income/expense in millions, average balances in billions)	Community Banking	Wholesale Banking	Wells Fargo Financial	Other	Consolidated Company
2008					
Net interest income (1)	**$16,188**	**$4,474**	**$ 4,481**	**$ —**	**$25,143**
Provision for credit losses	**9,560**	**1,115**	**4,063**	**1,241**	**15,979**
Noninterest income	**11,572**	**4,069**	**1,113**	**—**	**16,754**
Noninterest expense	**14,352**	**5,546**	**2,763**	**—**	**22,661**
Income (loss) before income tax expense (benefit)	**3,848**	**1,882**	**(1,232)**	**(1,241)**	**3,257**
Income tax expense (benefit)	**916**	**589**	**(468)**	**(435)**	**602**
Net income (loss)	**$ 2,932**	**$1,293**	**$ (764)**	**$ (806)**	**$ 2,655**
2007					
Net interest income (1)	$ 13,099	$ 3,648	$ 4,227	$ —	$ 20,974
Provision for credit losses	3,187	69	1,683	—	4,939
Noninterest income	11,832	5,300	1,284	—	18,416
Noninterest expense	14,695	5,077	3,052	—	22,824
Income before income tax expense	7,049	3,802	776	—	11,627
Income tax expense	1,943	1,332	295	—	3,570
Net income	$ 5,106	$ 2,470	$ 481	$ —	$ 8,057
2006					
Net interest income (1)	$ 12,877	$ 3,164	$ 3,910	$ —	$ 19,951
Provision for credit losses	887	16	1,301	—	2,204
Noninterest income	9,620	4,605	1,515	—	15,740
Noninterest expense	13,663	4,368	2,806	—	20,837
Income before income tax expense	7,947	3,385	1,318	—	12,650
Income tax expense	2,571	1,193	466	—	4,230
Net income	$ 5,376	$ 2,192	$ 852	$ —	$ 8,420
2008					
Average loans	**$ 218.8**	**$112.1**	**$ 67.6**	**$ —**	**$ 398.5**
Average assets	**375.0**	**151.6**	**72.0**	**5.8**	**604.4**
Average core deposits	**254.6**	**70.6**	**—**	**—**	**325.2**
2007					
Average loans	$ 194.0	$ 85.6	$ 65.2	$ —	$ 344.8
Average assets	330.6	113.3	71.1	5.8	520.8
Average core deposits	242.2	60.9	—	—	303.1

(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.

Note 25: Condensed Consolidating Financial Statements

Following are the condensed consolidating financial statements of the Parent and Wells Fargo Financial, Inc. and its wholly-owned subsidiaries (WFFI). In 2002, the Parent issued a full and unconditional guarantee of all outstanding term debt securities and commercial paper of WFFI. WFFI ceased filing periodic reports under the Securities Exchange Act of 1934 and is no longer a separately rated company. The Parent also guaranteed all outstanding term debt securities of Wells Fargo Financial Canada Corporation (WFFCC), WFFI's wholly-owned Canadian subsidiary. WFFCC has continued to issue term debt securities and commercial paper in Canada, unconditionally guaranteed by the Parent. The Wells Fargo Financial business segment for management reporting (see Note 24) consists of WFFI and other affiliated consumer finance entities managed by WFFI that are included within other consolidating subsidiaries in the following tables.

Condensed Consolidating Statement of Income

(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Year ended December 31, 2008					
Dividends from subsidiaries:					
Bank	$1,806	$ —	$ —	$(1,806)	$ —
Nonbank	326	—	—	(326)	—
Interest income from loans	2	5,275	22,417	(62)	27,632
Interest income from subsidiaries	2,892	—	—	(2,892)	—
Other interest income	241	108	7,051	(134)	7,266
Total interest income	5,267	5,383	29,468	(5,220)	34,898
Deposits	—	—	4,966	(445)	4,521
Short-term borrowings	475	220	1,757	(974)	1,478
Long-term debt	2,957	1,807	661	(1,669)	3,756
Total interest expense	3,432	2,027	7,384	(3,088)	9,755
NET INTEREST INCOME	1,835	3,356	22,084	(2,132)	25,143
Provision for credit losses	—	2,970	13,009	—	15,979
Net interest income after provision for credit losses	1,835	386	9,075	(2,132)	9,164
NONINTEREST INCOME					
Fee income – nonaffiliates	—	437	10,110	—	10,547
Other	(101)	168	8,201	(2,061)	6,207
Total noninterest income	(101)	605	18,311	(2,061)	16,754
NONINTEREST EXPENSE					
Salaries and benefits	(385)	719	12,606	—	12,940
Other	15	1,119	10,648	(2,061)	9,721
Total noninterest expense	(370)	1,838	23,254	(2,061)	22,661
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	2,104	(847)	4,132	(2,132)	3,257
Income tax expense (benefit)	(83)	(289)	974	—	602
Equity in undistributed income of subsidiaries	468	—	—	(468)	—
NET INCOME (LOSS)	$2,655	$ (558)	$ 3,158	$(2,600)	$ 2,655

Condensed Consolidating Statements of Income

(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Year ended December 31, 2007					
Dividends from subsidiaries:					
Bank	$4,587	$ —	$ —	$(4,587)	$ —
Nonbank	398	—	—	(398)	—
Interest income from loans	—	5,643	23,453	(56)	29,040
Interest income from subsidiaries	3,693	—	—	(3,693)	—
Other interest income	152	115	5,875	(5)	6,137
Total interest income	8,830	5,758	29,328	(8,739)	35,177
Deposits	—	—	8,793	(641)	8,152
Short-term borrowings	444	442	1,626	(1,267)	1,245
Long-term debt	3,830	1,923	900	(1,847)	4,806
Total interest expense	4,274	2,365	11,319	(3,755)	14,203
NET INTEREST INCOME	4,556	3,393	18,009	(4,984)	20,974
Provision for credit losses	—	969	3,970	—	4,939
Net interest income after provision for credit losses	4,556	2,424	14,039	(4,984)	16,035
NONINTEREST INCOME					
Fee income – nonaffiliates	—	394	10,233	—	10,627
Other	117	140	9,060	(1,528)	7,789
Total noninterest income	117	534	19,293	(1,528)	18,416
NONINTEREST EXPENSE					
Salaries and benefits	61	1,229	12,078	—	13,368
Other	291	1,119	9,573	(1,527)	9,456
Total noninterest expense	352	2,348	21,651	(1,527)	22,824
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	4,321	610	11,681	(4,985)	11,627
Income tax expense (benefit)	(257)	246	3,581	—	3,570
Equity in undistributed income of subsidiaries	3,479	—	—	(3,479)	—
NET INCOME	$8,057	$ 364	$ 8,100	$(8,464)	$ 8,057
Year ended December 31, 2006					
Dividends from subsidiaries:					
Bank	$2,176	$ —	$ —	$(2,176)	$ —
Nonbank	876	—	—	(876)	—
Interest income from loans	—	5,283	20,370	(42)	25,611
Interest income from subsidiaries	3,266	—	—	(3,266)	—
Other interest income	103	102	6,428	(5)	6,628
Total interest income	6,421	5,385	26,798	(6,365)	32,239
Deposits	—	—	7,174	—	7,174
Short-term borrowings	436	381	1,065	(890)	992
Long-term debt	3,197	1,758	710	(1,543)	4,122
Total interest expense	3,633	2,139	8,949	(2,433)	12,288
NET INTEREST INCOME	2,788	3,246	17,849	(3,932)	19,951
Provision for credit losses	—	1,061	1,143	—	2,204
Net interest income after provision for credit losses	2,788	2,185	16,706	(3,932)	17,747
NONINTEREST INCOME					
Fee income – nonaffiliates	—	285	8,946	—	9,231
Other	180	259	6,126	(56)	6,509
Total noninterest income	180	544	15,072	(56)	15,740
NONINTEREST EXPENSE					
Salaries and benefits	95	1,128	10,704	—	11,927
Other	117	976	8,753	(936)	8,910
Total noninterest expense	212	2,104	19,457	(936)	20,837
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	2,756	625	12,321	(3,052)	12,650
Income tax expense (benefit)	(198)	205	4,223	—	4,230
Equity in undistributed income of subsidiaries	5,466	—	—	(5,466)	—
NET INCOME	$8,420	$ 420	$ 8,098	$(8,518)	$ 8,420

Condensed Consolidating Balance Sheets

(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
December 31, 2008					
ASSETS					
Cash and cash equivalents due from:					
Subsidiary banks	$ 15,658	$ 246	$ —	$ (15,904)	$ —
Nonaffiliates	—	180	73,016	—	73,196
Securities available for sale	4,950	2,130	144,494	(5)	151,569
Mortgages and loans held for sale	—	—	26,316	—	26,316
Loans	9	45,930	827,242	(8,351)	864,830
Loans to subsidiaries:					
Bank	21,745	—	—	(21,745)	—
Nonbank	68,527	—	—	(68,527)	—
Allowance for loan losses	—	(2,359)	(18,654)	—	(21,013)
Net loans	90,281	43,571	808,588	(98,623)	843,817
Investments in subsidiaries:					
Bank	105,721	—	—	(105,721)	—
Nonbank	24,094	—	—	(24,094)	—
Other assets	34,949	1,756	213,099	(35,063)	214,741
Total assets	$275,653	$47,883	$1,265,513	$(279,410)	$1,309,639
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits	$ —	$ —	$ 791,728	$ (10,326)	$ 781,402
Short-term borrowings	23,434	12,911	150,156	(78,427)	108,074
Accrued expenses and other liabilities	7,426	1,194	58,938	(13,637)	53,921
Long-term debt	134,026	31,704	137,118	(35,690)	267,158
Indebtedness to subsidiaries	11,683	—	—	(11,683)	—
Total liabilities	176,569	45,809	1,137,940	(149,763)	1,210,555
Stockholders' equity	99,084	2,074	127,573	(129,647)	99,084
Total liabilities and stockholders' equity	$275,653	$47,883	$1,265,513	$(279,410)	$1,309,639
December 31, 2007					
ASSETS					
Cash and cash equivalents due from:					
Subsidiary banks	$ 14,989	$ 253	$ —	$ (15,242)	$ —
Nonaffiliates	—	230	17,281	—	17,511
Securities available for sale	2,481	2,091	68,384	(5)	72,951
Mortgages and loans held for sale	—	—	27,763	—	27,763
Loans	106	51,222	344,037	(13,170)	382,195
Loans to subsidiaries:					
Bank	11,400	—	—	(11,400)	—
Nonbank	53,272	—	—	(53,272)	—
Allowance for loan losses	—	(1,041)	(4,266)	—	(5,307)
Net loans	64,778	50,181	339,771	(77,842)	376,888
Investments in subsidiaries:					
Bank	49,461	—	—	(49,461)	—
Nonbank	5,463	—	—	(5,463)	—
Other assets	8,010	1,720	74,955	(4,356)	80,329
Total assets	$ 145,182	$ 54,475	$ 528,154	$ (152,369)	$ 575,442
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits	$ —	$ —	$ 359,702	$ (15,242)	$ 344,460
Short-term borrowings	4,692	9,117	69,990	(30,544)	53,255
Accrued expenses and other liabilities	5,432	1,393	27,307	(3,426)	30,706
Long-term debt	77,116	40,753	19,603	(38,079)	99,393
Indebtedness to subsidiaries	10,314	—	—	(10,314)	—
Total liabilities	97,554	51,263	476,602	(97,605)	527,814
Stockholders' equity	47,628	3,212	51,552	(54,764)	47,628
Total liabilities and stockholders' equity	$ 145,182	$ 54,475	$ 528,154	$ (152,369)	$ 575,442

Condensed Consolidating Statements of Cash Flows

(in millions)	2008 Parent	2008 WFFI	2008 Other consolidating subsidiaries/ eliminations	2008 Consolidated Company	2007 Parent	2007 WFFI	2007 Other consolidating subsidiaries/ eliminations	2007 Consolidated Company
								Year ended December 31,
Cash flows from operating activities:								
Net cash provided (used) by operating activities	$ 730	$ 2,023	$ (7,584)	$ (4,831)	$ 3,715	$ 1,446	$ 3,917	$ 9,078
Cash flows from investing activities:								
Securities available for sale:								
Sales proceeds	2,570	875	57,361	60,806	2,554	559	44,877	47,990
Prepayments and maturities	—	283	24,034	24,317	—	299	8,206	8,505
Purchases	(3,514)	(1,258)	(100,569)	(105,341)	(3,487)	(1,174)	(70,468)	(75,129)
Loans:								
Increase in banking subsidiaries' loan originations, net of collections	—	(1,684)	(53,131)	(54,815)	—	(2,686)	(45,929)	(48,615)
Proceeds from sales (including participations) of loans originated for investment by banking subsidiaries	—	—	1,988	1,988	—	—	3,369	3,369
Purchases (including participations) of loans by banking subsidiaries	—	—	(5,513)	(5,513)	—	—	(8,244)	(8,244)
Principal collected on nonbank entities' loans	—	14,447	7,399	21,846	—	18,729	2,747	21,476
Loans originated by nonbank entities	—	(12,362)	(7,611)	(19,973)	—	(20,461)	(4,823)	(25,284)
Net repayments from (advances to) subsidiaries	(12,415)	—	12,415	—	(10,338)	—	10,338	—
Capital notes and term loans made to subsidiaries	(2,008)	—	2,008	—	(10,508)	—	10,508	—
Principal collected on notes/ loans made to subsidiaries	8,679	—	(8,679)	—	7,588	—	(7,588)	—
Net decrease (increase) in investment in subsidiaries	(37,108)	—	37,108	—	(1,132)	—	1,132	—
Net cash acquired from acquisitions	9,194	—	2,009	11,203	—	—	(2,811)	(2,811)
Other, net	(21,823)	(91)	69,225	47,311	(106)	(847)	2,381	1,428
Net cash provided (used) by investing activities	(56,425)	210	38,044	(18,171)	(15,429)	(5,581)	(56,305)	(77,315)
Cash flows from financing activities:								
Net change in:								
Deposits	—	—	7,697	7,697	—	—	27,058	27,058
Short-term borrowings	17,636	5,580	(38,104)	(14,888)	9,138	2,670	28,019	39,827
Long-term debt:								
Proceeds from issuance	21,931	1,113	12,657	35,701	24,385	11,335	(6,360)	29,360
Repayment	(16,560)	(8,983)	(4,316)	(29,859)	(11,726)	(9,870)	3,346	(18,250)
Common stock:								
Proceeds from issuance	14,171	—	—	14,171	1,876	—	—	1,876
Repurchased	(1,623)	—	—	(1,623)	(7,418)	—	—	(7,418)
Cash dividends paid	(4,312)	—	—	(4,312)	(3,955)	—	—	(3,955)
Preferred stock:								
Proceeds from issuance	22,674	—	—	22,674	—	—	—	—
Proceeds from issuance of stock warrants	2,326	—	—	2,326	—	—	—	—
Excess tax benefits related to stock option payments	121	—	—	121	196	—	—	196
Other, net	—	—	—	—	(2)	13	(739)	(728)
Net cash provided (used) by financing activities	56,364	(2,290)	(22,066)	32,008	12,494	4,148	51,324	67,966
Net change in cash and due from banks	669	(57)	8,394	9,006	780	13	(1,064)	(271)
Cash and due from banks at beginning of year	14,989	483	(715)	14,757	14,209	470	349	15,028
Cash and due from banks at end of year	$ 15,658	$ 426	$ 7,679	$ 23,763	$ 14,989	$ 483	$ (715)	$ 14,757

Condensed Consolidating Statement of Cash Flows

(in millions)	Parent	WFFI	Other consolidating subsidiaries/ eliminations	Consolidated Company
Year ended December 31, 2006				
Cash flows from operating activities:				
Net cash provided by operating activities	$ 3,536	$ 1,179	$ 23,261	$ 27,976
Cash flows from investing activities:				
Securities available for sale:				
Sales proceeds	353	822	52,129	53,304
Prepayments and maturities	14	259	7,048	7,321
Purchases	(378)	(1,032)	(61,052)	(62,462)
Loans:				
Increase in banking subsidiaries' loan originations, net of collections	—	(2,003)	(35,727)	(37,730)
Proceeds from sales (including participations) of loans originated for investment by banking subsidiaries	—	50	38,293	38,343
Purchases (including participations) of loans by banking subsidiaries	—	(202)	(5,136)	(5,338)
Principal collected on nonbank entities' loans	—	19,998	3,923	23,921
Loans originated by nonbank entities	—	(22,382)	(4,592)	(26,974)
Net repayments from (advances to) subsidiaries	(500)	—	500	—
Capital notes and term loans made to subsidiaries	(7,805)	—	7,805	—
Principal collected on notes/loans made to subsidiaries	4,926	—	(4,926)	—
Net decrease (increase) in investment in subsidiaries	(145)	—	145	—
Net cash paid for acquisitions	—	—	(626)	(626)
Other, net	—	1,081	(7,422)	(6,341)
Net cash used by investing activities	(3,535)	(3,409)	(9,638)	(16,582)
Cash flows from financing activities:				
Net change in:				
Deposits	—	—	(4,452)	(4,452)
Short-term borrowings	931	(1,297)	(10,790)	(11,156)
Long-term debt:				
Proceeds from issuance	13,448	8,670	(1,863)	20,255
Repayment	(7,362)	(5,217)	(30)	(12,609)
Common stock:				
Proceeds from issuance	1,764	—	—	1,764
Repurchased	(1,965)	—	—	(1,965)
Cash dividends paid	(3,641)	—	—	(3,641)
Excess tax benefits related to stock option payments	227	—	—	227
Other, net	12	70	(268)	(186)
Net cash provided (used) by financing activities	3,414	2,226	(17,403)	(11,763)
Net change in cash and due from banks	3,415	(4)	(3,780)	(369)
Cash and due from banks at beginning of year	10,794	474	4,129	15,397
Cash and due from banks at end of year	$14,209	$ 470	$ 349	$ 15,028

Note 26: Regulatory and Agency Capital Requirements

The Company and each of its subsidiary banks are subject to various regulatory capital adequacy requirements administered by the Federal Reserve Board (FRB) and the OCC, respectively. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required that the federal regulatory agencies adopt regulations defining five capital tiers for banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our financial statements.

Quantitative measures, established by the regulators to ensure capital adequacy, require that the Company and each of the subsidiary banks maintain minimum ratios (set forth in the following table) of capital to risk-weighted assets. There are three categories of capital under the guidelines. Tier 1 capital includes common stockholders' equity, qualifying preferred stock and trust preferred securities, less goodwill and certain other deductions (including a portion of servicing assets and the unrealized net gains and losses, after taxes, on securities available for sale). Tier 2 capital includes preferred stock not qualifying as Tier 1 capital, subordinated debt, the allowance for credit losses and net unrealized gains on marketable equity securities, subject to limitations by the guidelines. Tier 2 capital is limited to the amount of Tier 1 capital (i.e., at least half of the total capital must be in the form of Tier 1 capital). Tier 3 capital includes certain qualifying unsecured subordinated debt.

We do not consolidate our wholly-owned trusts (the Trusts) formed solely to issue trust preferred securities. The amount of trust preferred securities and perpetual preferred purchase securities issued by the Trusts that was includable in Tier 1 capital in accordance with FRB risk-based capital guidelines was $19.3 billion at December 31, 2008. The junior subordinated debentures held by the Trusts were included in the Company's long-term debt. See Note 14 for additional information on trust preferred securities.

Under the guidelines, capital is compared with the relative risk related to the balance sheet. To derive the risk included in the balance sheet, a risk weighting is applied to each balance sheet asset and off-balance sheet item, primarily based on the relative credit risk of the counterparty. For example, claims guaranteed by the U.S. government or one of its agencies are risk-weighted at 0% and certain real estate related loans risk-weighted at 50%. Off-balance sheet items, such as loan commitments and derivatives, are also applied a risk weight after calculating balance sheet equivalent amounts. A credit conversion factor is assigned to loan commitments based on the likelihood of the off-balance sheet item becoming an asset. For example, certain loan commitments are converted at 50% and then risk-weighted at 100%. Derivatives are converted to balance sheet equivalents based on notional values, replacement costs and remaining contractual terms. See Notes 6 and 16 for further discussion of off-balance sheet items. For certain recourse obligations, direct credit substitutes, residual interests in asset securitization, and other securitized transactions that expose institutions primarily to credit risk, the capital amounts and classification under the guidelines are subject to qualitative judgments by the regulators about components, risk weightings and other factors.

(in billions)	Actual		For capital adequacy purposes		To be well capitalized under the FDICIA prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008:						
Total capital (to risk-weighted assets)						
Wells Fargo & Company	$130.3	11.83%	≥$88.1	≥8.00%		
Wells Fargo Bank, N.A.	49.1	10.79	≥ 36.4	≥8.00	≥$45.5	≥10.00%
Wachovia Bank, N.A.	55.4	10.92	≥ 40.6	≥8.00	≥ 50.7	≥10.00
Tier 1 capital (to risk-weighted assets)						
Wells Fargo & Company	$ 86.4	7.84%	≥$44.1	≥4.00%		
Wells Fargo Bank, N.A.	33.1	7.26	≥ 18.2	≥4.00	≥$27.3	≥ 6.00%
Wachovia Bank, N.A.	32.8	6.46	≥ 20.3	≥4.00	≥ 30.4	≥ 6.00
Tier 1 capital (to average assets) (Leverage ratio)						
Wells Fargo & Company	$ 86.4	14.52%	≥$23.8	≥4.00%(1)		
Wells Fargo Bank, N.A.	33.1	6.31	≥ 20.9	≥4.00 (1)	≥$26.2	≥ 5.00%
Wachovia Bank, N.A.	32.8	5.38	≥ 24.4	≥4.00 (1)	≥ 30.5	≥ 5.00

(1) The leverage ratio consists of Tier 1 capital divided by quarterly average total assets, excluding goodwill and certain other items. The minimum leverage ratio guideline is 3% for banking organizations that do not anticipate significant growth and that have well-diversified risk, excellent asset quality, high liquidity, good earnings, effective management and monitoring of market risk and, in general, are considered top-rated, strong banking organizations.

Management believes that, as of December 31, 2008, the Company and each of the covered subsidiary banks met all capital adequacy requirements to which they are subject.

The most recent notification from the OCC categorized each of the covered subsidiary banks as well capitalized, under the FDICIA prompt corrective action provisions applicable to banks. To be categorized as well capitalized, the institution must maintain a total risk-based capital ratio as set forth in the table above and not be subject to a capital directive order. There are no conditions or events since that notification that management believes have changed the risk-based capital category of any of the covered subsidiary banks.

Certain subsidiaries of the Company are approved seller/servicers, and are therefore required to maintain minimum levels of shareholders' equity, as specified by various agencies, including the United States Department of Housing and Urban Development, Government National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. At December 31, 2008, each seller/servicer met these requirements.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Wells Fargo & Company:

We have audited the accompanying consolidated balance sheet of Wells Fargo & Company and Subsidiaries ("the Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of evaluating other-than-temporary impairment on certain investment securities in 2008 and changed its method of accounting for certain mortgages held for sale in 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 23, 2009, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

San Francisco, California
February 23, 2009

Quarterly Financial Data

Condensed Consolidated Statement of Income — Quarterly (Unaudited)

(in millions, except per share amounts)	2008 Quarter ended Dec. 31	Sept. 30	June 30	Mar. 31	2007 Quarter ended Dec. 31	Sept. 30	June 30	Mar. 31
INTEREST INCOME	$ 8,728	$ 8,774	$ 8,547	$ 8,849	$ 9,242	$ 9,223	$ 8,573	$ 8,139
INTEREST EXPENSE	2,004	2,393	2,269	3,089	3,754	3,943	3,377	3,129
NET INTEREST INCOME	6,724	6,381	6,278	5,760	5,488	5,280	5,196	5,010
Provision for credit losses	8,444	2,495	3,012	2,028	2,612	892	720	715
Net interest income after provision for credit losses	(1,720)	3,886	3,266	3,732	2,876	4,388	4,476	4,295
NONINTEREST INCOME								
Service charges on deposit accounts	803	839	800	748	788	837	740	685
Trust and investment fees	661	738	762	763	802	777	839	731
Card fees	589	601	588	558	588	561	517	470
Other fees	535	552	511	499	577	566	638	511
Mortgage banking	(195)	892	1,197	631	831	823	689	790
Operating leases	62	102	120	143	153	171	187	192
Insurance	337	439	550	504	370	329	432	399
Net gains (losses) on debt securities available for sale	721	84	(91)	323	60	160	(42)	31
Net gains (losses) from equity investments	(589)	(507)	46	313	222	173	242	97
Other	(152)	258	698	321	326	176	453	525
Total noninterest income	2,772	3,998	5,181	4,803	4,717	4,573	4,695	4,431
NONINTEREST EXPENSE								
Salaries	2,168	2,078	2,030	1,984	2,055	1,933	1,907	1,867
Commission and incentive compensation	671	555	806	644	840	802	900	742
Employee benefits	338	486	593	587	558	518	581	665
Equipment	402	302	305	348	370	295	292	337
Net occupancy	418	402	400	399	413	398	369	365
Operating leases	81	90	102	116	124	136	148	153
Other	1,744	1,604	1,624	1,384	1,540	1,589	1,530	1,397
Total noninterest expense	5,822	5,517	5,860	5,462	5,900	5,671	5,727	5,526
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)	(4,770)	2,367	2,587	3,073	1,693	3,290	3,444	3,200
Income tax expense (benefit)	(2,036)	730	834	1,074	332	1,117	1,165	956
NET INCOME (LOSS)	$ (2,734)	$ 1,637	$ 1,753	$ 1,999	$ 1,361	$ 2,173	$ 2,279	$ 2,244
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	$ (3,020)	$ 1,637	$ 1,753	$ 1,999	$ 1,361	$ 2,173	$ 2,279	$ 2,244
EARNINGS (LOSS) PER COMMON SHARE	$ (0.84)	$ 0.49	$ 0.53	$ 0.61	$ 0.41	$ 0.65	$ 0.68	$ 0.66
DILUTED EARNINGS (LOSS) PER COMMON SHARE	$ (0.84)	$ 0.49	$ 0.53	$ 0.60	$ 0.41	$ 0.64	$ 0.67	$ 0.66
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.34	$ 0.34	$ 0.31	$ 0.31	$ 0.31	$ 0.31	$ 0.28	$ 0.28
Average common shares outstanding	3,582.4	3,316.4	3,309.8	3,302.4	3,327.6	3,339.6	3,351.2	3,376.0
Diluted average common shares outstanding	3,593.6	3,331.0	3,321.4	3,317.9	3,352.2	3,374.0	3,389.3	3,416.1
Market price per common share (1)								
High	$ 38.95	$ 44.68	$ 32.40	$ 34.56	$ 37.78	$ 37.99	$ 36.49	$ 36.64
Low	19.89	20.46	23.46	24.38	29.29	32.66	33.93	33.01
Quarter end	29.48	37.53	23.75	29.10	30.19	35.62	35.17	34.43

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

Average Balances, Yields and Rates Paid (Taxable-Equivalent Basis) — Quarterly (1)(2)(3) (Unaudited)

(in millions)	2008 Average balance	2008 Yields/ rates	2008 Interest income/ expense	2007 Average balance	2007 Yields/ rates	2007 Interest income/ expense
	Quarter ended December 31,					
EARNING ASSETS						
Federal funds sold, securities purchased under resale agreements and other short-term investments	$ 9,938	0.73%	$ 18	$ 2,972	4.45%	$ 34
Trading assets	5,004	4.50	56	4,248	3.39	37
Debt securities available for sale (4):						
Securities of U.S. Treasury and federal agencies	1,165	3.75	11	926	4.18	9
Securities of U.S. states and political subdivisions	7,124	6.73	139	5,995	7.41	110
Mortgage-backed securities:						
Federal agencies	51,714	6.07	769	35,434	6.15	534
Private collateralized mortgage obligations	18,245	6.40	402	14,270	5.99	214
Total mortgage-backed securities	69,959	6.18	1,171	49,704	6.11	748
Other debt securities (5)	14,217	8.10	330	8,465	7.45	161
Total debt securities available for sale (5)	92,465	6.50	1,651	65,090	6.38	1,028
Mortgages held for sale (6)	23,390	6.19	362	28,327	6.44	456
Loans held for sale (6)	1,287	4.14	14	965	7.72	19
Loans:						
Commercial and commercial real estate:						
Commercial	107,325	5.66	1,525	86,958	7.88	1,726
Other real estate mortgage	45,555	5.49	628	35,863	7.22	652
Real estate construction	19,943	4.49	225	18,510	7.35	343
Lease financing	7,397	5.58	103	6,583	5.92	97
Total commercial and commercial real estate	180,220	5.48	2,481	147,914	7.57	2,818
Consumer:						
Real estate 1-4 family first mortgage	78,251	6.37	1,247	69,262	7.12	1,235
Real estate 1-4 family junior lien mortgage	75,838	5.85	1,114	75,272	7.92	1,503
Credit card	20,626	12.21	629	17,689	12.79	565
Other revolving credit and installment	52,638	8.35	1,107	56,546	9.54	1,359
Total consumer	227,353	7.19	4,097	218,769	8.48	4,662
Foreign	6,367	9.73	156	7,689	11.55	224
Total loans (6)	413,940	6.48	6,734	374,372	8.18	7,704
Other	1,690	5.37	23	1,552	4.95	17
Total earning assets	$ 547,714	6.34	8,858	$477,526	7.75	9,295
FUNDING SOURCES						
Deposits:						
Interest-bearing checking	$ 6,396	0.65	11	$ 5,254	2.96	39
Market rate and other savings	178,301	0.96	430	156,260	2.63	1,035
Savings certificates	41,189	2.66	275	42,560	4.33	465
Other time deposits	8,128	2.74	54	10,874	4.45	122
Deposits in foreign offices	42,771	0.69	75	44,991	4.19	475
Total interest-bearing deposits	276,785	1.22	845	259,939	3.26	2,136
Short-term borrowings	60,210	1.35	204	34,074	4.42	380
Long-term debt	104,112	3.69	964	98,012	5.06	1,245
Total interest-bearing liabilities	441,107	1.82	2,013	392,025	3.81	3,761
Portion of noninterest-bearing funding sources	106,607	—	—	85,501	—	—
Total funding sources	$ 547,714	1.44	2,013	$477,526	3.13	3,761
Net interest margin and net interest income on a taxable-equivalent basis (7)		4.90%	$6,845		4.62%	$5,534
NONINTEREST-EARNING ASSETS						
Cash and due from banks	$ 11,155			$ 12,127		
Goodwill	13,544			13,091		
Other	60,810			52,903		
Total noninterest-earning assets	$ 85,509			$ 78,121		
NONINTEREST-BEARING FUNDING SOURCES						
Deposits	$ 91,229			$ 86,632		
Other liabilities	30,935			29,019		
Preferred stockholders equity	16,116			—		
Common stockholders' equity	53,836			47,971		
Noninterest-bearing funding sources used to fund earning assets	(106,607)			(85,501)		
Net noninterest-bearing funding sources	$ 85,509			$ 78,121		
TOTAL ASSETS	$ 633,223			$555,647		

(1) Because the Wachovia acquisition was completed at the end of 2008, Wachovia's assets and liabilities are not included in average balances, and Wachovia's results are not reflected in interest income/expense.

(2) Our average prime rate was 4.06% and 7.52% for the quarters ended December 31, 2008 and 2007, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 2.77% and 5.03% for the same quarters, respectively.

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

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

(5) Includes certain preferred securities.

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

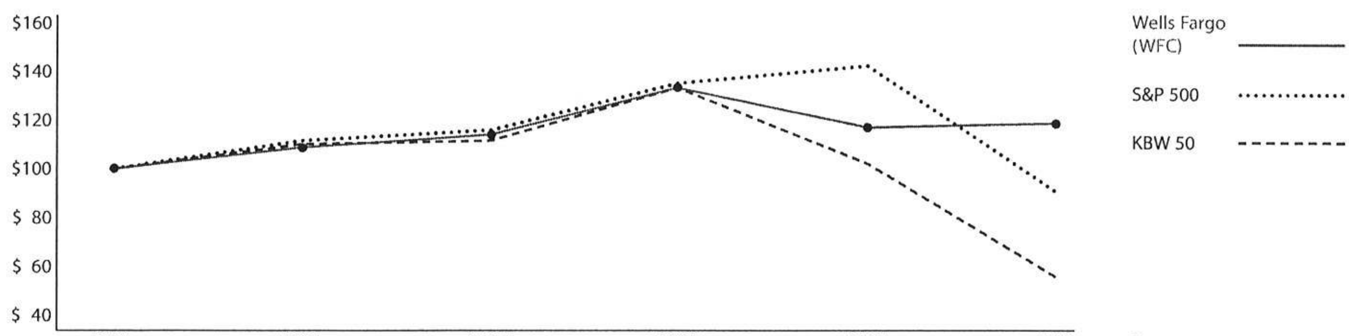
(7) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities. The federal statutory tax rate was 35% for both quarters presented.

Stock Performance

These graphs compare the cumulative total stockholder return and total compound annual growth rate (CAGR) for our common stock (NYSE: WFC) for the five- and ten-year periods ended December 31, 2008, with the cumulative total stockholder returns for the same periods for the Keefe, Bruyette and Woods 50 Total Return Index (the KBW 50 Bank Index) and the S&P 500 Index.

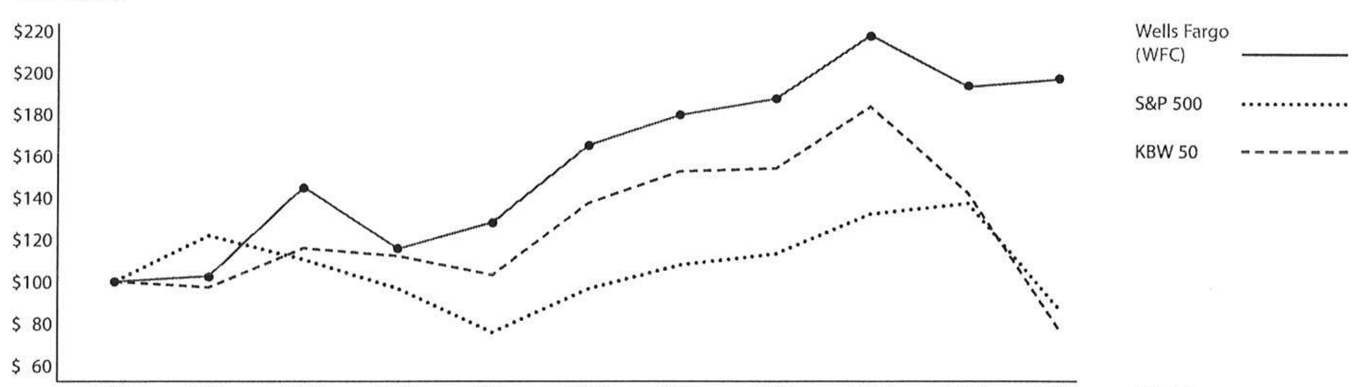
The cumulative total stockholder returns (including reinvested dividends) in the graphs assume the investment of $100 in Wells Fargo's common stock, the KBW 50 Bank Index and the S&P 500 Index.

FIVE YEARS



2003	2004	2005	2006	2007	2008	5-year CAGR	
$100	**$109**	**$114**	**$133**	**$117**	**$119**	**4%**	**Wells Fargo**
100	111	116	135	142	90	-2%	S&P 500
100	110	111	133	102	56	-11%	KBW 50

TEN YEARS



1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	10-year CAGR	
$100	**$103**	**$145**	**$116**	**$128**	**$165**	**$180**	**$188**	**$219**	**$193**	**$197**	**7%**	**Wells Fargo**
100	121	110	97	76	97	108	113	131	138	87	-1%	S&P 500
100	97	116	111	103	138	152	154	184	142	77	-3%	KBW 50

Wells Fargo & Company

Stock Listing

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

Common Stock

4,228,630,889 common shares outstanding (12/31/08)

Stock Purchase and Dividend Reinvestment

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

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

Form 10-K

We will send Wells Fargo's 2008 Annual Report on Form 10-K (including the financial statements filed with the Securities and Exchange Commission) free to any stockholder who asks for a copy in writing. Stockholders also can ask for copies of any exhibit to the Form 10-K. We will charge a fee to cover expenses to prepare and send any exhibits. Please send requests to: Corporate Secretary, Wells Fargo & Company, Wells Fargo Center, MAC N9305-173, Sixth and Marquette, Minneapolis, MN 55479.

SEC Filings

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

Independent Registered Public Accounting Firm

KPMG LLP
San Francisco, California
1-415-963-5100

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P.O. Box 64854
Saint Paul, Minnesota 55164-0854
1-877-840-0492
www.wellsfargo.com/com/shareowner_services

Corporate Information

Annual Stockholders' Meeting
1:00 p.m., Tuesday, April 28, 2009
420 Montgomery Street
San Francisco, California

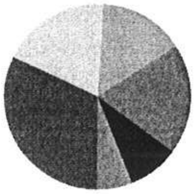
Certifications

Our chief executive officer certified to the New York Stock Exchange (NYSE) that, as of May 16, 2008, he was not aware of any violation by the Company of the NYSE's corporate governance listing standards. The certifications of our chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act of 2002 were filed as Exhibits 31(a) and 31(b), respectively, to our 2008 Form 10-K.

Forward-Looking Statements In this report we may make forward-looking statements about our company's financial condition, results of operations, plans, objectives and future performance and business. We make forward-looking statements when we use words such as "believe," "expect," "anticipate," "estimate," "may," "can," "will" or similar expressions. Forward-looking statements describe risks and uncertainties. They are based on current expectations. Several factors could cause actual results to differ significantly from expectations including • current economic and market conditions • our capital requirements and ability to raise capital on favorable terms • the terms of capital investments or other financial help from the U.S. government • Restrictions on our ability to compensate senior executives and other key team members • proposals to allow bankruptcy courts to force creditors to accept less than they are owed on mortgage loans • our ability to successfully integrate Wachovia and realize expected cost savings and other benefits of the merger • the adequacy of our allowance for credit losses • recognition of other-than-temporary impairment on securities held in our available-for-sale portfolio • the effect of changes in interest rates on our net interest margin and our mortgage originations, mortgage servicing rights and mortgages held for sale • disruptions in the capital markets and reduced investor demand for mortgages loans • our ability to earn more of our customers' business • the effect of the recession on the demand for our products and services • the effect of the fall in stock market prices on fee income from our brokerage and asset management businesses • our election to provide support to our mutual funds for structured credit products they may hold • changes in the value of our venture capital investments • changes in our accounting policies or in accounting standards or in how accounting standards are to be applied • mergers and acquisitions • federal and state regulations • reputation damage from negative publicity • fines, penalties and other negative consequences from regulatory violations • the loss of checking and saving account deposits to other investments such as the stock market • fiscal and monetary policies of the Federal Reserve Board • Current and future legal proceedings. Under "Risk Factors" on pages 76-83 of this report we discuss these and other factors that could cause actual results to differ from expectations. We discuss additional factors elsewhere in the Financial Review and in the Financial Statements (and related Notes) in this report and in the "Regulation and Supervision" section of our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission and available on the SEC's website at www.sec.gov.

The businesses of Wells Fargo

Our earnings diversity*



Community Banking	**32%**
Home Mortgage/Home Equity	**19%**
Investments & Insurance	**15%**
Specialized Lending**	**19%**
Wholesale Banking/Commercial Real Estate	**9%**
Consumer Finance	**6%**

** Based on normalized historic averages; excludes Wachovia results*

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

Our market leadership

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

Our reputation

Barron's
One of the world's 25 most-respected companies

Moody's Investors Service
Credit-rated "Aa1," highest for U.S. bank

Standard & Poor's Ratings Service
Credit-rated "AA+," highest for U.S. bank

Office of the Comptroller of the Currency
Rated "Outstanding" for Community Reinvestment Act performance (Wells Fargo Bank, N.A.)

AARP Magazine
Top 50 Best Employers for Workers Over 50

BusinessWeek
Top 10 Givers in Corporate Philanthropy

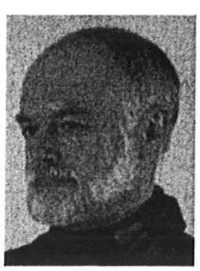
Environmental Protection Agency
Among Top 20 Green Power Partner Companies

***LATINAStyle* Magazine**
Top 50 Best Companies for Latinas

***DiversityInc.* Magazine**
Top 50 Companies for Diversity; Top 10 Companies for Latinos; Top 10 Companies for Executive Women; Top 10 Companies for Recruitment and Retention

Human Rights Campaign
Perfect score (100) on Corporate Equity Index

About the cover



The Wells Fargo stagecoach is one of America's, and the world's, most recognized corporate symbols. To give the image more contemporary meaning, we asked our customers across the country: What does the stagecoach mean to you? How could a new rendering of it better portray the values it evokes — speed, reliability, trust and dependability? Then we called upon the renowned historical illustrator **John Rush** — who's worked for clients such as *National Geographic*, the U.S. National Parks Service and the History Channel — to create a new image of the stagecoach, faithful to our 157-year tradition but as immediate as if it were alive today. [johnrushillustration.com]

John spent time watching the horses gallop, even riding in one of our coaches to get a feel for the rumble and the rhythm. "When you see it all in full motion — the horses, the drivers, the stagecoach all working together — it's an extraordinarily beautiful and powerful image," said Rush. "After riding in the stagecoach, I'm convinced our ancestors were physically superior to us. It was like riding in a truck with four flat tires."

With our customers' guidance and John's brush, a new stagecoach image came to life. Unfold the front cover, notice the forward energy of the horses, the ripple of the reins, the teamwork between the two drivers and among the horses themselves, the blurred spokes of the wheels. The stagecoach was a very democratic way to travel, thus the diversity of the passengers and the drivers. We thank our customers whose guidance helped us conceive this exciting new image. We thank John Rush for bringing it to life.

Hee-yaaah!

Our Vision:

Satisfy all our customers' financial needs and help them succeed financially.

Nuestra Vision:

Deseamos satisfacer todas las necesidades financieras de nuestros clientes y ayudarlos a tener éxito en el área financiera.

我們的目標：

滿足客戶在財務方面的所有需求，幫助他們在財務上發展成功。

Notre Vision:

Satisfaire tous les besoins financiers de nos clients et les aider à atteindre le succès financier.

WELLS FARGO

Wells Fargo & Company
420 Montgomery Street
San Francisco, California 94104

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