WELLS FARGO & CO/MN
Form 10-Q
November 05, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2010
Commission file number 001-2979

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

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

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

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

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o

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

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

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

Yes o No þ

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

	Shares Outstanding October 29, 2010
Common stock, $1-2/3 par value	5,248,755,643

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PART I FINANCIAL INFORMATION

FINANCIAL REVIEW

SUMMARY FINANCIAL DATA

($ in millions, except per share amounts)	Quarter ended Sept. 30, 2010	June 30, 2010	Sept. 30, 2009	% Change Sept. 30, 2010 from June 30, 2010	% Change Sept. 30, 2010 from Sept. 30, 2009	Nine months ended Sept. 30, 2010	Sept. 30, 2009	% Change
For the Period								
Wells Fargo net income	$ **3,339**	3,062	3,235	9%	3	$ **8,948**	9,452	(5)%
Wells Fargo net income applicable to common stock	**3,150**	2,878	2,637	9	19	**8,400**	7,596	11
Diluted earnings per common share	**0.60**	0.55	0.56	9	7	**1.60**	1.69	(5)
Profitability ratios (annualized):								
Wells Fargo net income to average assets (ROA)	**1.09**%	1.00	1.03	9	6	**0.98**	1.00	(2)
Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders equity (ROE)	**10.90**	10.40	12.04	5	(9)	**10.11**	13.29	(24)
Efficiency ratio (1)	**58.7**	59.6	52.0	(2)	13	**58.3**	54.9	6
Total revenue	$ **20,874**	21,394	22,466	(2)	(7)	$ **63,716**	65,990	(3)
Pre-tax pre-provision profit (PTPP) (2)	**8,621**	8,648	10,782		(20)	**26,600**	29,791	(11)
Dividends declared per common share	**0.05**	0.05	0.05			**0.15**	0.44	(66)
Average common shares outstanding	**5,240.1**	5,219.7	4,678.3		12	**5,216.9**	4,471.2	17
Diluted average common shares outstanding	**5,273.2**	5,260.8	4,706.4		12	**5,252.9**	4,485.3	17
Average loans	$ **759,483**	772,460	810,191	(2)	(6)	$ **776,305**	833,076	(7)
Average assets	**1,220,368**	1,224,180	1,246,051		(2)	**1,223,535**	1,270,071	(4)
Average core deposits (3)	**771,957**	761,767	759,319	1	2	**764,345**	759,668	1
Average retail core deposits (4)	**571,062**	574,436	584,414	(1)	(2)	**572,567**	590,499	(3)
Net interest margin	**4.25**%	4.38	4.36	(3)	(3)	**4.30**	4.27	1
At Period End								
Securities available for sale	$ **176,875**	157,927	183,814	12	(4)	$ **176,875**	183,814	(4)
Loans	**753,664**	766,265	799,952	(2)	(6)	**753,664**	799,952	(6)
Allowance for loan losses	**23,939**	24,584	24,028	(3)		**23,939**	24,028	
Goodwill	**24,831**	24,820	24,052		3	**24,831**	24,052	3
Assets	**1,220,784**	1,225,862	1,228,625		(1)	**1,220,784**	1,228,625	(1)
Core deposits (3)	**771,792**	758,680	747,913	2	3	**771,792**	747,913	3
Wells Fargo stockholders equity	**123,658**	119,772	122,150	3	1	**123,658**	122,150	1
Total equity	**125,165**	121,398	128,924	3	(3)	**125,165**	128,924	(3)
Tier 1 capital (5)	**105,609**	101,992	108,785	4	(3)	**105,609**	108,785	(3)
Total capital (5)	**144,094**	141,088	150,079	2	(4)	**144,094**	150,079	(4)
Capital ratios:								
Total equity to assets	**10.25**%	9.90	10.49	4	(2)	**10.25**	10.49	(2)
Risk-based capital (5)								

Tier 1 capital	**10.90**	10.51	10.63	4	3	**10.90**	10.63	3
Total capital	**14.88**	14.53	14.66	2	2	**14.88**	14.66	2
Tier 1 leverage (5)	**9.01**	8.66	9.03	4		**9.01**	9.03	
Tier 1 common equity (6)	**8.01**	7.61	5.18	5	55	**8.01**	5.18	55
Book value per common share	**$ 22.04**	21.35	19.46	3	13	**$ 22.04**	19.46	13
Team members (active, full-time equivalent)	**266,900**	267,600	265,100		1	**266,900**	265,100	1
Common stock price:								
High	**$ 28.77**	34.25	29.56	(16)	(3)	**$ 34.25**	30.47	12
Low	**23.02**	25.52	22.08	(10)	4	**23.02**	7.80	195
Period end	**25.12**	25.60	28.18	(2)	(11)	**25.12**	28.18	(11)

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

(2) Pre-tax pre-provision profit (PTPP) is total revenue less noninterest expense. Management believes that PTPP is a useful financial measure because it enables investors and others to assess the Company s ability to generate capital to cover credit losses through a credit cycle.

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

(4) Retail core deposits are total core

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

(5) See Note 18 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report for additional information.

(6) See the Capital Management section in this Report for additional information.

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This Report on Form 10-Q for the quarter ended September 30, 2010, including the Financial Review and the Financial Statements and related Notes, contains forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results may differ materially from our forward-looking statements due to several factors. Some of these factors are described in the Financial Review and in the Financial Statements and related Notes. For a discussion of other factors, refer to the Forward-Looking Statements and Risk Factors sections in this Report and to the Risk Factors and Regulation and Supervision sections of our Annual Report on Form 10-K for the year ended December 31, 2009 (2009 Form 10-K) and the Risk Factors section of our Quarterly Report on Form 10-Q for the period ended March 31, 2010 (First Quarter Form 10-Q) and our Quarterly Report on Form 10-Q for the period ended June 30, 2010 (Second Quarter Form 10-Q), filed with the Securities and Exchange Commission (SEC) and available on the SEC s website at www.sec.gov.
See the Glossary of Acronyms at the end of this Report for terms used throughout this Report.

FINANCIAL REVIEW

OVERVIEW

Wells Fargo & Company is a nationwide, diversified, community-based financial services company, with $1.2 trillion in assets, providing banking, insurance, trust and investments, mortgage banking, investment banking, retail banking, brokerage and consumer finance through banking stores, the internet and other distribution channels to individuals, businesses and institutions in all 50 states, the District of Columbia (D.C.) and in other countries. We ranked fourth in assets and second in the market value of our common stock among our large bank peers at September 30, 2010. When we refer to Wells Fargo, the Company, we, our or us in this Report, we mean Wells Fargo & Company and Subsidiaries (consolidated). When we refer to the Parent, we mean Wells Fargo & Company. When we refer to legacy Wells Fargo, we mean Wells Fargo excluding Wachovia Corporation (Wachovia), which was acquired by Wells Fargo on December 31, 2008.

Our vision is to satisfy all our customers financial needs, help them succeed financially, be recognized as the premier financial services company in our markets and be one of America s great companies. Our primary strategy to achieve this vision is to increase the number of products our customers buy from us and to provide them all the financial products that will help them fulfill their needs. Our cross-sell strategy, diversified business model and the breadth of our geographic reach facilitate growth in both strong and weak economic cycles, as we can grow by expanding the number of products our current customers have with us, gain new customers in our extended markets, and increase market share in many businesses.

Our company earned $3.3 billion in third quarter 2010, our highest quarterly net income ever, with $0.60 diluted earnings per common share, compared with $3.2 billion ($0.56 diluted earnings per common share) in third quarter 2009. Net income for the nine months ended September 30, 2010 was $8.9 billion ($1.60 diluted earnings per common share), compared with $9.5 billion ($1.69 diluted earnings per common share) in the same period of 2009. Total revenue of $20.9 billion in third quarter 2010 was down 7% from third quarter 2009, reflecting lower net interest income, the impact of changes to Regulation E and related overdraft policy changes, and lower mortgage banking results. Net interest income of $11.1 billion was down 5% from third quarter 2009 driven primarily by the continued reduction of our non-strategic loan portfolios. Third quarter 2010 earnings reflected the success of the Wachovia merger and the benefits of our steady commitment to our core business of helping customers

succeed financially. Year-over-year earnings and growth in the franchise were broad based, with all business segments contributing to our net income.

Significant items (pre-tax impact) in third quarter 2010 included:

- $650 million release of loan loss reserves (net charge-offs less provision for credit losses), reflecting improved loan portfolio performance;
- $380 million approximate negative impact from changes to Regulation E and related overdraft policy changes;
- $202 million of commercial PCI loan resolutions, resulting from sales or settlements; and
- $476 million of merger integration expenses.

The Wachovia merger has met or exceeded our expectations in terms of lower credit losses, more abundant revenue synergies and integration savings. We achieved approximately 85% of our targeted run-rate annual cost savings of $5.0 billion by the end of third quarter 2010, and we are on track to achieve 100% of targeted cost savings upon completing the merger integration in 2011.

Our cross-sell at legacy Wells Fargo set a record in third quarter 2010 with 6.08 products for retail banking households. Our goal is eight products per customer, which is approximately half of our estimate of potential demand. One of every four of our legacy Wells Fargo retail banking households has eight or more products and our average middle-market commercial banking customer has almost eight products. Wachovia retail bank household cross-sell continued to grow to an average of 4.91 products. We believe there is potentially significant opportunity for growth from an increase in cross-sell to Wachovia retail bank households. Business banking cross-sell offers another potential opportunity for growth, with cross-sell up to 3.97 products in the legacy Wells Fargo footprint, including Wells Fargo and Wachovia customers.

We continued taking actions to build capital and further strengthen our balance sheet, including reducing previously identified non-strategic and liquidating loan portfolios, which declined by $46.8 billion since the Wachovia acquisition and $6.2 billion in third quarter 2010 to $119.1 billion at September 30, 2010. Our capital ratios grew significantly in third quarter 2010, driven by strong internal capital generation, with Tier 1 common equity reaching 8.01%, up 40 basis points from second quarter 2010, and Tier 1 capital at 10.90%. The Tier 1 leverage ratio increased to 9.01%. Our capital ratios at September 30, 2010, were higher than they were prior to the Wachovia acquisition. While Basel III requirements are still not final, we expect to be above a 7% Tier 1 common equity ratio under the proposed rules, as we currently understand them, within the next few quarters. See the Capital Management section in this Report for more information regarding Tier 1 common equity.

As we have stated in the past, successful companies must invest in their core businesses and maintain strong balance sheets to consistently grow over the long term. In third quarter 2010, we opened 13 retail banking stores for a retail network total of 6,335 stores. We converted 193 Wachovia banking stores in Texas and Kansas in July 2010 and 170 in Alabama, Mississippi and Tennessee in late September 2010. We will continue to convert stores in the eastern United States this year and in 2011.

Wells Fargo remained one of the largest providers of credit to the U.S. economy in third quarter 2010. We continued to lend to creditworthy customers and, during third quarter 2010, made $176 billion in new loans and commitments to consumer, small business and commercial customers, including $101 billion of residential mortgage originations. Credit quality improved for the third consecutive quarter, with net charge-offs declining to $4.1 billion, down $394 million, or 9%, from second quarter 2010 and down 24% from last year s fourth quarter peak. Reflecting improved portfolio performance, we released $650 million in loan loss reserves (net charge-

offs less provision for credit losses) in third quarter 2010. Absent significant deterioration in the economy, we anticipate that reserve levels will continue to decline.

The improvement in credit quality was also evident in the portfolio of PCI loans, which consists of loans acquired through the Wachovia merger that were deemed to have probable loss and therefore written down at acquisition. Overall this portfolio has continued to perform better than original expectations. The commercial, CRE, foreign and other consumer portfolios continued to have positive performance trends, resulting in a combined $639 million transfer from nonaccretable difference to accretable yield in third quarter 2010. This increase in the accretable yield is expected to be recognized as a yield adjustment to income over the remaining life of these loans. In addition, for commercial PCI loans, due to increased payoffs and dispositions, we reduced the associated nonaccretable difference by $202 million (reflected in income in the third quarter).

Nonaccrual loans increased 2% from second quarter 2010, ending the quarter at $28.3 billion. The modest growth in third quarter 2010 occurred primarily in commercial loans, while nonaccruals in many other portfolios were essentially flat or down. For additional information, see Risk Management Credit Risk Management Nonaccrual Loans and Other Nonperforming Assets and Note 5 (Loans and Allowance for Credit Losses) in this Report.

In working with our customers, foreclosure is always a last resort, and we work hard to find other solutions through multiple discussions with customers over many months before proceeding to foreclosure. Since January 2009 we have helped over 556,000 borrowers avoid foreclosure through active and trial modifications, and have forgiven $3.5 billion of principal. Over the same period, we completed fewer than 230,000 owner-occupied foreclosure sales.

We believe we have a high quality residential mortgage servicing portfolio and that our repurchase exposure related to mortgage securitizations is manageable and that our liability for mortgage loan repurchase losses of $1.3 billion at September 30, 2010, is adequate. Repurchase demands in third quarter 2010 were down linked quarter in both number and balance. See the Risk Management Credit Risk Management Nonaccrual Loans and Other Nonperforming Assets, Liability for Mortgage Loan Repurchase Losses and Risks Relating to Servicing Activities sections and Note 1 (Summary of Significant Accounting Changes Subsequent Events) to Financial Statements in this Report for additional information regarding our foreclosure processes, mortgage repurchase exposure and servicing activities.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) became law. The Dodd-Frank Act reshapes and restructures the supervision and regulation of the financial services industry. Although the Dodd-Frank Act became generally effective in July, many of its provisions have extended implementation periods and delayed effective dates and will require extensive rulemaking by regulatory authorities. The ultimate impact of the Dodd-Frank Act cannot be determined.

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EARNINGS PERFORMANCE

Revenue was $20.9 billion in third quarter 2010 compared with $22.5 billion in third quarter 2009. Revenue for the first nine months of 2010 was $63.7 billion compared with $66.0 billion in the same period a year ago. Net gains on mortgage loan origination/sales activities were up $835 million from a year ago, reflecting strong mortgage originations. Mortgage servicing income was down $1.4 billion from the prior year, primarily due to a decline in hedge carry income. Reflecting the breadth and growth potential of the Company s business model, many businesses had double-digit revenue growth from third quarter 2009, including merchant services, debit card, private student lending, capital finance, commercial real estate (CRE) and real estate investment banking (Eastdil Secured). Net interest income of $11.1 billion declined 5% from a year ago compared with a 6% decline in average loans.

Noninterest expense of $12.3 billion in third quarter 2010 was up 5% from a year ago. Third quarter 2010 expenses included $476 million of merger integration costs, compared with $249 million a year ago. Our expenses reflect, in addition to merger integration and credit resolution expenses, our continued investment for long-term growth, hiring in regional and commercial banking as we apply the Wells Fargo business model throughout legacy Wachovia markets, and investing in technology to improve service across the franchise. As of third quarter 2010, we have already realized approximately 85% of our targeted $5.0 billion annual run-rate cost savings from the Wachovia merger. The efficiency ratio was 58.7% in third quarter 2010 compared with 59.6% in second quarter 2010 and 52.0% in third quarter 2009, with the increase from a year ago due to lower net interest income and lower mortgage banking revenue.

NET INTEREST INCOME

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

Net interest income on a taxable-equivalent basis was $11.3 billion in third quarter 2010 and $11.9 billion in third quarter 2009, reflecting a decline in average loans, including a reduction in loans in the liquidating portfolios. The net interest margin was 4.25% in third quarter 2010 down from 4.36% a year ago, due to the continued run-off of non-strategic loan portfolios (including Pick-a-Pay mortgage, legacy Wells Fargo Financial indirect auto, and commercial and CRE PCI loans), which tend to have higher yields but also higher charge-offs than loans in our on-going loan portfolios.

Average earning assets were $1.1 trillion in third quarter 2010, flat compared with third quarter 2009. Average loans decreased to $759.5 billion in third quarter 2010 from $810.2 billion a year ago. We continued to supply significant amounts of credit to consumers and businesses in third quarter 2010. Average mortgages held for sale (MHFS) were $38.1 billion in third quarter 2010, down from $40.6 billion a year ago. Average debt securities available for sale were $158.3 billion in third quarter 2010, down from $186.3 billion a year ago.

Core deposits are a low-cost source of funding and thus have an important influence on net interest income and the net interest margin. Core deposits include noninterest-bearing deposits, interest-bearing checking, savings certificates, certain market rate and other savings, and certain foreign deposits (Eurodollar sweep balances). Average core deposits increased to $772.0 billion in third quarter 2010 from $759.3 billion in third quarter 2009, and funded 102% and 94% of average loans in the same periods, respectively. Average checking and savings deposits, typically the lowest cost deposits, represented about 89% of our average core deposits, one of the highest percentages in the industry. Certificates of deposit (CDs) declined $37.6 billion from third quarter 2009, including approximately $21 billion of higher-cost Wachovia CDs that matured, yet total core deposits were up $23.9 billion from a year ago. Of average core deposits, $686.9 billion represent transaction accounts or low-cost savings accounts from consumer and commercial customers, which increased 9% from $629.6 billion in third quarter 2009. Total average retail core deposits, which exclude Wholesale Banking core deposits and retail mortgage escrow deposits, decreased to $571.1 billion for third quarter 2010 from $584.4 billion a year ago. Average mortgage escrow deposits were $30.2 billion in third quarter 2010, compared with $28.7 billion a year ago. Average certificates of deposits decreased to $85.0 billion in third quarter 2010 from $129.7 billion a year ago. Total average interest-bearing deposits were $631.2 billion in third quarter 2010 compared with $633.4 billion a year ago.

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

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

	Quarter ended September 30,					
			2010			2009
(in millions)	**Average balance**	**Yields/ rates**	**Interest income/ expense**	Average balance	Yields/ rates	Interest income/ expense
Earning assets						
Federal funds sold, securities purchased under resale agreements and other short-term investments	**$ 70,839**	**0.38%**	**$ 67**	16,356	0.66%	$ 27
Trading assets	**29,080**	**3.77**	**275**	20,518	4.29	221
Debt securities available for sale (3):						
Securities of U.S. Treasury and federal agencies	**1,673**	**2.79**	**11**	2,545	3.79	24
Securities of U.S. states and political subdivisions	**17,220**	**5.89**	**249**	12,818	6.28	204
Mortgage-backed securities:						
Federal agencies	**70,486**	**5.35**	**885**	94,457	5.34	1,221
Residential and commercial	**33,425**	**12.53**	**987**	43,214	9.56	1,089
Total mortgage-backed securities	**103,911**	**7.67**	**1,872**	137,671	6.75	2,310
Other debt securities (4)	**35,533**	**6.02**	**503**	33,294	7.00	568
Total debt securities available for sale(4)	**158,337**	**7.05**	**2,635**	186,328	6.72	3,106
Mortgages held for sale (5)	**38,073**	**4.72**	**449**	40,604	5.16	524
Loans held for sale (5)	**3,223**	**2.71**	**22**	4,975	2.67	34
Loans:						
Commercial and commercial real estate:						
Commercial	**146,139**	**4.57**	**1,679**	175,642	4.34	1,919
Real estate mortgage	**99,082**	**4.15**	**1,036**	95,612	3.45	832
Real estate construction	**29,469**	**3.31**	**246**	40,487	2.94	300
Lease financing	**13,156**	**9.07**	**298**	14,360	9.14	328
Total commercial and commercial real estate	**287,846**	**4.50**	**3,259**	326,101	4.12	3,379
Consumer:						
Real estate 1-4 family first mortgage	**231,172**	**5.16**	**2,987**	235,051	5.35	3,154
Real estate 1-4 family junior lien mortgage	**100,257**	**4.41**	**1,114**	105,779	4.62	1,229
Credit card	**22,048**	**13.57**	**748**	23,448	11.65	683
Other revolving credit and installment	**87,884**	**6.50**	**1,441**	90,199	6.48	1,473
Total consumer	**441,361**	**5.68**	**6,290**	454,477	5.73	6,539

Foreign	**30,276**	**3.15**	**240**	29,613	3.61	270
Total loans(5)	**759,483**	**5.13**	**9,789**	810,191	5.00	10,188
Other	**5,912**	**3.53**	**53**	6,088	3.29	49
Total earning assets	**$ 1,064,947**	**5.01%**	**$ 13,290**	1,085,060	5.20%	$ 14,149
Funding sources						
Deposits:						
Interest-bearing checking	**$ 59,677**	**0.10%**	**$ 15**	59,467	0.15%	$ 21
Market rate and other savings	**419,996**	**0.25**	**269**	369,120	0.34	317
Savings certificates	**85,044**	**1.50**	**322**	129,698	1.35	442
Other time deposits	**14,400**	**2.33**	**83**	18,248	1.93	89
Deposits in foreign offices	**52,061**	**0.24**	**32**	56,820	0.25	36
Total interest-bearing deposits	**631,178**	**0.45**	**721**	633,353	0.57	905
Short-term borrowings	**46,468**	**0.26**	**31**	39,828	0.35	36
Long-term debt	**177,077**	**2.76**	**1,226**	222,580	2.33	1,301
Other liabilities	**6,764**	**3.39**	**58**	5,620	3.30	46
Total interest-bearing liabilities	**861,487**	**0.94**	**2,036**	901,381	1.01	2,288
Portion of noninterest-bearing funding sources	**203,460**			183,679		
Total funding sources	**$ 1,064,947**	**0.76**	**2,036**	1,085,060	0.84	2,288
Net interest margin and net interest income on a taxable-equivalent basis (6)		**4.25%**	**$ 11,254**		4.36%	$ 11,861
Noninterest-earning assets						
Cash and due from banks	**$ 17,000**			18,084		
Goodwill	**24,829**			24,435		
Other	**113,592**			118,472		
Total noninterest-earning assets	**$ 155,421**			160,991		
Noninterest-bearing funding sources						
Deposits	**$ 184,837**			172,588		
Other liabilities	**50,013**			47,646		
Total equity	**124,031**			124,436		
Noninterest-bearing funding sources used to fund earning assets	**(203,460)**			(183,679)		
Net noninterest-bearing funding sources	**$ 155,421**			160,991		
Total assets	**$ 1,220,368**			1,246,051		

(1) Our average prime rate was 3.25% for

the quarters and nine months ended September 30, 2010 and 2009. The average three-month London Interbank Offered Rate (LIBOR) was 0.39% and 0.41% for the quarters ended September 30, 2010 and 2009, respectively, and 0.36% and 0.83% for the nine months of 2010 and 2009, respectively.

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

(3) Yields and rates are based on interest income/expense amounts for the period, annualized based on the accrual basis for the respective accounts. The average balance amounts include the effects of any unrealized gain or loss marks but those marks carried in other comprehensive income are not included in yield determination of

affected earning assets. Thus yields are based on amortized cost balances computed on a settlement date basis.

(4) Includes certain preferred securities.

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

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

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(in millions)	2010 Average balance	Yields/ rates	Interest income/ expense	Nine months ended September 30, 2009 Average balance	Yields/ rates	Interest income/ expense
Earning assets						
Federal funds sold, securities purchased under resale agreements and other short-term investments	**$ 59,905**	**0.35%**	**$ 156**	20,411	0.73%	$ 111
Trading assets	**28,588**	**3.82**	**819**	20,389	4.64	709
Debt securities available for sale (3):						
Securities of U.S. Treasury and federal agencies	**2,013**	**3.36**	**49**	2,514	2.61	48
Securities of U.S. states and political subdivisions	**15,716**	**6.29**	**725**	12,409	6.39	623
Mortgage-backed securities:						
Federal agencies	**74,330**	**5.38**	**2,838**	87,916	5.45	3,492
Residential and commercial	**33,133**	**10.58**	**2,546**	41,070	9.05	3,150
Total mortgage-backed securities	**107,463**	**7.01**	**5,384**	128,986	6.72	6,642
Other debt securities (4)	**33,727**	**6.56**	**1,557**	31,437	7.01	1,691
Total debt securities available for sale(4)	**158,919**	**6.80**	**7,715**	175,346	6.69	9,004
Mortgages held for sale (5)	**33,903**	**4.88**	**1,241**	38,315	5.16	1,484
Loans held for sale (5)	**4,660**	**2.46**	**86**	6,693	3.01	151
Loans:						
Commercial and commercial real estate:						
Commercial	**150,153**	**4.83**	**5,431**	186,610	4.10	5,725
Real estate mortgage	**98,264**	**3.91**	**2,875**	95,928	3.50	2,510
Real estate construction	**32,770**	**3.27**	**801**	41,735	2.89	901
Lease financing	**13,592**	**9.28**	**946**	14,968	9.04	1,015
Total commercial and commercial real estate	**294,779**	**4.56**	**10,053**	339,241	4.00	10,151
Consumer:						
Real estate 1-4 family first mortgage	**237,848**	**5.22**	**9,305**	240,409	5.51	9,926
Real estate 1-4 family junior lien mortgage	**102,839**	**4.47**	**3,444**	108,094	4.81	3,894
Credit card	**22,539**	**13.32**	**2,251**	23,236	12.16	2,118
Other revolving credit and installment	**88,998**	**6.49**	**4,320**	91,240	6.60	4,502
Total consumer	**452,224**	**5.70**	**19,320**	462,979	5.90	20,440
Foreign	**29,302**	**3.46**	**758**	30,856	4.02	929

Total loans(5)	**776,305**	**5.18**	**30,131**	833,076	5.05	31,520
Other	**6,021**	**3.45**	**156**	6,102	3.02	137
Total earning assets	**$ 1,068,301**	**5.07%**	**$ 40,304**	1,100,332	5.21%	$ 43,116
Funding sources						
Deposits:						
Interest-bearing checking	**$ 60,961**	**0.13%**	**$ 57**	73,195	0.14%	$ 77
Market rate and other savings	**412,060**	**0.27**	**822**	339,081	0.42	1,072
Savings certificates	**89,824**	**1.43**	**962**	150,607	1.14	1,280
Other time deposits	**15,066**	**2.08**	**235**	21,794	1.97	321
Deposits in foreign offices	**54,973**	**0.23**	**94**	50,907	0.29	111
Total interest-bearing deposits	**632,884**	**0.46**	**2,170**	635,584	0.60	2,861
Short-term borrowings	**45,549**	**0.22**	**75**	58,447	0.50	217
Long-term debt	**193,724**	**2.57**	**3,735**	238,909	2.55	4,568
Other liabilities	**6,393**	**3.38**	**162**	4,675	3.50	122
Total interest-bearing liabilities	**878,550**	**0.93**	**6,142**	937,615	1.11	7,768
Portion of noninterest-bearing funding sources	**189,751**			162,717		
Total funding sources	**$ 1,068,301**	**0.77**	**6,142**	1,100,332	0.94	7,768
Net interest margin and net interest income on a taxable-equivalent basis (6)		**4.30%**	**$ 34,162**		4.27%	$ 35,348
Noninterest-earning assets						
Cash and due from banks	**$ 17,484**			19,218		
Goodwill	**24,822**			23,964		
Other	**112,928**			126,557		
Total noninterest-earning assets	**$ 155,234**			169,739		
Noninterest-bearing funding sources						
Deposits	**$ 177,975**			169,187		
Other liabilities	**46,174**			49,249		
Total equity	**120,836**			114,020		
Noninterest-bearing funding sources used to fund earning assets	**(189,751)**			(162,717)		
Net noninterest-bearing funding sources	**$ 155,234**			169,739		
Total assets	**$ 1,223,535**			1,270,071		

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NONINTEREST INCOME

(in millions)	Quarter ended Sept. 30, 2010	2009	% Change	Nine months ended Sept. 30, 2010	2009	% Change
Service charges on deposit accounts	**$ 1,132**	1,478	(23)%	**$ 3,881**	4,320	(10)%
Trust and investment fees:						
Trust, investment and IRA fees	**924**	989	(7)	**3,008**	2,550	18
Commissions and all other fees	**1,640**	1,513	8	**4,968**	4,580	8
Total trust and investment fees	**2,564**	2,502	2	**7,976**	7,130	12
Card fees	**935**	946	(1)	**2,711**	2,722	
Other fees:						
Cash network fees	**73**	60	22	**186**	176	6
Charges and fees on loans	**424**	453	(6)	**1,244**	1,326	(6)
Processing and all other fees	**507**	437	16	**1,497**	1,312	14
Total other fees	**1,004**	950	6	**2,927**	2,814	4
Mortgage banking (1):						
Servicing income, net	**516**	1,919	(73)	**3,100**	3,641	(15)
Net gains on mortgage loan origination/sales activities	**1,983**	1,148	73	**3,880**	4,976	(22)
Total mortgage banking	**2,499**	3,067	(19)	**6,980**	8,617	(19)
Insurance	**397**	468	(15)	**1,562**	1,644	(5)
Net gains from trading activities	**470**	622	(24)	**1,116**	2,158	(48)
Net losses on debt securities available for sale	**(114)**	(40)	185	**(56)**	(237)	(76)
Net gains (losses) from equity investments	**131**	29	352	**462**	(88)	NM
Operating leases	**222**	224	(1)	**736**	522	41
All other	**536**	536		**1,727**	1,564	10
Total	**$ 9,776**	10,782	(9)	**$ 30,022**	31,166	(4)

NM Not meaningful

(1) 2009 categories have been revised to conform to current presentation.

Noninterest income represented 47% of total revenues for both the third quarter and first nine months of 2010, respectively, compared with 48% and 47%, respectively, for the same periods a year ago. Third quarter 2010 noninterest income was down 9% year over year, primarily due to lower mortgage banking hedge results, partially offset by increased gains on mortgage loan origination/sales activities.

Service charges on deposit accounts were $1.1 billion in third quarter 2010, down 23% from a year ago primarily due to the negative impact from changes to Regulation E and related overdraft policy changes. We currently estimate that the combination of these changes will reduce our fee revenue in fourth quarter 2010 by approximately $440 million. The actual impact in fourth quarter 2010 and future periods could vary due to a variety of factors, including changes in customer behavior, economic conditions and other potential offsetting factors.

We earn fees on trust, investment and IRA (Individual Retirement Account) accounts from managing and administering assets, including mutual funds, corporate trust, personal trust, employee benefit trust and agency assets. At September 30, 2010, these assets totaled $2.0 trillion, up 11% from $1.8 trillion a year ago, primarily reflecting an 8% increase in the S&P 500 over the same period. Trust, investment and IRA fees are primarily based on a tiered scale relative to the market value of the assets under management or administration. These fees decreased to $924 million in third quarter 2010 from $989 million a year ago.

We received commissions and other fees for providing services to full-service and discount brokerage customers of $1.6 billion in third quarter 2010 and $1.5 billion a year ago. These fees include transactional commissions, which are based on the number of transactions executed at the customer s direction, and asset-based fees, which are based on the market value of the customer s assets. Client assets totaled $1.1 trillion at September 30, 2010, up 4% from a year ago. Commissions and other fees also include fees from investment banking activities including equity and bond underwriting.

Card fees were $935 million in third quarter 2010, down from $946 million a year ago. Recent legislative and regulatory changes limit our ability to increase interest rates and assess certain fees on card accounts.

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The anticipated net impact in fourth quarter 2010 related to these changes is estimated to be $47 million. The actual impact in 2010 and future periods could vary due to a variety of factors, including changes in customer behavior, economic conditions and other potential offsetting factors.

Mortgage banking noninterest income was $2.5 billion in third quarter 2010, down from $3.1 billion a year ago. An $835 million increase in net gains on mortgage loan origination/sales activities from a year ago was more than offset by a $1.4 billion decline in net servicing income.

Net gains on mortgage loan origination/sales activities increased to $2.0 billion in third quarter 2010, up $835 million from a year ago. This increase was primarily due to higher origination volumes and business margins in this low mortgage interest rate environment. Residential real estate originations were $101 billion in third quarter 2010, up 5% from $96 billion a year ago and mortgage applications were $194 billion in third quarter 2010 compared with $123 billion for third quarter 2009. The 1-4 family first mortgage unclosed pipeline was $101 billion at September 30, 2010, and $57 billion at December 31, 2009.

Net servicing income decreased to $516 million in third quarter 2010 from $1.9 billion a year ago. Net servicing income includes both changes in the fair value of mortgage servicing rights (MSRs) during the period as well as changes in the value of derivatives (economic hedges) used to hedge the MSRs. Net servicing income for third quarter 2010 included a $56 million net MSRs valuation gain ($1.1 billion decrease in the fair value of the MSRs partially offsetting a $1.2 billion hedge gain) and for third quarter 2009 included a $1.5 billion net MSRs valuation gain ($2.1 billion decrease in the fair value of MSRs partially offsetting a $3.6 billion hedge gain). The $1.5 billion decline in the net MSR hedge results for third quarter 2010 compared with third quarter 2009 is primarily due to a decline in hedge carry income, which resulted from the combination of a reduced level of financial hedges, given a lower MSR asset value and an increased reliance on the natural business hedge and lower rate of carry resulting from lower interest rates and mix of financial instruments. See the Risk Management Mortgage Banking Interest Rate and Market Risk section of this Report for additional information regarding our MSRs risks and hedging approach. At September 30, 2010, the ratio of MSRs to related loans serviced for others was 0.72% compared with 0.91% at December 31, 2009. The average note rate was 5.46% at September 30, 2010, compared with 5.66% at December 31, 2009.

Net gains on mortgage loan origination/sales activities include the cost of any additions to the liability for mortgage loan repurchase losses as well as adjustments of loans in the warehouse/pipeline for changes in market conditions that affect their value. Mortgage loans are repurchased based on standard representations and warranties and early payment default clauses in mortgage sale contracts. Additions to the liability for mortgage loan repurchase losses that were charged against net gains on mortgage loan origination/sales activities were $370 million and $1.2 billion, respectively, for the three and nine months ended September 30, 2010. For additional information about mortgage loan repurchases, see the Risk Management Credit Risk Management Process Liability for Mortgage Loan Repurchase Losses section and Note 7 (Securitizations and Variable Interest Entities) to Financial Statements in this Report.

Income from trading activities was a $470 million gain in third quarter 2010, down from a $622 million gain a year ago. This decrease reflects a return to a more normal trading environment from a year ago as well as a continued reduction in risk levels while we continue to prioritize support for our customer-related activities.

Aggregate net gains on debt securities available for sale and equity securities totaled $17 million in third quarter 2010, compared with net losses of $11 million a year ago. Impairment write-downs were $179 million in third quarter 2010, compared with $396 million a year ago. For additional information,

see the Balance Sheet Analysis Securities Available for Sale section and Note 4 (Securities Available for Sale) to Financial Statements in this Report.

NONINTEREST EXPENSE

(in millions)	Quarter ended Sept. 30, 2010	2009	% Change	Nine months ended Sept. 30, 2010	2009	% Change
Salaries	$ **3,478**	3,428	1%	$ **10,356**	10,252	1%
Commission and incentive compensation	**2,280**	2,051	11	**6,497**	5,935	9
Employee benefits	**1,074**	1,034	4	**3,459**	3,545	(2)
Equipment	**557**	563	(1)	**1,823**	1,825	
Net occupancy	**742**	778	(5)	**2,280**	2,357	(3)
Core deposit and other intangibles	**548**	642	(15)	**1,650**	1,935	(15)
FDIC and other deposit assessments	**300**	228	32	**896**	1,547	(42)
Outside professional services	**533**	489	9	**1,589**	1,350	18
Contract services	**430**	254	69	**1,161**	726	60
Foreclosed assets	**366**	243	51	**1,085**	678	60
Outside data processing	**263**	251	5	**811**	745	9
Postage, stationery and supplies	**233**	211	10	**705**	701	1
Operating losses	**230**	117	97	**1,065**	448	138
Insurance	**62**	208	(70)	**374**	734	(49)
Telecommunications	**146**	142	3	**445**	464	(4)
Travel and entertainment	**195**	151	29	**562**	387	45
Advertising and promotion	**170**	160	6	**438**	396	11
Operating leases	**21**	52	(60)	**85**	183	(54)
All other	**625**	682	(8)	**1,835**	1,991	(8)
Total	$ **12,253**	11,684	5	$ **37,116**	36,199	3

Noninterest expense was $12.3 billion in third quarter 2010, up 5% compared with $11.7 billion in third quarter 2009. Noninterest expense continued to be elevated by merger integration expenses, and higher credit and resolution costs, including expenses associated with foreclosed assets, loan modifications and other home preservation activities. Merger integrations costs were $476 million in third quarter 2010 compared with $249 million a year ago. Foreclosed assets expense was $366 million in third quarter 2010, up 51% from a year ago due to a $3.6 billion increase in foreclosed assets year over year, including $2.1 billion of foreclosed loans in the PCI portfolio that are now recorded as foreclosed assets.

The $146 million decline in insurance expense from third quarter 2009 was mostly due to lower insurance reserve increases at our captive mortgage reinsurance operation for third quarter 2010 compared with a year ago.

We continued to invest for long-term growth throughout the Company, hiring in regional banking and commercial banking as we apply Wells Fargo s model to the eastern markets, and investing in technology to improve service across our franchise. Our current expense base is elevated by integration and workout costs, which should decline over time. In addition, we are looking at other ways to reduce cost by simplifying and streamlining our activities and processes throughout the Company. We converted 363 Wachovia banking stores in Texas, Kansas, Alabama, Mississippi and Tennessee in third quarter 2010 and opened 13 banking stores in the quarter for a retail network total of 6,335 stores.

INCOME TAX EXPENSE

Our effective income tax rate was 34.4% in third quarter 2010, up from 29.5% in third quarter 2009, and was 34.3% for the first nine months of 2010, up from 31.7% for the first nine months of 2009. The increase for the first nine months of 2010 was partly due to additional tax expense in 2010 related to the new health care legislation, fewer favorable settlements with tax authorities and a reduction in tax-advantaged income, including interest and dividends.

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OPERATING SEGMENT RESULTS

We have three lines of business for management reporting: Community Banking; Wholesale Banking; and Wealth, Brokerage and Retirement. We define our operating segments by product and customer. Our 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.

The table below and the following discussion present our results by operating segment. For a more complete description of our operating segments, including additional financial information and the underlying management accounting process, see Note 16 (Operating Segments) to Financial Statements in this Report.

OPERATING SEGMENT RESULTS HIGHLIGHTS

	Community Banking		Wholesale Banking		Wealth, Brokerage and Retirement	
(in billions)	**2010**	2009	**2010**	2009	**2010**	2009
Quarter ended September 30,						
Revenue	$ **13.6**	15.6	**5.2**	4.9	**2.9**	2.8
Net income	**2.0**	2.7	**1.4**	0.6	**0.3**	0.1
Average loans	**527.0**	553.2	**222.5**	247.0	**42.6**	45.4
Average core deposits	**535.7**	550.2	**172.2**	146.8	**120.7**	116.3
Nine months ended September 30,						
Revenue	$ **41.4**	45.2	**16.2**	15.1	**8.7**	8.1
Net income	**5.2**	6.8	**4.1**	2.8	**0.8**	0.5
Average loans	**540.3**	562.2	**226.0**	261.1	**43.0**	46.0
Average core deposits	**533.7**	556.9	**164.9**	141.3	**121.1**	110.9

Community Banking offers a complete line of diversified financial products and services for consumers and small businesses including investment, insurance and trust services in 39 states and D.C., and mortgage and home equity loans in all 50 states and D.C.

Community Banking s net income decreased 27% to $2.0 billion in third quarter 2010 from $2.7 billion a year ago. Revenue decreased to $13.6 billion and $41.4 billion in the third quarter and first nine months of 2010, respectively, from $15.6 billion and $45.2 billion for the same periods a year ago. Net interest income decreased $977 million, or 11%, in third quarter 2010 from a year ago driven by the planned reduction in certain liquidating loan portfolios. Average loans decreased $26.2 billion, or 5%, in third quarter 2010 from a year ago, due to the run-off of liquidating loan portfolios and continued low demand. Average core deposits decreased $14.5 billion in third quarter 2010 from a year ago, primarily due to Wachovia high yield savings certificates maturing. Noninterest income decreased $986 million, or 15%, driven primarily by lower mortgage banking income and lower deposit service charges due to changes to Regulation E and related overdraft policy changes. The provision for loan losses decreased $1.5 billion, or 32%, due to lower net charge-offs and a $400 million credit reserve release (net charge-offs less provision for credit losses) in third quarter 2010 compared with a $265 million credit reserve build a year ago. Noninterest expense increased $322 million, or 5%, due primarily to higher personnel expense, higher foreclosed assets and Federal Deposit Insurance Corporation (FDIC) assessments, partially offset by Wachovia merger-related cost savings.

Wholesale Banking provides financial solutions to businesses across the United States with annual sales generally in excess of $10 million and financial institutions globally. Products include middle market banking, corporate banking, commercial real estate, treasury management, asset-based lending, insurance brokerage, foreign exchange, correspondent banking, trade services, specialized lending, equipment finance, corporate trust, investment banking, capital markets, and asset management.

Wholesale Banking s net income of $1.4 billion in third quarter 2010 was up 143% from $594 million in third quarter 2009. Net income increased to $4.1 billion for the first nine months of 2010 from $2.8 billion a year ago. Net interest income of $2.9 billion in third quarter 2010 increased 14% from $2.5 billion a year ago due to PCI loans and security resolutions partially offset by lower average loans. Average loans of $222.5 billion declined 10% from third quarter 2009 driven by declines across most lending areas. Average core deposits of $172.2 billion in third quarter 2010 increased 17% from $146.8 billion a year ago driven by growth in both interest-bearing and non-interest bearing deposits primarily in government and institutional banking, corporate trust, global financial institutions, sales and trading and commercial mortgage servicing. The provision for loan losses decreased to $270 million in third quarter 2010 from $1.4 billion a year ago, due to lower net charge-offs and a $250 million reserve release (net charge-offs less provision for credit losses) in third quarter 2010 compared with a $627 million credit reserve build a year ago. Noninterest income was $2.4 billion in third quarter 2010 flat with third quarter of 2009. Third quarter 2010 results included lower capital markets trading and investment banking revenue, mostly offset by higher PCI related resolutions. Noninterest expense of $2.7 billion in third quarter 2010 increased 2% from a year ago due to higher foreclosed asset and personnel expenses.

Wealth, Brokerage and Retirement provides a full range of financial advisory services to clients using a planning approach to meet each client s needs. Wealth Management provides affluent and high net worth clients with a complete range of wealth management solutions including financial planning, private banking, credit, investment management and trust. Family Wealth meets the unique needs of the ultra high net worth customers. Brokerage serves customers advisory, brokerage and financial needs as part of one of the largest full-service brokerage firms in the United States. Retirement is a national leader in providing institutional retirement and trust services (including 401(k) and pension plan record keeping) for businesses, retail retirement solutions for individuals, and reinsurance services for the life insurance industry.

Wealth, Brokerage and Retirement s net income increased 131% to $256 million in third quarter 2010 from $111 million a year ago. Net income increased to $808 million in the first nine months of 2010, up from $545 million a year ago. Revenue increased to $2.9 billion and $8.7 billion in the third quarter and first nine months of 2010, respectively, from $2.8 billion and $8.1 billion a year ago. Net interest income increased 18% to $683 million from $580 million a year ago, predominantly due to higher earning assets. The provision for credit losses decreased $156 million to $77 million in third quarter 2010 from $233 million a year ago, largely reflecting a credit reserve build in the third quarter of last year. Noninterest income increased $41 million, or 2%, as higher asset-based fees were partially offset by lower securities gains in the brokerage business. Noninterest expense increased $87 million, or 4%, to $2.4 billion in third quarter 2010 from $2.3 billion a year ago predominantly due to higher broker commissions on increased production.

BALANCE SHEET ANALYSIS

During third quarter 2010, our total assets, loans and core deposits each decreased slightly from December 31, 2009, but the strength of our business model continued to produce high rates of internal capital generation as reflected in our improved capital ratios. As a percentage of total risk-weighted assets, Tier 1 capital increased to 10.9%, total capital to 14.9%, Tier 1 leverage to 9.0% and Tier 1 common equity to 8.0% at September 30, 2010, up from 9.3%, 13.3%, 7.9% and 6.5%, respectively, at

December 31, 2009. On average, core deposits funded 102% of the loan portfolio in third quarter 2010, and we have significant capacity to add higher yielding long-term mortgage-backed securities (MBS) for future revenue and earnings growth.

The following discussion provides additional information about the major components of our balance sheet. Capital is discussed in the Capital Management section of this Report.

SECURITIES AVAILABLE FOR SALE

	Sept. 30, 2010			December 31, 2009		
(in billions)	**Cost**	**Net unrealized gain**	**Fair value**	Cost	Net unrealized gain	Fair value
Debt securities available for sale	**$ 163.1**	**8.5**	**171.6**	162.3	4.8	167.1
Marketable equity securities	**4.4**	**0.9**	**5.3**	4.8	0.8	5.6
Total securities available for sale	**$ 167.5**	**9.4**	**176.9**	167.1	5.6	172.7

Securities available for sale consist of both debt and marketable equity securities. We hold debt securities available for sale primarily for liquidity, interest rate risk management and long-term yield enhancement. Accordingly, this portfolio consists primarily of very liquid, high-quality federal agency debt and privately issued MBS. The total net unrealized gains on securities available for sale of $9.4 billion at September 30, 2010, were up from $5.6 billion at December 31, 2009, due to a general decline in long-term yields and narrowing of credit spreads.

Comparative detail of average balances of securities available for sale is provided in the table under Earnings Performance Net Interest Income earlier in this Report.

We analyze securities for other-than-temporary impairment (OTTI) on a quarterly basis, or more often if a potential loss-triggering event occurs. The initial indication of OTTI for both debt and equity securities is a decline in the market value below the amount recorded for an investment, and the severity and duration of the decline. In determining whether an impairment is other than temporary, we consider the length of time and the extent to which the market value has been below cost, recent events specific to the issuer, including investment downgrades by rating agencies and economic conditions within its industry, and whether it is more likely than not that we will be required to sell the security before a recovery in value.

At September 30, 2010, we had approximately $6 billion of investments in securities, primarily municipal bonds, which are guaranteed against loss by bond insurers. These securities are predominantly investment grade and were generally underwritten in accordance with our own investment standards prior to the determination to purchase, without relying on the bond insurer s guarantee in making the investment decision. These securities will continue to be monitored as part of our on-going impairment analysis of our securities available for sale, but are expected to perform, even if the rating agencies reduce the credit rating of the bond insurers.

The weighted-average expected maturity of debt securities available for sale was 5.0 years at September 30, 2010. Since 68% of this portfolio is MBS, the expected remaining maturity may differ from contractual maturity because borrowers generally have the right to prepay obligations before the underlying mortgages mature. The estimated effect of a 200 basis point increase or decrease in interest rates on the fair value and the expected remaining maturity of the MBS available for sale are shown in the following table.

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MORTGAGE-BACKED SECURITIES INTEREST RATE SENSITIVITY ANALYSIS

(in billions)	Fair value	Net unrealized gains (losses)	Expected remaining maturity (in years)
At September 30, 2010	$ 117.4	6.1	3.5
At September 30, 2010, assuming a 200 basis point:			
Increase in interest rates	107.8	(3.5)	4.9
Decrease in interest rates	122.6	11.3	2.8

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

LOAN PORTFOLIO

(in millions)	**Sept. 30, 2010**	Dec. 31, 2009
Commercial and commercial real estate	**$ 286,980**	$ 307,067
Consumer	**436,993**	446,305
Foreign	**29,691**	29,398
Total loans	**$ 753,664**	782,770

A discussion of average loan balances and a comparative detail of average loan balances is included in Earnings Performance Net Interest Income earlier in this Report; period-end balances and other loan related information are in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

DEPOSITS

Deposits totaled $814.5 billion at September 30, 2010, compared with $824.0 billion at December 31, 2009. Comparative detail of average deposit balances is provided in the table under Earnings Performance Net Interest Income earlier in this Report. Total core deposits were $771.8 billion at September 30, 2010, down from $780.7 billion at December 31, 2009.

(in millions)	**Sept. 30, 2010**	Dec. 31, 2009	% Change
Noninterest-bearing	**$ 184,418**	181,356	2%
Interest-bearing checking	**59,944**	63,225	(5)
Market rate and other savings	**415,706**	402,448	3
Savings certificates	**81,448**	100,857	(19)
Foreign deposits (1)	**30,276**	32,851	(8)

Core deposits	**771,792**	780,737	(1)
Other time and savings deposits	**19,831**	16,142	23
Other foreign deposits	**22,889**	27,139	(16)
Total deposits	**$ 814,512**	824,018	(1)

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

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OFF-BALANCE SHEET ARRANGEMENTS

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

OFF-BALANCE SHEET TRANSACTIONS WITH UNCONSOLIDATED ENTITIES

In the normal course of business, we enter into various types of on- and off-balance sheet transactions with special purpose entities (SPEs), which are corporations, trusts or partnerships that are established for a limited purpose. Historically, the majority of SPEs were formed in connection with securitization transactions. For more information on securitizations, including sales proceeds and cash flows from securitizations, see Note 7 (Securitizations and Variable Interest Entities) to Financial Statements in this Report.

NEWLY CONSOLIDATED VIE ASSETS AND LIABILITIES

Effective January 1, 2010, we adopted new consolidation accounting guidance and, accordingly, consolidated certain VIEs that were not included in our consolidated financial statements at December 31, 2009. On January 1, 2010, we recorded the assets and liabilities of the newly consolidated variable interest entities (VIEs) and derecognized our existing interests in those VIEs. We also recorded a $183 million increase to beginning retained earnings as a cumulative effect adjustment and recorded a $173 million increase to other comprehensive income (OCI).

The following table presents the net incremental assets recorded on our balance sheet by structure type upon adoption of new consolidation accounting guidance.

(in millions)	Incremental assets as of Jan. 1, 2010
Structure type:	
Residential mortgage loans nonconforming (1)	$ 11,479
Commercial paper conduit	5,088
Other	2,002
Total	$ 18,569

(1) Represents certain of our residential mortgage loans that are not guaranteed by GSEs (nonconforming).

In accordance with the transition provisions of the new consolidation accounting guidance, we initially recorded newly consolidated VIE assets and liabilities at a basis consistent with our accounting for respective assets at their amortized cost basis, except for those VIEs for which the fair value option was elected. The carrying amount for loans approximate the outstanding unpaid principal balance, adjusted for allowance for loan losses. Short-term borrowings and long-term debt approximate the outstanding par amount due to creditors.

Upon adoption of new consolidation accounting guidance on January 1, 2010, we elected fair value option accounting for certain nonconforming residential mortgage loan securitization VIEs. This election requires us to recognize the VIE s eligible assets and liabilities on the balance sheet at fair value with changes in fair value recognized in earnings. Such eligible assets and liabilities consisted primarily of loans and long-term debt, respectively. The fair value option

was elected for those newly consolidated

VIEs for which our interests, prior to January 1, 2010, were predominantly carried at fair value with changes in fair value recorded to earnings. Accordingly, the fair value option was elected to effectively continue fair value accounting through earnings for those interests. Conversely, fair value option was not elected for those newly consolidated VIEs that did not share these characteristics. At January 1, 2010, the fair value of loans and long-term debt for which the fair value option was elected was $1.0 billion and $1.0 billion, respectively. The incremental impact of electing fair value option (compared to not electing) on the cumulative effect adjustment to retained earnings was an increase of $15 million.

RISK MANAGEMENT

All financial institutions must manage and control a variety of business risks that can significantly affect their financial performance. Key among these are credit, asset/liability and market risk.

For further discussion about how we manage these risks, see pages 54-71 of our 2009 Form 10-K. The discussion that follows is intended to provide an update on these risks.

CREDIT RISK MANAGEMENT

Our credit risk management process is governed centrally, but provides for decentralized credit management and accountability by our lines of business. Our overall credit process includes comprehensive credit policies, judgmental or statistical credit underwriting, frequent and detailed risk measurement and modeling, extensive credit training programs, and a continual loan review and audit process. In addition, regulatory examiners review and perform detailed tests of our credit underwriting, loan administration and allowance processes. For more information on our credit risk management process, please refer to page 54 in our 2009 Form 10-K.

Credit Quality Overview

Credit losses declined in third quarter 2010, which continued to support our belief that quarterly credit loss levels peaked in 2009. The continued improvement in credit performance is a result of a slowly improving economy coupled with actions we have taken over the past several years to improve underwriting standards, mitigate losses and exit portfolios with unattractive credit metrics.

- Quarterly credit losses declined 9% to $4.1 billion in third quarter 2010 from $4.5 billion in second quarter 2010 and declined 20% from third quarter 2009. This improvement in losses was broad based across most of the consumer portfolios, with reduced losses in the home equity, private student lending, Wells Fargo Financial, Pick-a-Pay, wealth management and credit card portfolios.
- Losses in the commercial portfolio continued to improve from the higher levels experienced last year, including a 17% linked-quarter reduction in CRE losses.
- Our PCI loan portfolio continued to perform better than originally expected. In third quarter 2010 $639 million of nonaccretable difference was reclassified to accretable yield and is expected to accrete to future income over the remaining life of the underlying loans. In addition, $202 million of nonaccretable difference was released into income for commercial loans that were paid off or sold.
- Based on declining losses and improved credit quality trends, the provision for credit losses of $3.4 billion was $650 million less than net charge-offs in third quarter 2010. Absent significant deterioration in the economy, we currently expect future reductions in the allowance for loan losses.

Measuring and monitoring our credit risk is an ongoing process that tracks delinquencies, collateral values, economic trends by geographic areas, loan-level risk grading for certain portfolios (typically commercial) and other indications of risk to loss. Our credit risk monitoring process is designed to enable early identification of developing risk to loss and to support our determination of an adequate allowance for loan losses. During the current economic cycle our monitoring and resolution efforts have focused on

loan portfolios exhibiting the highest levels of risk including mortgage loans supported by real estate (both consumer and commercial), junior lien, commercial, credit card and subprime portfolios. The following sections include additional information regarding each of these loan portfolios and their relevant concentrations and credit quality performance metrics.

The following table identifies our non-strategic and liquidating loan portfolios.

NON-STRATEGIC AND LIQUIDATING LOAN PORTFOLIOS

	Outstanding balances	
(in billions)	**Sept. 30, 2010**	Dec. 31, 2009
Commercial and commercial real estate PCI loans (1)	**$ 7.7**	11.3
Pick-a-Pay mortgage (1)	**77.3**	85.2
Liquidating home equity	**7.3**	8.4
Legacy Wells Fargo Financial indirect auto	**7.1**	11.3
Legacy Wells Fargo Financial debt consolidation (2)	**19.7**	22.4
Total non-strategic and liquidating loan portfolios	**$ 119.1**	138.6

(1) Net of purchase accounting adjustments related to PCI loans.

(2) In July 2010, we announced the restructuring of our Wells Fargo Financial division and exiting the origination of non-prime portfolio mortgage loans.

Commercial Real Estate (CRE)

The CRE portfolio consists of both CRE mortgages and CRE construction loans. The combined CRE loans outstanding totaled $126.7 billion at September 30, 2010, or 17% of total loans. CRE construction loans totaled $27.9 billion at September 30, 2010, or 4% of total loans. CRE mortgage loans totaled $98.8 billion at September 30, 2010, or 13% of total loans. The portfolio is diversified both geographically and by property type. The largest geographic concentrations are found in California and Florida, which represented 22% and 11% of the total CRE portfolio, respectively. By property type, the largest concentrations are office buildings at 23% and industrial/warehouse at 11% of the portfolio.

The underwriting of CRE loans primarily focuses on cash flows and creditworthiness, and not solely collateral valuations. To identify and manage newly emerging problem CRE loans, we employ a high level of surveillance and regular customer interaction to understand and manage the risks associated with these assets, including regular loan

reviews and appraisal updates. As issues are identified, management is engaged and dedicated workout groups are in place to manage problem assets. At September 30, 2010, the recorded investment in PCI CRE loans totaled $6.7 billion, down from $12.3 billion since the Wachovia acquisition at December 31, 2008, reflecting the reduction resulting from loan resolutions and write-downs.

The following table summarizes CRE loans by state and property type with the related nonaccrual totals. At September 30, 2010, the highest concentration of total loans by state was $28.4 billion in California, more than double the next largest state concentration, and the related nonaccrual loans totaled about $1.7 billion, or 6% of CRE loans in California. Office buildings, at $29.6 billion, were the largest property type concentration, more than double the next largest, and the related nonaccrual loans totaled $1.4 billion, or 5% of total CRE loans for office buildings. Of CRE mortgage loans (excluding CRE construction loans), 41% related to owner-occupied properties at September 30, 2010. Nonaccrual loans totaled 7% of the non-PCI outstanding balance at September 30, 2010.

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CRE LOANS BY STATE AND PROPERTY TYPE

							September 30, 2010
		Real estate mortgage		Real estate construction			
(in millions)	Nonaccrual loans	Outstanding balance (1)	Nonaccrual loans	Outstanding balance (1)	Nonaccrual loans	Total Outstanding balance (1)	% of total loans
By state:							
PCI loans:							
Florida	$	471		720		1,191	*%
California		625		228		853	*
North Carolina		187		416		603	*
Georgia		227		323		550	*
New York		288		268		556	*
Other		1,320		1,594		2,914(2)	*
Total PCI loans		3,118		3,549		6,667	1
All other loans:							
California	1,174	23,561	508	3,981	1,682	27,542	4
Florida	921	9,899	398	2,374	1,319	12,273	2
Texas	319	6,578	306	2,573	625	9,151	1
North Carolina	321	4,728	302	1,612	623	6,340	*
Georgia	325	3,612	162	1,011	487	4,623	*
Virginia	66	3,779	163	1,634	229	5,413	*
Arizona	234	3,390	221	794	455	4,184	*
New York	49	3,471	41	1,139	90	4,610	*
New Jersey	111	2,684	47	668	158	3,352	*
Colorado	96	2,865	89	730	185	3,595	*
Other	1,463	31,070	961	7,846	2,424	38,916(3)	5
Total all other loans	5,079	95,637	3,198	24,362	8,277	119,999	16
Total	$ 5,079	98,755	3,198	27,911	8,277	126,666	17%
By property:							
PCI loans:							
Apartments	$	585		915		1,500	*%
Office buildings		1,093		352		1,445	*
1-4 family land		238		728		966	*
Retail (excluding shopping center)		430		103		533	*
Land (excluding 1-4 family)		24		443		467	*
Other		748		1,008		1,756	*

Total PCI loans		**3,118**		**3,549**		**6,667**	**1**
All other loans:							
Office buildings	**1,138**	**25,126**	**269**	**3,002**	**1,407**	**28,128**	**4**
Industrial/warehouse	**730**	**13,026**	**87**	**1,116**	**817**	**14,142**	**2**
Real estate other	**657**	**13,181**	**103**	**896**	**760**	**14,077**	**2**
Apartments	**328**	**7,989**	**424**	**4,242**	**752**	**12,231**	**2**
Retail (excluding shopping center)	**617**	**9,708**	**137**	**935**	**754**	**10,643**	**1**
Land (excluding 1-4 family)	**18**	**491**	**712**	**7,227**	**730**	**7,718**	**1**
Shopping center	**338**	**6,483**	**264**	**1,772**	**602**	**8,255**	**1**
Hotel/motel	**509**	**5,658**	**84**	**874**	**593**	**6,532**	*
1-4 family land	**162**	**357**	**641**	**2,447**	**803**	**2,804**	*
Institutional	**100**	**2,704**	**9**	**253**	**109**	**2,957**	*
Other	**482**	**10,914**	**468**	**1,598**	**950**	**12,512**	**2**
Total all other loans	**5,079**	**95,637**	**3,198**	**24,362**	**8,277**	**119,999**	**16**
Total	**$ 5,079**	**98,755**(4)	**3,198**	**27,911**	**8,277**	**126,666**	**17%**

* Less than 1%

(1) For PCI loans amounts represent carrying value.

(2) Includes 35 states; no state had loans in excess of $526 million.

(3) Includes 40 states; no state had loans in excess of $3.0 billion.

(4) Includes $40.7 billion of loans to owner-occupants where 51% or more of the property is used in the conduct of their business.

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	December 31, 2009						
	Real estate mortgage		Real estate construction			Total	% of
(in millions)	Nonaccrual loans	Outstanding balance (1)	Nonaccrual loans	Outstanding balance (1)	Nonaccrual loans	Outstanding balance (1)	total loans
By state:							
PCI loans:							
Florida	$	629		1,115		1,744	*%
California		995		271		1,266	*
North Carolina		150		618		768	*
Georgia		226		523		749	*
Virginia		219		480		699	*
Other		1,918		2,200		4,118(5)	*
Total PCI loans		4,137		5,207		9,344	1
All other loans:							
California	1,132	22,739	874	5,024	2,006	27,763	4
Florida	563	9,899	374	3,227	937	13,126	2
Texas	225	6,098	256	3,054	481	9,152	1
North Carolina	179	4,983	161	2,079	340	7,062	*
Georgia	207	3,809	127	1,507	334	5,316	*
Virginia	53	3,080	117	1,974	170	5,054	*
New York	53	3,591	49	1,456	102	5,047	*
Arizona	158	3,810	200	1,193	358	5,003	*
New Jersey	66	2,904	23	768	89	3,672	*
Colorado	78	2,252	110	875	188	3,127	*
Other	982	30,225	1,022	10,614	2,004	40,839(6)	5
Total all other loans	3,696	93,390	3,313	31,771	7,009	125,161	16
Total	$ 3,696	97,527	3,313	36,978	7,009	134,505	17%
By property:							
PCI loans:							
Apartments	$	810		1,300		2,110	*%
Office buildings		1,443		399		1,842	*
1-4 family land		270		1,076		1,346	*
1-4 family structure		96		693		789	*
Land (excluding 1-4 family)				759		759	*
Other		1,518		980		2,498	*
Total PCI loans		4,137		5,207		9,344	1

All other loans:							
Office buildings	887	24,688	188	4,005	1,075	28,693	4
Industrial/warehouse	508	13,643	36	1,281	544	14,924	2
Real estate other	550	13,563	102	1,105	652	14,668	2
Apartments	267	7,102	254	5,138	521	12,240	2
Retail (excluding shopping center)	597	10,457	108	1,327	705	11,784	2
Land (excluding 1-4 family)	9	262	778	8,943	787	9,205	1
Shopping center	204	5,912	210	2,398	414	8,310	1
Hotel/motel	208	5,216	123	1,160	331	6,376	*
1-4 family land	77	232	764	3,156	841	3,388	*
1-4 family structure	60	1,065	689	2,199	749	3,264	*
Other	329	11,250	61	1,059	390	12,309	2
Total all other loans	3,696	93,390	3,313	31,771	7,009	125,161	16
Total	$ 3,696	97,527(7)	3,313	36,978	7,009	134,505	17%

(5) Includes 38 states; no state had loans in excess of $605 million.

(6) Includes 40 states; no state had loans in excess of $3.0 billion.

(7) Includes $42.1 billion of loans to owner-occupants where 51% or more of the property is used in the conduct of their business.

Commercial Loans and Lease Financing

For purposes of portfolio risk management, we aggregate commercial loans and lease financing according to market segmentation and standard industry codes. The following table summarizes commercial loans and lease financing by industry with the related nonaccrual totals. While this portfolio has experienced deterioration in the current credit cycle, we believe this portfolio has experienced less credit deterioration than our CRE portfolios as evidenced by its (1) lower percentage of loans 90 days or more past due and still accruing, (2) lower percentage of nonperforming loans to total loans outstanding at September 30, 2010, as well as (3) the lower year-to-date loss rate to the year-to-date average of total loans of 0.14%, 2.65% and 1.18% compared with 0.63%, 6.53% and 1.34%, respectively, for the CRE portfolios. We believe this portfolio is well underwritten and is diverse in its risk with relatively similar concentrations across several industries. A majority of our commercial loans and lease financing portfolio is secured by short-term assets, such as accounts receivable, inventory and securities, as well as long-lived assets, such as equipment and other business assets. Our credit risk management process for this portfolio primarily focuses on a customer s ability to repay the loan through their cash flow. Generally, collateral securing this portfolio represents a secondary source of repayment.

COMMERCIAL LOANS AND LEASE FINANCING BY INDUSTRY

	September 30, 2010			December 31, 2009		
(in millions)	**Nonaccrual loans**	**Outstanding balance (1)**	**% of total loans**	Nonaccrual loans	Outstanding balance (1)	% of total loans
PCI loans:						
Investors	$	**249**	*%	$	140	*%
Media		**180**	*		314	*
Insurance		**99**	*		118	*
Technology		**67**	*		72	*
Leisure		**52**	*		110	*
Healthcare		**44**	*		51	*
Other		**296**(2)	*		1,106(2)	*
Total PCI loans		**987**	*		1,911	*
All other loans:						
Financial institutions	**202**	**9,739**	**1**	496	11,111	1
Cyclical retailers	**71**	**8,738**	**1**	71	8,188	1
Healthcare	**106**	**7,665**	**1**	88	8,397	1
Food and beverage	**97**	**8,085**	**1**	77	8,316	1
Oil and gas	**181**	**7,560**	**1**	202	8,464	1
Industrial equipment	**137**	**6,301**	*	119	7,524	*
Business services	**132**	**5,377**	*	99	6,722	*
Transportation	**50**	**6,151**	*	31	6,469	*
Utilities	**194**	**5,011**	*	15	5,752	*
Real estate other	**116**	**5,735**	*	167	6,570	*
Technology	**43**	**5,738**	*	72	5,489	*
Investors	**166**	**5,029**	*	196	5,347	*
Other	**2,746**	**78,198**(3)	**10**	2,935	82,302(3)	11
Total all other loans	**4,241**	**159,327**	**21**	4,568	170,651	22

Total	**$ 4,241**	**160,314**	**21%**	$ 4,568	172,562	22%

* Less than 1%

(1) For PCI loans amounts represent carrying value.

(2) No other single category had loans in excess of $44 million at September 30, 2010, or $122 million (residential construction) at December 31, 2009.

(3) No other single category had loans in excess of $4.4 billion at September 30, 2010, or $5.8 billion (public administration) at December 31, 2009. The next largest categories included public administration, hotel/restaurant, securities firms, media and non-residential construction.

During the recent credit cycle, we have experienced an increase in requests for extensions of commercial, and commercial real estate and construction loans which have repayment guarantees. All extensions are granted based on a re-underwriting of the loan and our assessment of the borrower s ability to perform under the agreed-upon terms. At the time of extension, borrowers are generally performing in accordance

with the contractual loan terms. Extension terms generally range from six to thirty-six months and may require that the borrower provide additional economic support in the form of partial repayment, amortization or additional collateral or guarantees. In cases where the value of collateral or financial condition of the borrower is insufficient to repay our loan, we may rely upon the support of an outside repayment guarantee in providing the extensions. In considering the impairment status of the loan, we evaluate the collateral and future cash flows as well as the anticipated support of any repayment guarantor. When performance under a loan is not reasonably assured, including the performance of the guarantor, we charge-off all or a portion of a loan based on the fair value of the collateral securing the loan.

Our ability to seek performance under the guarantee is directly related to the guarantor s creditworthiness, capacity and willingness to perform. We evaluate a guarantor s capacity and willingness to perform on an annual basis, or more frequently as warranted. Our evaluation is based on the most current financial information available and is focused on various key financial metrics, including net worth, leverage, and current and future liquidity. We consider the guarantor s reputation, creditworthiness, and willingness to work with us based on our analysis as well as other lenders experience with the guarantor. Our assessment of the guarantor s credit strength is reflected in our loan risk ratings for such loans. The loan risk rating is an important factor in our allowance methodology for commercial and commercial real estate loans.

Purchased Credit-Impaired (PCI) Loans

As of December 31, 2008, certain of the loans acquired from Wachovia had evidence of credit deterioration since their origination, and it was probable that we would not collect all contractually required principal and interest payments. Such loans identified at the time of the acquisition were accounted for using the measurement provisions for PCI loans. PCI loans were recorded at fair value at the date of acquisition, and any related allowance for loan losses was not permitted to be carried over. PCI loans were written down to an amount estimated to be collectible. Accordingly, such loans are not 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 our purchase accounting). A nonaccretable difference was established in purchase accounting for PCI loans to absorb losses expected at that time on those loans. Amounts absorbed by the nonaccretable difference do not affect the income statement or the allowance for credit losses. Substantially all our commercial, CRE and foreign PCI loans are accounted for as individual loans. Conversely, Pick-a-Pay and other consumer PCI loans have been aggregated into several pools based on common risk characteristics. Each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Resolutions of loans may include sales of loans to third parties, receipt of payments in settlement with the borrower, or foreclosure of the collateral. Our policy is to remove an individual loan from a pool based on comparing the amount received from its resolution with its contractual amount. Any difference between these amounts is absorbed by the nonaccretable difference. This removal method assumes that the amount received from resolution approximates pool performance expectations. The remaining accretable yield balance is unaffected and any material change in remaining effective yield caused by this removal method is addressed by our quarterly cash flow evaluation process for each pool. For loans in pools that are resolved by payment in full, there is no release of the nonaccretable difference since there is no difference between the amount received at resolution and the contractual amount of the loan. Modified PCI loans should not be removed from a pool even if those loans would otherwise be deemed troubled debt restructurings (TDRs). In the first nine months of 2010, we recognized in income $890 million of nonaccretable difference related to commercial PCI loans due to payoffs and dispositions of these loans. We also transferred $3.2 billion from the nonaccretable difference to the accretable yield, of

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which $2.4 billion was due to sustained positive performance in the Pick-a-Pay portfolio evidenced through an increase in expected cash flows. The following table provides an analysis of changes in the nonaccretable difference related to principal that is not expected to be collected.

CHANGES IN NONACCRETABLE DIFFERENCE FOR PCI LOANS

(in millions)	Commercial, CRE and foreign	Pick-a-Pay	Other consumer	Total
Balance, December 31, 2008	$ 10,410	26,485	4,069	40,964
Release of nonaccretable difference due to:				
Loans resolved by settlement with borrower (1)	(330)			(330)
Loans resolved by sales to third parties (2)	(86)		(85)	(171)
Reclassification to accretable yield for loans with improving cash flows (3)	(138)	(27)	(276)	(441)
Use of nonaccretable difference due to:				
Losses from loan resolutions and write-downs (4)	(4,853)	(10,218)	(2,086)	(17,157)
Balance, December 31, 2009	**5,003**	**16,240**	**1,622**	**22,865**
Release of nonaccretable difference due to:				
Loans resolved by settlement with borrower (1)	**(739)**			**(739)**
Loans resolved by sales to third parties (2)	**(151)**			**(151)**
Reclassification to accretable yield for loans with improving cash flows (3)	**(561)**	**(2,356)**	**(317)**	**(3,234)**
Use of nonaccretable difference due to:				
Losses from loan resolutions and write-downs (4)	**(1,478)**	**(2,409)**	**(325)**	**(4,212)**
Balance, September 30, 2010	**$ 2,074**	**11,475**	**980**	**14,529**
Balance, June 30, 2010	**$ 2,923**	**11,992**	**1,289**	**16,204**
Release of nonaccretable difference due to:				
Loans resolved by settlement with borrower (1)	**(153)**			**(153)**
Loans resolved by sales to third parties (2)	**(49)**			**(49)**
Reclassification to accretable yield for loans with improving cash flows (3)	**(392)**		**(247)**	**(639)**
Use of nonaccretable difference due to:				
Losses from loan resolutions and write-downs (4)	**(255)**	**(517)**	**(62)**	**(834)**
Balance, September 30, 2010	**$ 2,074**	**11,475**	**980**	**14,529**

(1) Release of the nonaccretable difference for settlement with borrower, on

individually accounted PCI loans, increases interest income in the period of settlement. Pick-a-Pay and Other consumer PCI loans do not reflect nonaccretable difference releases due to pool accounting for those loans, which assumes that the amount received approximates the pool performance expectations.

(2) Release of the nonaccretable difference as a result of sales to third parties increases noninterest income in the period of the sale.

(3) Reclassification of nonaccretable difference for increased cash flow estimates to the accretable yield will result in increasing income and thus the rate of return realized. Amounts reclassified to accretable yield are expected to be probable of realization over the estimated remaining life of

the loan.

(4) Write-downs to net realizable value of PCI loans are charged to the nonaccretable difference when severe delinquency (normally 180 days) or other indications of severe borrower financial stress exist that indicate there will be a loss of contractually due amounts upon final resolution of the loan.

Since the Wachovia acquisition, we have released $5.1 billion in nonaccretable difference for certain PCI loans and pools of loans, including $3.7 billion transferred from the nonaccretable difference to the accretable yield and $1.4 billion released through loan resolutions. We have provided $1.6 billion in the allowance for credit losses for certain PCI loans or pools of loans, which have had loss-related decreases to expected cash flows. The net result is a $3.5 billion improvement in our initial projected losses on all PCI loans. At September 30, 2010, the allowance for credit losses in excess of nonaccretable difference on certain PCI loans was $379 million. The allowance is necessary to absorb decreases in expected cash flows since acquisition and primarily relates to commercial, CRE and foreign loans, which are accounted for as individual loans. The following table analyzes the actual and projected loss results on PCI loans since the acquisition of Wachovia on December 31, 2008, through September 30, 2010.

(in millions)		Commercial, CRE and foreign	Pick-a-Pay	Other consumer	Total
Release of unneeded nonaccretable difference due to:					
Loans resolved by settlement with borrower (1)	$	1,069			1,069
Loans resolved by sales to third parties (2)		237		85	322
Reclassification to accretable yield for loans with improving cash flows (3)		699	2,383	593	3,675
Total releases of nonaccretable difference due to better than expected losses		2,005	2,383	678	5,066
Provision for worse than originally expected losses (4)		(1,565)		(38)	(1,603)
Actual and projected losses on PCI loans better than originally expected	$	440	2,383	640	3,463

(1) Release of the nonaccretable difference for settlement with borrower, on individually accounted PCI loans, increases interest income in the period of settlement. Pick-a-Pay and Other consumer PCI loans do not reflect nonaccretable difference releases due to pool accounting for those loans, which assumes that the amount received approximates the pool performance expectations.

(2) Release of the nonaccretable difference as a

result of sales to third parties increases noninterest income in the period of the sale.

(3) Reclassification of nonaccretable difference for increased cash flow estimates to the accretable yield will result in increasing income and thus the rate of return realized. Amounts reclassified to accretable yield are expected to be probable of realization over the estimated remaining life of the loan.

(4) Provision for additional losses recorded as a charge to income, when it is estimated that the expected cash flows for a PCI loan or pool of loans have decreased subsequent to the acquisition.

For further information on PCI loans, see Note 1 (Summary of Significant Accounting Policies Loans) to Financial Statements in the 2009 Form 10-K and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Pick-a-Pay Portfolio

As part of the Wachovia acquisition, we acquired residential first mortgage and home equity loans that are very similar to the Wells Fargo core originated portfolio. We also acquired the Pick-a-Pay portfolio, which describes one of the consumer mortgage portfolios. Under purchase accounting for the Wachovia acquisition, we considered a majority of the Pick-a-Pay loans to be impaired under accounting guidance for PCI loans.

Our Pick-a-Pay portfolio had an unpaid principal balance of $93.0 billion and a carrying value of $77.3 billion at September 30, 2010. The Pick-a-Pay portfolio is a liquidating portfolio, as Wachovia ceased originating new Pick-a-Pay loans in 2008. Equity lines of credit and closed-end second liens associated with Pick-a-Pay loans are

reported in the Home Equity core portfolio. The Pick-a-Pay portfolio includes loans that offer payment options (Pick-a-Pay option payment loans), loans that were originated without the option payment feature, loans that no longer offer the option feature as a result of our modification efforts since the acquisition, and loans where the customer voluntarily converted to a fixed-rate product. The following table provides balances over time related to the types of loans included in the portfolio.

	September 30, 2010		December 31, 2009		December 31, 2008	
(in millions)	**Outstandings**	**% of total**	Outstandings	% of total	Outstandings	% of total
Option payment loans	**$ 58,345**	**63**%	$ 73,060	70%	$ 101,297	86%
Non-option payment adjustable-rate and fixed-rate loans	**12,778**	**14**	14,178	14	15,978	14
Full-term loan modifications	**21,865**	**23**	16,420	16		
Total unpaid principal balance	**$ 92,988**	**100**%	$ 103,658	100%	$ 117,275	100%
Total carrying value	**$ 77,304**		$ 85,238		$ 95,315	

PCI loans in the Pick-a-Pay portfolio had an unpaid principal balance of $48.3 billion and a carrying value of $33.5 billion at September 30, 2010. The carrying value of the PCI loans is net of purchase accounting write-downs to reflect their fair value at acquisition. Upon acquisition, we recorded a $22.4 billion net write-down in purchase accounting on Pick-a-Pay loans that were impaired.

Due to the sustained positive performance observed on the Pick-a-Pay portfolio compared to the original acquisition estimates, we have reclassified $2.4 billion from the nonaccretable difference to the accretable yield since the Wachovia merger. This improvement in the lifetime credit outlook for this portfolio is primarily attributable to the significant modification efforts and the emerging performance on these modifications as well as the portfolio s delinquency stabilization. This improvement in the credit outlook is expected to be realized over the remaining life of the portfolio, which is estimated to have a weighted average life of approximately nine years. There have been no significant changes to the credit outlook in third quarter 2010, so there was no additional reclassification from the nonaccretable difference to the accretable yield balance in the quarter. The accretable yield income recognition percentage in third quarter 2010 was 4.61% compared to 4.49% in second quarter 2010. The third quarter increase in the yield was driven by added accretion for the factors that influenced the large second quarter reclassification of nonaccretable difference, partially offset by declining indices for variable rate PCI loans. Quarterly fluctuations in the accretable yield can be driven by changes in interest rate indices for variable rate PCI loans, prepayment assumptions, and expected principal and interest payments over the estimated life of the portfolio. Quarterly changes in the projected timing of cash flow events including REO liquidations, modifications and short sales can also impact the accretable yield percentage and the estimated weighted average life of the portfolio.

Pick-a-Pay option payment loans may be adjustable or fixed rate. They are home mortgages on which the customer has the option each month to select from among four payment options: (1) a minimum payment as described below, (2) an interest-only payment, (3) a fully amortizing 15-year payment, or (4) a fully amortizing 30-year payment.

The minimum monthly payment for substantially all of our Pick-a-Pay loans is reset annually. The new minimum monthly payment amount generally increases by no more than 7.5% of the prior minimum monthly payment. The minimum payment may not be sufficient to pay the monthly interest due and in those situations a loan on which the customer has made a minimum payment is subject to negative amortization, where unpaid interest is added to the principal balance of the loan. The amount of interest that has been added to a loan balance is referred to as deferred interest. Total deferred interest was $2.9 billion at September 30, 2010, down from $3.7 billion at December 31, 2009, due to loan modification efforts as well as falling interest rates resulting in the minimum payment option covering the interest and some principal on many loans. At September 30, 2010, approximately 70% of customers choosing the minimum payment option did not defer interest. In situations where the minimum payment is greater than the interest-only option, the customer has only three payment options available: (1) a minimum required payment, (2) a fully amortizing 15-year payment, or (3) a fully amortizing 30-year payment.

Deferral of interest on a Pick-a-Pay loan may continue as long as the loan balance remains below a pre-defined principal cap, which is based on the percentage that the current loan balance represents to the original loan balance. Loans with an original loan-to-value (LTV) ratio equal to or below 85% have a cap of 125% of the original loan balance, and these loans represent substantially all the Pick-a-Pay portfolio. Loans with an original LTV ratio above 85% have a cap of 110% of the original loan balance. Most of the Pick-a-Pay loans on which there is a deferred interest balance re-amortize (the monthly payment amount is recast) on the earlier of the date when the loan balance reaches its principal cap, or the 10-year anniversary of the loan. For a small population of Pick-a-Pay loans, the recast occurs at the five-year

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anniversary. After a recast, the customers new payment terms are reset to the amount necessary to repay the balance over the remainder of the original loan term.

Due to the terms of this Pick-a-Pay portfolio, we believe there is minimal recast risk over the next three years. Based on assumptions of a flat rate environment, if all eligible customers elect the minimum payment option 100% of the time and no balances prepay, we would expect the following balances of option payment loans to recast based on reaching the principal cap: $3 million in the remaining quarter of 2010, $1 million in 2011 and $3 million in 2012. In third quarter 2010, no option payment loans recast based on reaching the principal cap. In addition, we would expect the following balances of option payment loans to start fully amortizing due to reaching their recast anniversary date and also having a payment change at the recast date greater than the annual 7.5% reset: $13 million in the remaining quarter of 2010, $43 million in 2011 and $73 million in 2012. In third quarter 2010, the amount of option payment loans reaching their recast anniversary date and also having a payment change over the annual 7.5% reset was $11 million.

The following table reflects the geographic distribution of the Pick-a-Pay portfolio broken out between PCI loans and all other loans. In stressed housing markets with declining home prices and increasing delinquencies, the LTV ratio is a useful metric in predicting future real estate 1-4 family first mortgage loan performance, including potential charge-offs. Because PCI loans were initially recorded at fair value written down for expected credit losses, the ratio of the carrying value to the current collateral value for acquired loans with credit impairment will be lower as compared with the LTV based on the unpaid principal. For informational purposes, we have included both ratios in the following table.

PICK-A-PAY PORTFOLIO (1)

	PCI loans				All other loans		
(in millions)	**Unpaid principal balance**	**Current LTV ratio (2)**	**Carrying value (3)**	**Ratio of carrying value to current value**	**Unpaid principal balance**	**Current LTV ratio (2)**	**Carrying value (3)**
September 30, 2010							
California	**$ 32,475**	**134%**	**$ 22,382**	**92%**	**$ 21,914**	**88%**	**$ 21,542**
Florida	**5,154**	**143**	**3,057**	**84**	**4,698**	**106**	**4,480**
New Jersey	**1,565**	**99**	**1,243**	**78**	**2,671**	**81**	**2,647**
Texas	**393**	**80**	**350**	**71**	**1,785**	**65**	**1,789**
Washington	**577**	**100**	**501**	**86**	**1,353**	**82**	**1,334**
Other states	**8,155**	**116**	**5,933**	**84**	**12,248**	**87**	**12,046**
Total Pick-a-Pay loans	**$ 48,319**		**$ 33,466**		**$ 44,669**		**$ 43,838**
December 31, 2009							
California	$ 37,341	141%	$ 25,022	94%	$ 23,795	93%	$ 23,626
Florida	5,751	139	3,199	77	5,046	104	4,942
New Jersey	1,646	101	1,269	77	2,914	82	2,912
Texas	442	82	399	74	1,967	66	1,973
Washington	633	103	543	88	1,439	84	1,435

Other states	9,283	116	6,597	82	13,401	87	13,321
Total Pick-a-Pay loans	$ 55,096		$ 37,029		$ 48,562		$ 48,209

(1) The individual states shown in this table represent the top five states based on the total net carrying value of the Pick-a-Pay loans at the beginning of 2010. The December 31, 2009 table has been revised to conform to the 2010 presentation of top five states.

(2) The current LTV ratio is calculated as the unpaid principal balance plus the unpaid principal balance of any equity lines of credit that share common collateral divided by the collateral value. Collateral values are generally determined using automated valuation models (AVM) and are updated quarterly. AVMs are computer-based tools used to estimate market values of homes based on

processing large volumes of market data including market comparables and price trends for local market areas.

(3) Carrying value, which does not reflect the allowance for loan losses, includes purchase accounting adjustments, which, for PCI loans are the nonaccretable difference and the accretable yield, and for all other loans, an adjustment to mark the loans to a market yield at date of merger less any subsequent charge-offs.

To maximize return and allow flexibility for customers to avoid foreclosure, we have in place several loss mitigation strategies for our Pick-a-Pay loan portfolio. We contact customers who are experiencing difficulty and may in certain cases modify the terms of a loan based on a customer s documented income and other circumstances.

We also have taken steps to work with customers to refinance or restructure their Pick-a-Pay loans into other loan products. For customers at risk, we offer combinations of term extensions of up to 40 years (from 30 years), interest rate reductions, forbearance of principal, and, in geographies with substantial property value declines, we will even offer permanent principal reductions.

In fourth quarter 2009, we rolled out the U.S. Treasury Department s Home Affordability Modification Program (HAMP) to the customers in this portfolio. As of September 30, 2010, over 13,000 HAMP applications were being reviewed by our loan servicing department and an additional 8,000 loans have been approved for the HAMP trial modification. We believe a key factor to successful loss mitigation is tailoring the revised loan payment to the customer s sustainable income. We continually reassess our loss mitigation strategies and may adopt additional or different strategies in the future.

In third quarter 2010, we completed over 9,000 proprietary and HAMP loan modifications and have completed over 73,000 modifications since the Wachovia acquisition. The majority of the loan modifications were concentrated in our PCI Pick-a-Pay loan portfolio. Approximately 4,800 modification offers were proactively sent to customers in third quarter 2010. As part of the modification process, the loans are re-underwritten, income is documented and the negative amortization feature is eliminated. Most of the modifications result in material payment reduction to the customer. Because of the write-down of the PCI loans in purchase accounting, our post merger modifications to PCI Pick-a-Pay loans have not resulted in any modification-related provision for credit losses. To the extent we modify loans not in the PCI Pick-a-Pay portfolio, we establish an impairment reserve in accordance with the applicable accounting requirements for TDRs.

Home Equity Portfolios

The deterioration in specific segments of the legacy Wells Fargo Home Equity portfolios, which began in 2007, required a targeted approach to managing these assets. In fourth quarter 2007, a liquidating portfolio was identified, consisting of home equity loans generated through the wholesale channel not behind a Wells Fargo first mortgage, and home equity loans acquired through correspondents. The liquidating portion of the Home Equity portfolio was $7.3 billion at September 30, 2010, compared with $8.4 billion at December 31, 2009. The loans in this liquidating portfolio represent about 1% of our total loans outstanding at September 30, 2010, and contain some of the highest risk in our $120.7 billion Home Equity portfolio, with a loss rate of 10.59% compared with 3.28% for the core portfolio. The loans in the liquidating portfolio are largely concentrated in geographic markets that have experienced the most abrupt and steepest declines in housing prices. The core portfolio was $113.4 billion at September 30, 2010, of which 98% was originated through the retail channel and approximately 19% of the outstanding balance was in a first lien position. The following table includes the credit attributes of these two portfolios. California loans represent the largest state concentration in each of these portfolios and have experienced among the highest early-term delinquency and loss rates.

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HOME EQUITY PORTFOLIOS (1)

(in millions)	Outstanding balances Sept. 30, 2010	Outstanding balances Dec. 31, 2009	% of loans two payments or more past due Sept. 30, 2010	% of loans two payments or more past due Dec. 31, 2009	Loss rate (annualized) Quarter ended Sept. 30, 2010	Loss rate (annualized) Quarter ended Dec. 31, 2009
Core portfolio						
California	**$ 28,448**	30,264	**3.43%**	4.12	**4.27**	6.12
Florida	**12,353**	12,038	**5.38**	5.48	**5.80**	6.98
New Jersey	**8,821**	8,379	**3.19**	2.50	**1.95**	1.51
Virginia	**5,804**	5,855	**2.23**	1.91	**1.66**	1.13
Pennsylvania	**5,558**	5,051	**2.30**	2.03	**1.24**	1.81
Other	**52,404**	53,811	**2.80**	2.85	**2.76**	3.04
Total (2)	**113,388**	115,398	**3.22**	3.35	**3.28**	3.90
Liquidating portfolio						
California	**2,705**	3,205	**6.96**	8.78	**14.77**	17.94
Florida	**347**	408	**7.95**	9.45	**13.29**	19.53
Arizona	**158**	193	**8.73**	10.46	**21.14**	19.29
Texas	**132**	154	**2.36**	1.94	**2.17**	2.40
Minnesota	**96**	108	**5.44**	4.15	**10.18**	7.53
Other	**3,824**	4,361	**4.29**	5.06	**7.23**	7.33
Total	**7,262**	8,429	**5.53**	6.74	**10.59**	12.16
Total core and liquidating portfolios	**$ 120,650**	123,827	**3.36**	3.58	**3.73**	4.48

(1) Consists of real estate 1-4 family junior lien mortgages and lines of credit secured by real estate, excluding PCI loans.

(2) Includes equity lines of credit and closed-end second liens associated with the Pick-a-Pay portfolio totaling $1.7 billion at

September 30, 2010, and $1.8 billion at December 31, 2009.

Wells Fargo Financial

Wells Fargo Financial s portfolio consists of real estate loans, substantially all of which are secured debt consolidation loans, and both prime and non-prime auto secured loans, unsecured loans and credit cards. In July 2010, we announced the restructuring of our Wells Fargo Financial division and that we are exiting the origination of non-prime portfolio mortgage loans. The remaining consumer and commercial loan products offered through Wells Fargo Financial will be realigned with those offered by our other business units and will be available through our expanded network of community banking and home mortgage stores.

Wells Fargo Financial had $22.6 billion in real estate secured loans at September 30, 2010, and $25.8 billion at December 31, 2009. Of this portfolio, $1.3 billion and $1.6 billion, respectively, was considered prime based on secondary market standards and has been priced to the customer accordingly. The remaining portfolio is non-prime but was originated with standards to reduce credit risk. These loans were originated through our retail channel with documented income, LTV limits based on credit quality and property characteristics, and risk-based pricing. In addition, the loans were originated without teaser rates, interest-only or negative amortization features. Credit losses in the portfolio have increased in the current economic environment compared with historical levels, but performance remained similar to prime portfolios in the industry with overall loss rates of 4.09% (annualized) in the first nine months of 2010 on the entire portfolio. At September 30, 2010, $7.3 billion of the portfolio was originated with customer FICO scores below 620, but these loans have further restrictions on LTV and debt-to-income ratios intended to limit the credit risk. Loss rates in this portfolio were 3.62% (annualized) in the third quarter and 3.73% (annualized) in the first nine months of 2010 for FICO scores of 620 and above, and 4.26% (annualized) and 4.81% (annualized), respectively, for FICO scores below 620.

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Wells Fargo Financial also had $11.9 billion in auto secured loans and leases at September 30, 2010, and $16.5 billion at December 31, 2009, of which $3.2 billion and $4.4 billion, respectively, were originated with customer FICO scores below 620. Loss rates in this portfolio were 2.79% (annualized) in the third quarter and 3.34% (annualized) in the first nine months of 2010 for FICO scores of 620 and above, and 3.94% (annualized) and 4.51% (annualized), respectively, for FICO scores below 620. These loans were priced based on relative risk. Of this portfolio, $7.1 billion represented loans and leases originated through its indirect auto business, a channel Wells Fargo Financial ceased using near the end of 2008.

Wells Fargo Financial had $7.1 billion in unsecured loans and credit card receivables at September 30, 2010, and $8.1 billion at December 31, 2009, of which $783 million and $1.0 billion, respectively, was originated with customer FICO scores below 620. Net loss rates in this portfolio were 9.52% (annualized) in the third quarter and 10.59% (annualized) in the first nine months of 2010 for FICO scores of 620 and above, and 13.26% (annualized) and 13.53% (annualized), respectively, for FICO scores below 620. Wells Fargo Financial has tightened credit policies and managed credit lines to reduce exposure during the recent economic environment.

Credit Cards

Our credit card portfolio, a portion of which is included in the Wells Fargo Financial discussion above, totaled $21.9 billion at September 30, 2010, which represented 3% of our total outstanding loans and was smaller than the credit card portfolios of each of our large bank peers. Delinquencies of 30 days or more were 5.0% of credit card outstandings at September 30, 2010, down from 5.5% at December 31, 2009. Net charge-offs were 9.06% (annualized) for third quarter 2010, down from 10.45% (annualized) in second quarter 2010, reflecting previous risk mitigation efforts that included tightened underwriting and line management changes. Enhanced underwriting criteria and line management initiatives instituted in previous quarters continued to have positive effects on loss performance.

Nonaccrual Loans and Other Nonperforming Assets

The following table shows the comparative data for nonaccrual loans and other nonperforming assets (NPAs). 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 and no restructuring has occurred.

Note 1 (Summary of Significant Accounting Policies Loans) to Financial Statements in our 2009 Form 10-K describes our accounting policy for nonaccrual and impaired loans.

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NONACCRUAL LOANS AND OTHER NONPERFORMING ASSETS

(in millions)	**Sept. 30, 2010**	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009
Nonaccrual loans:				
Commercial and commercial real estate:				
Commercial (includes LHFS of $86, $12, $0 and $19)	**$ 4,103**	3,843	4,273	4,397
Real estate mortgage	**5,079**	4,689	4,345	3,696
Real estate construction (includes LHFS of $3, $7, $7 and $8)	**3,198**	3,429	3,327	3,313
Lease financing	**138**	163	185	171
Total commercial and commercial real estate	**12,518**	12,124	12,130	11,577
Consumer:				
Real estate 1-4 family first mortgage (includes MHFS of $448, $450, $412 and $339)	**12,969**	12,865	12,347	10,100
Real estate 1-4 family junior lien mortgage	**2,380**	2,391	2,355	2,263
Other revolving credit and installment	**312**	316	334	332
Total consumer	**15,661**	15,572	15,036	12,695
Foreign	**126**	115	135	146
Total nonaccrual loans (1)(2)	**28,305**	27,811	27,301	24,418
As a percentage of total loans	**3.76%**	3.63	3.49	3.12
Foreclosed assets:				
GNMA loans (3)	**$ 1,492**	1,344	1,111	960
Other	**4,635**	3,650	2,970	2,199
Real estate and other nonaccrual investments (4)	**141**	131	118	62
Total nonaccrual loans and other nonperforming assets	**$ 34,573**	32,936	31,500	27,639
As a percentage of total loans	**4.59%**	4.30	4.03	3.53

(1) Excludes loans acquired from Wachovia that are accounted for as PCI loans because they continue to earn interest income from accretable yield, independent of

performance in accordance with their contractual terms.

(2) See Note 5 to Financial Statements in this Report and Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in our 2009 Form 10-K for further information on impaired loans.

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

(4) Includes real estate

investments (contingent interest loans accounted for as investments) that would be classified as nonaccrual if these assets were recorded as loans, and nonaccrual debt securities.

Total NPAs were $34.6 billion (4.59% of total loans) at September 30, 2010, and included $28.3 billion of nonaccrual loans and $6.3 billion of foreclosed assets, real estate, and other nonaccrual investments. The third quarter 2010 growth rate in nonaccrual loans was nearly the same as in second quarter 2010, and the balance increased from second quarter 2010 by $494 million. Commercial and commercial real estate loans were the primary contributors to the growth. Nonaccruals in many other loan portfolios were essentially flat or down. New inflows to both nonaccrual commercial and consumer loans increased slightly. The amount of disposed nonaccruals increased for combined commercial and consumer loans (up 6% linked quarter), but was below the level of inflows. The following table provides an analysis of the changes in nonaccrual loans.

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NONACCRUAL LOANS INFLOWS AND OUTFLOWS

(in millions)	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009
	Quarter ended			
Commercial nonaccruals				
Balance, beginning of quarter	**$ 12,124**	12,130	11,577	10,264
Inflows	**2,796**	2,560	2,763	3,854
Outflows	**(2,402)**	(2,566)	(2,210)	(2,541)
Balance, end of quarter	**12,518**	12,124	12,130	11,577
Consumer nonaccruals				
Balance, beginning of quarter	**15,572**	15,036	12,695	10,461
Inflows	**4,866**	4,733	6,169	5,626
Outflows	**(4,777)**	(4,197)	(3,828)	(3,392)
Balance, end of quarter	**15,661**	15,572	15,036	12,695
Foreign nonaccruals (end of quarter)	**126**	115	135	146
Total	**$ 28,305**	27,811	27,301	24,418

Typically, changes to nonaccrual loans period-over-period represent inflows for loans that reach a specified past due status, offset by reductions for loans that are charged off, sold, transferred to foreclosed properties, or are no longer classified as nonaccrual because they return to accrual status. During 2009, due to purchase accounting, the rate of growth in nonaccrual loans was higher than it would have been without PCI loan accounting because the balance of nonaccrual loans in Wachovia s loan portfolio was approximately zero at the beginning of 2009, due to purchase accounting write-downs taken at the close of acquisition. The impact of purchase accounting on our credit data will diminish over time. In addition, we have also increased loan modifications and restructurings to assist homeowners and other borrowers in the current difficult economic cycle. The increase in loan modifications and restructurings is expected to result in elevated nonaccrual loan levels in those portfolios which are being actively modified for longer periods because nonaccrual loans that have been modified remain in nonaccrual status generally until a borrower has made six consecutive months of payments, or equivalent, inclusive of consecutive payments made prior to the modification. Loans are re-underwritten at the time of the modification in accordance with underwriting guidelines established for governmental and proprietary loan modification programs. For an accruing loan that has been modified, if the borrower has demonstrated performance under the previous terms and the underwriting process shows the capacity to continue to perform under the restructured terms, the loan will remain in accruing status. Otherwise, the loan will be placed in a nonaccrual status generally until the borrower has made six consecutive months of payments, or equivalent.

Loss expectations for nonaccrual loans are driven by delinquency rates, default probabilities and severities. While nonaccrual loans are not free of loss content, we believe the estimated loss exposure remaining in these balances is significantly mitigated by four factors. First, 99% of consumer nonaccrual loans and 96% of commercial nonaccrual loans are secured. Second, losses have already been recognized on 50% of the remaining balance of consumer nonaccruals and commercial nonaccruals have been written down by $2.9 billion. Residential nonaccrual loans are written down to net realizable value at 180 days past due, except for loans that go into trial modification prior to going

180 days past due, which are not written down in the trial period (3 months) as long as trial payments are being made timely. Third, as of September 30, 2010, 58% of commercial nonaccrual loans were current on interest. Fourth, the inherent risk of loss in all nonaccruals is adequately covered by the allowance for loan losses.

Commercial and CRE nonaccrual loans, net of write-downs, amounted to $12.5 billion at September 30, 2010, compared with $12.1 billion at June 30, 2010. Consumer nonaccrual loans (including nonaccrual TDRs) amounted to $15.7 billion at September 30, 2010, compared with

$15.6 billion at June 30, 2010. The $89 million increase in nonaccrual consumer loans from June 30, 2010, represented an increase of $104 million in 1-4 family first mortgage loans and a decrease of $11 million in 1-4 family junior liens. Residential mortgage nonaccrual loans increased due to slower disposition as quarterly inflow has remained relatively stable. Federal government programs, such as HAMP, and Wells Fargo proprietary programs, such as the Company s Pick-a-Pay Mortgage Assistance program, require customers to provide updated documentation and complete trial repayment periods, to evidence sustained performance, before the loan can be removed from nonaccrual status. In addition, for loans in foreclosure, many states, including California and Florida where Wells Fargo has significant exposures, have enacted legislation that significantly increases the time frames to complete the foreclosure process, meaning that loans will remain in nonaccrual status for longer periods. At the conclusion of the foreclosure process, we continue to sell real estate owned in a very timely fashion.

When a consumer real estate loan is 120 days past due, we move it to nonaccrual status and when the loan reaches 180 days past due it is our policy to write these loans down to net realizable value, except for trial modifications. Thereafter, we revalue each loan in nonaccrual status regularly and recognize additional charges if needed. We anticipate manageable additional write-downs while properties work through the foreclosure process. Of the $15.7 billion of consumer nonaccrual loans 98% are secured by real estate and 22% have a combined LTV ratio of 80% or below.

The following table provides a summary of foreclosed assets:

FORECLOSED ASSETS

(in millions)	**Sept. 30, 2010**	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009
GNMA loans	**$ 1,492**	1,344	1,111	960
PCI loans:				
Commercial	**1,043**	940	697	405
Consumer	**1,080**	674	490	336
Total PCI loans	**2,123**	1,614	1,187	741
All other loans:				
Commercial	**1,380**	1,141	911	751
Consumer	**1,132**	895	872	707
Total all other loans	**2,512**	2,036	1,783	1,458
Total foreclosed assets	**$ 6,127**	4,994	4,081	3,159

NPAs at September 30, 2010, included $1.5 billion of loans that are FHA insured or VA guaranteed, which are expected to have little to no loss content, and $4.6 billion of foreclosed assets, which have been written down to the value of the underlying collateral. Foreclosed assets increased $1.1 billion, or 23%, in third quarter 2010 from the prior quarter. Of this increase, $509 million were foreclosed loans from the PCI portfolio that are now recorded as foreclosed assets. The majority of the inherent loss content in these assets has already been accounted for, and increases to this population of assets should have minimal additional impact to expected loss levels.

Given our real estate-secured loan concentrations and current economic conditions, we anticipate continuing to hold a high level of NPAs on our balance sheet. We believe the loss content in the nonaccrual loans has either already been realized or provided for in the allowance for credit losses at September 30, 2010. We remain focused on proactively identifying problem credits, moving them to nonperforming status and recording the loss content in a timely manner.

We ve increased staffing in our residential workout and collection organizations to ensure troubled borrowers receive the attention and help they need. See the Risk Management Allowance for Credit Losses section in this Report for

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additional information. The performance of any one loan can be affected by external factors, such as economic or market conditions, or factors affecting a particular borrower.

We process foreclosures on a regular basis for the loans we service for others as well as those we hold in our loan portfolio. However, we utilize foreclosure only as a last resort for dealing with borrowers who are experiencing financial hardships. We employ extensive contact and restructuring procedures to attempt to find other solutions for our borrowers, and on average we attempt to contact borrowers over 75 times by phone and nearly 50 times by letter during the period from first delinquency to foreclosure sale.

We employ the same foreclosure procedures for loans we service for others as we use for loans that we hold in our portfolio. We believe we have designed an appropriate process for generating foreclosure affidavits and documentation for both foreclosures and mortgage securitizations. Completed foreclosure affidavits that are submitted to the courts are signed and notarized as one of the last steps in a multi-step process intended to comply with applicable law and ensure the quality of customer and loan data in foreclosure proceedings. Customer and loan data is derived directly from the Company s official systems of record, and this data and its transmission to external foreclosure counsel are subject to quality controls, and audits are performed to assure the quality, accuracy, and reliability of these automated systems. See the Overview section and Note 1 (Summary of Significant Accounting Policies Subsequent Events) to Financial Statements in this Report for additional information regarding our foreclosure processes.

Troubled Debt Restructurings (TDRs)

The following table provides information regarding the recorded investment in loans modified in TDRs.

(in millions)	**Sept. 30, 2010**	June 30, 2010	Mar. 31 2010	Dec. 31, 2009
Consumer TDRs:				
Real estate 1-4 family first mortgage	**$ 10,951**	9,525	7,972	6,685
Real estate 1-4 family junior lien mortgage	**1,566**	1,469	1,563	1,566
Other revolving credit and installment	**674**	502	310	17
Total consumer TDRs	**13,191**	11,496	9,845	8,268
Commercial and commercial real estate TDRs	**1,350**	656	386	265
Total TDRs	**$ 14,541**	12,152	10,231	8,533
TDRs on nonaccrual status	**$ 5,177**	3,877	2,738	2,289
TDRs on accrual status	**9,364**	8,275	7,493	6,244
Total TDRs	**$ 14,541**	12,152	10,231	8,533

We establish an impairment reserve when a loan is restructured in a TDR. The impairment reserve for TDRs was $3.6 billion at September 30, 2010, and $1.8 billion at December 31, 2009. Total charge-offs related to loans modified in a TDR were $643 million and $317 million for the nine months ended September 30, 2010 and 2009, respectively. Our nonaccrual policies are generally the same for all loan types when a restructuring is involved. We underwrite loans at the time of restructuring to determine if there is sufficient evidence of sustained repayment capacity based on the borrower s documented income, debt to income ratios, and other factors. Any loans lacking sufficient evidence of sustained repayment capacity at the time of modification are charged down to the fair value of the collateral. If the borrower has demonstrated performance under the previous terms and the underwriting process shows the capacity to

continue to perform under the restructured terms, the loan will remain in accruing status. Otherwise, the loan will be placed in nonaccrual status generally until the borrower demonstrates a sustained period of performance which we generally believe to be six consecutive months of payments, or equivalent. Loans will also be placed on

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nonaccrual, and a corresponding charge-off recorded to the loan balance, if we believe that principal and interest contractually due under the modified agreement will not be collectible.

We do not forgive principal for a majority of our TDRs, but in those situations where principal is forgiven, the entire amount of such principal forgiveness is immediately charged off. When a TDR performs in accordance with its modified terms, the loan either continues to accrue interest (for performing loans), or will return to accrual status after the borrower demonstrates a sustained period of performance.

Loans 90 Days or More Past Due and Still Accruing

Loans included in this category are 90 days or more past due as to interest or principal and still accruing, because they are (1) well-secured and in the process of collection or (2) real estate 1-4 family mortgage loans or consumer loans exempt under regulatory rules from being classified as nonaccrual. PCI loans of $13.0 billion at September 30, 2010, and $16.1 billion at December 31, 2009, are excluded from this disclosure even though they are 90 days or more contractually past due. These PCI loans are considered to be accruing because their interest income relates to the accretable yield under the accounting for PCI loans and not to contractual interest payments.

Loans 90 days or more past due and still accruing were $18.8 billion at September 30, 2010, and $22.2 billion at December 31, 2009. The balances included $14.5 billion and $15.3 billion, respectively, in advances pursuant to our servicing agreements to GNMA mortgage pools and similar loans whose repayments are insured by the FHA or guaranteed by the VA.

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

(in millions)	**Sept. 30, 2010**	Dec. 31, 2009
Commercial and commercial real estate:		
Commercial	**$ 222**	590
Real estate mortgage	**463**	1,014
Real estate construction	**332**	909
Total commercial and commercial real estate	**1,017**	2,513
Consumer:		
Real estate 1-4 family first mortgage (1)	**1,016**	1,623
Real estate 1-4 family junior lien mortgage (1)	**361**	515
Credit card	**560**	795
Other revolving credit and installment	**1,305**	1,333
Total consumer	**3,242**	4,266
Foreign	**27**	73
Total	**$ 4,286**	6,852

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

accruing.

Excluding insured/guaranteed GNMA and similar loans, loans 90 days or more past due and still accruing at September 30, 2010, were down $2.6 billion, or 37%, from December 31, 2009. The decline was due to loss mitigation activities (including modifications, increased collection capacity/process improvements and charge-offs) and lower early stage delinquency levels/credit stabilization.

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Net Charge-offs

NET CHARGE-OFFS

	Quarter ended Sept. 30,				Nine months ended Sept. 30,			
	2010		2009		**2010**		2009	
($ in millions)	**Net loan charge-offs**	**As a % of average loans (1)**	Net loan charge-offs	As a % of average loans (1)	**Net loan charge-offs**	**As a % of average loans (1)**	Net loan charge-offs	As a % of average loans (1)
Commercial and commercial real estate:								
Commercial	**$ 509**	**1.38%**	$ 924	2.09%	**$ 1,848**	**1.65%**	$ 2,184	1.57%
Real estate mortgage	**218**	**0.87**	184	0.77	**849**	**1.16**	322	0.45
Real estate construction	**276**	**3.72**	274	2.67	**908**	**3.71**	638	2.04
Lease financing	**23**	**0.71**	82	2.26	**79**	**0.78**	160	1.43
Total commercial and commercial real estate	**1,026**	**1.42**	1,464	1.78	**3,684**	**1.67**	3,304	1.30
Consumer:								
Real estate 1-4 family first mortgage	**1,034**	**1.78**	966	1.63	**3,354**	**1.89**	2,115	1.18
Real estate 1-4 family junior lien mortgage	**1,085**	**4.30**	1,291	4.85	**3,718**	**4.83**	3,309	4.09
Credit card	**504**	**9.06**	648	10.96	**1,726**	**10.24**	1,894	10.89
Other revolving credit and installment	**407**	**1.83**	682	3.00	**1,315**	**1.97**	1,982	2.90
Total consumer	**3,030**	**2.72**	3,587	3.13	**10,113**	**2.99**	9,300	2.69
Foreign	**39**	**0.52**	60	0.79	**117**	**0.53**	151	0.65
Total	**$ 4,095**	**2.14%**	$ 5,111	2.50%	**$ 13,914**	**2.40%**	$ 12,755	2.05%

(1) Net charge-offs as a percentage of average loans

are annualized.

Net charge-offs in third quarter 2010 were $4.1 billion (2.14% of average total loans outstanding, annualized) compared with $4.5 billion (2.33%) in second quarter 2010, and $5.1 billion (2.50%) a year ago. This quarter s significant reduction in credit losses confirms our belief that credit losses peaked in fourth quarter 2009 and that credit quality appears to have improved earlier and to a greater extent than we had previously expected. Total credit losses included $1.0 billion of commercial and commercial real estate loans (1.42%) and $3.0 billion of consumer loans (2.72%) in third quarter 2010 as shown in the table above.

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

We employ a disciplined process and methodology to establish our allowance for loan losses each quarter. This process takes into consideration many factors, including historical and forecasted loss trends, loan-level credit quality ratings and loan grade specific loss factors. The process involves subjective as well as complex judgments. In addition, we review a variety of credit metrics and trends. However, these trends are not determinative of the adequacy of the allowance as we use several analytical tools in determining the adequacy of the allowance.

For individually graded (typically commercial) portfolios, we generally use loan-level credit quality ratings, which are based on borrower information and strength of collateral, combined with historically based grade specific loss factors. The allowance for individually rated nonaccruing commercial loans with an outstanding exposure of $10 million or greater is determined through an individual impairment analysis. Those individually rated nonaccruing commercial loans with exposures below $10 million are evaluated using a loss factor assumption intended to collectively approximate an individual impairment

analysis result. For statistically evaluated portfolios (typically consumer), we generally leverage models that use credit-related characteristics such as credit rating scores, delinquency migration rates, vintages, and portfolio concentrations to estimate loss content. Additionally, the allowance for TDRs is based on the risk characteristics of the modified loans and the resultant estimated cash flows discounted at the pre-modification effective yield of the loan. While the allowance is determined using product and business segment estimates, it is available to absorb losses in the entire loan portfolio.

At September 30, 2010, the allowance for loan losses totaled $23.9 billion (3.18% of total loans), compared with $24.6 billion (3.21%), at June 30, 2010, and $24.5 billion (3.13%) at December 31, 2009. The allowance for credit losses was $24.4 billion (3.23% of total loans) at September 30, 2010, and $25.1 billion (3.27%) at June 30, 2010, and $25.0 billion (3.20%) at December 31, 2009. The allowance for credit losses included $379 million at September 30, 2010, and $333 million at December 31, 2009, related to PCI loans acquired from Wachovia. Loans acquired from Wachovia are included in total loans net of related purchase accounting net write-downs. The reserve for unfunded credit commitments was $433 million at September 30, 2010, and $515 million at December 31, 2009. In addition to the allowance for credit losses there was $14.5 billion of nonaccretable difference at September 30, 2010, and $22.9 billion at December 31, 2009, to absorb losses for PCI loans. For additional information on PCI loans, see the Risk Management Credit Risk Management Purchased Credit-Impaired Loans section and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

The ratio of the allowance for credit losses to total nonaccrual loans was 86% at September 30, 2010, and 103% at December 31, 2009. This ratio may fluctuate significantly from period to period due to such factors as the mix of loan types in the portfolio, borrower credit strength and the value and marketability of collateral. Over half of nonaccrual loans were home mortgages, auto and other consumer loans at September 30, 2010.

Total provision for credit losses was $3.4 billion in third quarter 2010, down from the peak of $6.1 billion in third quarter 2009 and from $4.0 billion in second quarter 2010. The third quarter 2010 provision included a $650 million reserve release (net charge-offs less provision for credit losses), compared with a $1.0 billion reserve build a year ago. Total provision for credit losses was $12.8 billion for the first nine months of 2010, including a $1.2 billion reserve release, compared with $15.8 billion for the first nine months of 2009, which included a $3.0 billion reserve build.

We believe the allowance for credit losses of $24.4 billion was adequate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, at September 30, 2010. The allowance for credit losses is subject to change and we consider existing factors at the time, including economic and market conditions and ongoing internal and external examination processes. Due to the sensitivity of the allowance for credit losses to changes in the economic environment, it is possible that unanticipated economic deterioration would create incremental credit losses not anticipated as of the balance sheet date. Our process for determining the adequacy of the allowance for credit losses is discussed in the Financial Review Critical Accounting Policies Allowance for Credit Losses section and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in our 2009 Form 10-K.

Liability for Mortgage Loan Repurchase Losses

We sell residential mortgage loans to various parties, including (1) Freddie Mac and Fannie Mae (GSEs) who include the mortgage loans in GSE-guaranteed mortgage securitizations, (2) special purpose entities that issue private label mortgage-backed securities (MBS), and (3) other financial institutions that purchase mortgage loans for investment or private label securitization. In addition, we pool FHA-insured and VA-guaranteed mortgage loans which back securities guaranteed by GNMA. The agreements under which we sell mortgage loans and the insurance or guaranty agreements with FHA and VA contain provisions that include various representations and warranties regarding the origination and characteristics of the mortgage loans. Although the specific representations and warranties vary among different sale, insurance or guarantee agreements, they typically cover ownership of the loan, compliance with loan criteria set forth in the applicable agreement, validity of the lien securing the loan, absence of delinquent taxes or liens against the property securing the loan, compliance with applicable origination laws, and other matters. We may be required to repurchase mortgage loans, indemnify the securitization trust, investor or insurer, or reimburse the securitization trust, investor or insurer for credit losses incurred on loans (collectively repurchase) in the event of a breach of such contractual representations or warranties that is not remedied within a period (usually 90 days or less) after we receive notice of the breach. Typically, it is a condition to repurchase of a securitized loan that the breach must have had a material and adverse effect on the value of the mortgage loan or to the interests of the security holders in the mortgage loan. The time periods specified in our mortgage loan sales contracts to respond to repurchase requests vary, but are generally 90 days or less. While many contracts do not include specific remedies if the applicable time period for a response is not met, contracts for mortgage loan sales to the GSEs include various types of specific remedies and penalties that could be applied to inadequate responses to repurchase requests. Similarly, the agreements under which we sell mortgage loans require us to deliver various documents to the securitization trust or investor, and we may be obligated to repurchase any mortgage loan as to which the required documents are not delivered or are defective. Upon receipt of a repurchase request, we work with securitization trusts, investors or insurers to arrive at a mutually agreeable resolution. Repurchase demands are typically reviewed on an individual loan by loan basis to validate the claims made by the securitization trust, investor or insurer and determine if a contractually required repurchase event occurred. Occasionally, in lieu of conducting the loan level evaluation, we may negotiate global settlements in order to resolve a pipeline of demands in lieu of repurchasing the loans. We manage the risk associated with potential repurchases or other forms of settlement through our underwriting and quality assurance practices and by servicing mortgage loans to meet investor and secondary market standards.

We establish mortgage repurchase liabilities related to various representations and warranties that reflect management s estimate of losses for loans for which we could have repurchase obligation, whether or not we currently service those loans, based on a combination of factors. Such factors incorporate estimated levels of defects based on internal quality assurance sampling, default expectations, historical investor repurchase demand and appeals success rates (where the investor rescinds the demand based on a cure of the defect or acknowledges that the loan satisfies the investor s applicable representations and warranties), reimbursement by correspondent and other third party originators, and projected loss severity. We establish a liability at the time loans are sold and continually update our liability estimate during their life. Although investors may demand repurchase at any time, the majority of repurchase demands occurs in the first 24 to 36 months following origination of the mortgage loan and can vary by investor. Currently, repurchase demands primarily relate to 2006 through 2008 vintages and to GSE-guaranteed MBS. Most repurchases under our representation and warranty provisions are attributable to borrower misrepresentations and appraisals obtained at origination that investors believe do not fully comply with applicable industry standards. Although, to date, repurchase demands with respect to private label mortgage-backed securities have been more limited than with respect to GSE-guaranteed securities, it is possible that requests to repurchase mortgage loans in private label securitizations may increase in

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frequency as investors explore every possible avenue to recover losses on their securities. In addition, the Federal Housing Finance Agency, as conservator of Freddie Mac and Fannie Mae, recently used its subpoena power to request loan applications, property appraisals and other documents from large mortgage securitization industry participants, including us, relating to private label MBS in order to determine whether breaches of representations and warranties exist in those securities owned by the GSEs. We believe the risk of repurchase in our private label securitizations is substantially reduced, relative to other private label securitizations, because approximately half of the private label securitizations which include our mortgage loans do not contain representations and warranties regarding borrower or other third party misrepresentations related to the mortgage loan, general compliance with underwriting guidelines, or property valuation, which are commonly asserted bases for repurchase. We evaluate the validity and materiality of any claim of breach of representations and warranties in private label MBS, which is brought to our attention and work with securitization trustees to resolve any repurchase requests. Nevertheless, we may be subject to legal and other expenses if private label securitization trustees or investors choose to commence legal proceedings in the event of disagreements. For additional information on our repurchase liability, including an adverse impact analysis, see Note 7 (Securitizations and Variable Interest Entities) to Financial Statements in this Report.

During third quarter 2010, we continued to experience elevated levels of repurchase activity measured by number of loans, investor repurchase demands and our level of repurchases. In the third quarter and first nine months of 2010 we repurchased or reimbursed investors for incurred losses on mortgage loans with balances of $768 million and $1.7 billion, respectively. Additionally, in the third quarter and first nine months of 2010, we negotiated global settlements on pools of mortgage loans of $450 million and $675 million, respectively, which effectively eliminates the risk of repurchase on these loans from our outstanding servicing portfolio. We incurred net losses on repurchased loans, investor reimbursements and loan pool global settlements totaling $414 million and $856 million for the third quarter and first nine months of 2010, respectively.

Adjustments made to our mortgage repurchase liability in recent periods have incorporated the increase in repurchase demands, mortgage insurance rescissions, and higher than anticipated losses on repurchased loans that we have experienced. The table below provides the number of unresolved repurchase demands and mortgage insurance rescissions. We generally do not have unresolved repurchase demands from the FHA and VA for loans in GNMA-guaranteed securities because those demands are few and we quickly resolve them.

	Sept. 30, 2010		June 30, 2010		Dec. 31, 2009	
($ in millions)	**Number of loans**	**Original loan balance (1)**	Number of loans	Original loan balance (1)	Number of loans	Original loan balance (1)
Government sponsored entities (2)	**9,887**	**$ 2,212**	12,536	$ 2,840	8,354	$ 1,911
Private	**3,605**	**882**	3,160	707	2,929	886
Mortgage insurance rescissions (3)	**3,035**	**748**	2,979	760	2,965	859
Total	**16,527**	**$ 3,842**	18,675	$ 4,307	14,248	$ 3,656

(1) While original loan balance related to these demands is

presented above, the establishment of the repurchase reserve is based on a combination of factors, such as our appeals success rates, reimbursement by correspondent and other third party originators, and projected loss severity, which is driven by the difference between the current loan balance and the estimated collateral value less costs to sell the property.

(2) Includes repurchase demands for 2,263 loans, 2,141 loans and 1,536 loans with original loan balances totaling $437 million, $417 million and $322 million at September 30 and June 30, 2010, and December 31, 2009, respectively, received from investors on mortgage servicing acquired from other originators. We

have the right of recourse against the seller for these repurchase demands and would only incur a loss on these demands for counterparty risk associated with the seller.

(3) As part of our representations and warranties in our loan sales contracts, we represent that certain loans have mortgage insurance. To the extent the mortgage insurance is rescinded by the mortgage insurer, the lack of insurance may result in a repurchase demand from an investor.

The level of repurchase demands outstanding at September 30, 2010, was down from June 30, 2010, in both number of outstanding loans and in total dollar balances as we continued to work through the

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demands. Customary with industry practice, we have the right of recourse against correspondent lenders with respect to representations and warranties. Of the repurchase demands presented in the table above, approximately 20% relate to loans purchased from correspondent lenders. Due primarily to the financial difficulties of some correspondent lenders, we typically recover on average approximately 50% of losses from these lenders. Historical recovery rates as well as projected lender performance are incorporated in the establishment of our mortgage repurchase liability.

Our liability for repurchases, included in Accrued expenses and other liabilities in our consolidated financial statements, was $1.3 billion at September 30, 2010, and $1.0 billion at December 31, 2009. In the third quarter and first nine months of 2010, $370 million and $1.2 billion, respectively, of additions to the liability were recorded, which reduced net gains on mortgage loan origination/sales. Our additions to the repurchase liability in third quarter 2010 reflects updated assumptions about the losses we expect on repurchases. In particular, based on the loss severity we continue to experience on repurchased loans from the 2006 through 2008 vintages, we extended our assumptions about the time period over which we will incur elevated levels of loss and the severity of loss.

We believe we have a very high quality residential mortgage servicing portfolio. Of the $1.8 trillion in the portfolio at September 30, 2010, 92% is current, less than 2% was subprime at origination and approximately 1% were home equity securitizations. Our combined delinquency and foreclosure rate on this portfolio is 8.14% at September 30, 2010, compared with 8.15% at June 30, 2010. In this portfolio 8% are private securitizations where we originated the loan and therefore have some repurchase risk; 55% of these loans are from 2005 vintages or earlier (weighted average age of 59 months), 83% are prime, approximately 70% are jumbo loans and the weighted average LTV as of September 30, 2010 was 73%. In addition, the highest risk segment of these private securitizations, subprime loans originated in 2006 and 2007, that have reps and warranties and currently have LTVs close to or exceeding 100% are 6% of the 8% private securitization portion of the residential mortgage servicing portfolio. We had only $69 million of repurchases related to private securitizations in third quarter 2010. Six percent of the servicing portfolio is non-agency acquired servicing and private whole loan sales, the majority of which we did not underwrite and securitize and therefore we have no obligation to the originator for any repurchase demands.

The following table summarizes the changes in our mortgage repurchase liability.

	Quarter ended			**Nine months ended**	Year ended
(in millions)	**Sept. 30, 2010**	June 30, 2010	Mar. 31, 2010	**Sept. 30, 2010**	Dec. 31, 2009
Balance, beginning of period	**$ 1,375**	1,263	1,033	**1,033**	620(1)
Provision for repurchase losses:					
Loan sales	**29**	36	44	**109**	302
Change in estimate primarily due to credit deterioration	**341**	346	358	**1,045**	625
Total additions	**370**	382	402	**1,154**	927
Losses	**(414)**	(270)	(172)	**(856)**	(514)
Balance, end of period	**$ 1,331**	1,375	1,263	**1,331**	1,033

(1) Reflects purchase

accounting
refinements.

The mortgage repurchase liability of $1.3 billion at September 30, 2010, represents our best estimate of the loss that we may incur for various representations and warranties in the contractual provisions of our sales of mortgage loans. There may be a range of reasonably possible losses in excess of the estimated liability that cannot be estimated with confidence. Because the level of mortgage loan repurchase losses are dependent on economic factors, investor demand strategies and other external conditions that may

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change over the life of the underlying loans, the level of the liability for mortgage loan repurchase losses is difficult to estimate and requires considerable management judgment. We maintain regular contact with the GSEs and other significant investors to monitor and address their repurchase demand practices and concerns. To the extent that economic conditions and the housing market do not recover or future investor repurchase demand and appeals success rates differ from past experience, we could continue to have increased demands and increased loss severity on repurchases, causing future additions to the repurchase liability. However, some of the underwriting standards that were permitted by the GSEs for conforming loans in the 2006 through 2008 vintages, and comparable underwriting standards employed by us for nonconforming loans during the same period, which significantly contributed to recent levels of repurchase demands, were tightened starting in mid to late 2008. Accordingly, we do not expect a similar rate of repurchase requests or a similar rate of loss severities from the 2009 and prospective vintages, absent deterioration in economic conditions or changes in investor behavior.

Risks Relating to Servicing Activities

In addition to servicing loans in our portfolio, we act as servicer and/or master servicer of residential mortgage loans included in GSE-guaranteed mortgage securitizations, including GNMA-guaranteed mortgage securitizations and private label mortgage securitizations, as well as for unsecuritized loans owned by institutional investors. The loans we service were originated by us or by other mortgage loan originators. As servicer, our primary duties are typically to (1) collect payment due from borrowers, (2) advance certain delinquent payments of principal and interest, (3) maintain and administer any hazard, title or primary mortgage insurance policies relating to the mortgage loans, (4) maintain any required escrow accounts for payment of taxes and insurance and administer escrow payments, and (5) foreclose on defaulted mortgage loans or, to the extent consistent with the documents governing a securitization, consider alternatives to foreclosure, such as loan modifications or short sales. As master servicer, our primary duties are typically to (1) supervise, monitor and oversee the servicing of the mortgage loans by the servicer, (2) consult with each servicer and use reasonable efforts to cause the servicer to observe its servicing obligations, (3) prepare monthly distribution statements to security holders and, if required by the securitization documents, certain periodic reports required to be filed with the SEC, (4) if required by the securitization documents, calculate distributions and loss allocations on the mortgage-backed securities, (5) prepare tax and information returns of the securitization trust, and (6) advance amounts required by non-affiliated servicers who fail to perform their advancing obligations.

Each agreement under which we act as servicer or master servicer generally specifies a standard of responsibility for actions taken by us in such capacity and provides protection against expenses and liabilities incurred by us when acting in compliance with the specified standard. For example, most private label securitization agreements and under which we act as servicer or master servicer typically provide that the servicer and the master servicer are entitled to indemnification by the securitization trust for taking action or refraining from taking action in good faith or for errors in judgment. However, we are not indemnified, but rather are required to indemnify the securitization trustee, against any failure by us, as servicer or master servicer, to perform our servicing obligations or any of our acts or omissions which involve willful misfeasance, bad faith or gross negligence in the performance of, or reckless disregard of, our duties. In addition, if we commit a material breach of our obligations as servicer or master servicer, we may be subject to termination if the breach is not cured within a specified period following notice, which can generally be given by the securitization trustee or a specified percentage of security holders. Whole loan sale contracts under which we act as servicer generally include similar provisions with respect to our actions as servicer. The standards governing servicing in GSE-guaranteed securitizations, and the possible remedies for violations of such standards, vary, and those standards and remedies are determined by servicing guides maintained by the GSEs, contracts between the GSEs and individual

servicers and topical guides published by the GSEs from time to time. Such remedies could include indemnification or repurchase of an affected mortgage loan.

In recent weeks, there have been numerous press reports concerning possible deficiencies in the processes by which mortgage loan servicers, including servicers of securitized loans, conduct foreclosure proceedings. The principal issues cited concern improper preparation or signing of affidavits required to be delivered in the 23 judicial foreclosure states. As a consequence of these reports, the Attorneys General of all 50 states have announced an inquiry into foreclosure practices. In addition, several Attorneys General and various legislators have publicly called on servicers to impose a foreclosure moratorium or suspension while foreclosure issues are addressed and several large servicers have announced temporary suspensions of foreclosure actions. For additional information see Note 10 (Guarantees and Legal Actions) to Financial Statements in this Report.

We believe we have designed an appropriate process for generating foreclosure affidavits and documentation for both foreclosures and mortgage securitizations. In light of industry concerns relating to foreclosure procedures, we implemented additional reviews on pending foreclosures to help assure our borrowers and others that foreclosure proceedings are completed appropriately. Although we have identified instances where final steps relating to the execution of foreclosure affidavits (including a final review of the affidavit, as well as some aspects of the notarization process) were not strictly adhered to, we do not believe that any of these instances related to the quality of the customer and loan data or led to foreclosures which should not have otherwise occurred. Accordingly, we do not plan on instituting a moratorium on foreclosure sales. Nevertheless, out of an abundance of caution and to provide an additional level of assurance regarding our processes, we recently announced that we are submitting supplemental affidavits for approximately 55,000 foreclosures pending before courts in 23 judicial foreclosure states.

If our review causes us to re-execute or redeliver any documents in connection with foreclosures, we will incur costs which may not be legally or practically reimbursable to us to the extent they relate to securitized mortgage loans. Further, if the validity of any foreclosure action is challenged by a borrower, whether successfully or not, we may incur significant litigation costs, which may not be reimbursable to us to the extent they relate to securitized mortgage loans. In addition, if a court were to overturn a foreclosure due to errors or deficiencies in the foreclosure process, we could have liability to a title insurer that insured the title to the property sold in foreclosure. Any such liability may not be reimbursable to us to the extent it relates to a securitized mortgage loan.

Recent press reports have also contained speculation that foreclosures of securitized mortgage loans could be impaired or delayed due to the manner in which the loans are assigned to the securitization trusts. One cited concern is that securitization loan files may be lacking mortgage notes, assignments or other critical documents required to be produced on behalf of the trust. Although we believe that we delivered all documents in accordance with the requirements of each securitization involving our mortgage loans, if any required document with respect to a securitized mortgage loan sold by us is missing or defective, as discussed above we would be obligated to cure the defect or to repurchase the loan.

In addition to speculation about defective mortgage documents, some commentators have suggested that the common industry practice of recording a mortgage in the name of Mortgage Electronic Registration Systems, Inc. (MERS) creates issues regarding whether a securitization trust has good title to the mortgage loan. MERS is a company that acts as mortgagee of record and as agent for the owner of the related mortgage note. When mortgage notes are assigned, such as between an originator and a securitization trust, the change of ownership is recorded electronically on a register maintained by MERS, which then acts as agent for the new owner. The purpose of MERS is to save borrowers and

lenders from having to record assignments of mortgages in county land offices each time ownership of the mortgage note is assigned. Although MERS has been in existence and used for many years, it is now suggested by some commentators that having a mortgagee of record that is different than the owner of the mortgage note breaks the chain of title and clouds the ownership of the loan. We do not believe that to be the case, and believe that the operative legal principle is that the ownership of a mortgage follows the ownership of the mortgage note, and that a securitization trust should have good title to a mortgage loan if the note is endorsed and delivered to it, regardless of whether MERS is the mortgagee of record or whether an assignment of mortgage is recorded to the trust. However, in order to foreclose on the mortgage loan, it may be necessary for an assignment of the mortgage to be completed by MERS to the trust, in order to comply with state law requirements governing foreclosure. A delay by a servicer in processing any related assignment of mortgage to the trust could delay foreclosure, with adverse effects to security holders and potential for servicer liability. Our practice is to obtain assignments of mortgages from MERS prior to instituting foreclosure.

ASSET/LIABILITY MANAGEMENT

Asset/liability management involves the evaluation, monitoring and management of interest rate risk, market risk, liquidity and funding. The Corporate Asset/Liability Management Committee (Corporate ALCO) which oversees these risks and reports periodically to the Finance Committee of the Board of Directors (Board) consists of senior financial and business executives. Each of our principal business groups has its own asset/liability management committee and process linked to the Corporate ALCO process.

Interest Rate Risk

Interest rate risk, which potentially can have a significant earnings impact, is an integral part of being a financial intermediary. We assess interest rate risk by comparing our most likely earnings plan with various earnings simulations using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, as of September 30, 2010, our most recent simulation indicated estimated earnings at risk of approximately 2.5% of our most likely earnings plan over the next 12 months using a scenario in which the federal funds rate rises to 3.75% and the 10-year Constant Maturity Treasury bond yield rises to 5.00%. Simulation estimates depend on, and will change with, the size and mix of our actual and projected balance sheet at the time of each simulation. Due to timing differences between the quarterly valuation of MSRs and the eventual impact of interest rates on mortgage banking volumes, earnings at risk in any particular quarter could be higher than the average earnings at risk over the 12-month simulation period, depending on the path of interest rates and on our hedging strategies for MSRs. See the Risk Management Mortgage Banking Interest Rate and Market Risk section in this Report for more information.

We use exchange-traded and over-the-counter (OTC) interest rate derivatives to hedge our interest rate exposures. The notional or contractual amount, credit risk amount and estimated net fair value of these derivatives as of September 30, 2010, and December 31, 2009, are presented in Note 11 (Derivatives) to Financial Statements in this Report.

For additional information regarding interest rate risk, see pages 66-67 of our 2009 Form 10-K.

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Mortgage Banking Interest Rate and Market Risk

We originate, fund and service mortgage loans, which subjects us to various risks, including credit, liquidity and interest rate risks. For a discussion of mortgage banking interest rate and market risk, see pages 67-69 of our 2009 Form 10-K.

In third quarter 2010, a $1.1 billion decrease in the fair value of our MSRs and $1.2 billion gain on free-standing derivatives used to hedge the MSRs resulted in a net gain of $56 million. The net gain on the MSRs of $56 million in third quarter 2010 was down from $626 million in second quarter 2010 and $1.5 billion a year ago, due to a change in the composition of the hedge and a hedge position that considered natural business offsets.

While our hedging activities are designed to balance our mortgage banking interest rate risks, the financial instruments we use may not perfectly correlate with the values and income being hedged. For example, the change in the value of adjustable-rate mortgages (ARMs) production held for sale from changes in mortgage interest rates may or may not be fully offset by Treasury and LIBOR index-based financial instruments used as economic hedges for such ARMs. Additionally, the hedge-carry income we earn on our economic hedges for the MSRs may not continue if the spread between short-term and long-term rates decreases, we shift the composition of the hedge to more interest rate swaps, or there are other changes in the market for mortgage forwards that impact the implied carry.

For additional information regarding other risk factors related to the mortgage business, see pages 67-69 of our 2009 Form 10-K.

The total carrying value of our residential and commercial MSRs was $13.5 billion at September 30, 2010, and $17.1 billion at December 31, 2009. The weighted-average note rate on our portfolio of loans serviced for others was 5.46% at September 30, 2010, and 5.66% at December 31, 2009. Our total MSRs were 0.72% of mortgage loans serviced for others at September 30, 2010, compared with 0.91% at December 31, 2009.

Market Risk Trading Activities

From a market risk perspective, our net income is exposed to changes in interest rates, credit spreads, foreign exchange rates, equity and commodity prices and their implied volatilities. The credit risk amount and estimated net fair value of all customer accommodation derivatives are included in Note 11 (Derivatives) to Financial Statements in this Report. Open, at risk positions for all trading businesses are monitored by Corporate ALCO.

The standardized approach for monitoring and reporting market risk for the trading activities consists of value-at-risk (VaR) metrics complemented with factor analysis and stress testing. VaR measures the worst expected loss over a given time interval and within a given confidence interval. We measure and report daily VaR at a 99% confidence interval based on actual changes in rates and prices over the past 250 trading days. The analysis captures all financial instruments that are considered trading positions. The average one-day VaR throughout third quarter 2010 was $31 million, with a lower bound of $23 million and an upper bound of $43 million. For additional information regarding market risk related to trading activities, see page 69 of our 2009 Form 10-K.

Market Risk Equity Markets

We are directly and indirectly affected by changes in the equity markets. For additional information regarding market risk related to equity markets, see page 69 of our 2009 Form 10-K.

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The following table provides information regarding our marketable and nonmarketable equity investments.

(in millions)	**Sept. 30, 2010**	Dec. 31, 2009
Nonmarketable equity investments:		
Private equity investments:		
Cost method	**$ 2,995**	3,808
Equity method	**7,234**	5,138
Federal bank stock	**5,511**	5,985
Principal investments	**345**	1,423
Total nonmarketable equity investments (1)	**$ 16,085**	16,354
Marketable equity securities:		
Cost	**$ 4,381**	4,749
Net unrealized gains	**895**	843
Total marketable equity securities (2)	**$ 5,276**	5,592

(1) Included in other assets on the balance sheet. See Note 6 (Other Assets) to Financial Statements in this Report for additional information.

(2) Included in securities available for sale. See Note 4 (Securities Available for Sale) to Financial Statements in this Report for additional information.

Liquidity and Funding

The objective of effective liquidity management is to ensure that we can meet customer loan requests, customer deposit maturities/withdrawals and other cash commitments efficiently under both normal operating conditions and under unpredictable circumstances of industry or market stress. To achieve this objective, Corporate ALCO establishes and monitors liquidity guidelines that require sufficient asset-based liquidity to cover potential funding

requirements and to avoid over-dependence on volatile, less reliable funding markets. We set these guidelines for both the consolidated balance sheet and for the Parent to ensure that the Parent is a source of strength for its regulated, deposit-taking banking subsidiaries.

Debt securities in the securities available-for-sale portfolio provide asset liquidity, in addition to the immediately liquid resources of cash and due from banks and federal funds sold, securities purchased under resale agreements and other short-term investments. Asset liquidity is further enhanced by our ability to sell or securitize loans in secondary markets and to pledge loans to access secured borrowing facilities through the Federal Home Loan Banks or the Federal Reserve Bank.

Core customer deposits have historically provided a sizeable source of relatively stable and low-cost funds. At September 30, 2010, core deposits funded 102% of the Company s loan portfolio. Additional funding is provided by long-term debt (including trust preferred securities), other foreign deposits and short-term borrowings.

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

(in millions)	Sept. 30, 2010	Quarter ended June 30, 2010	Mar. 31, 2010	Year ended Dec. 31, 2009
Balance, period end				
Commercial paper and other short-term borrowings	**$ 16,856**	16,604	17,646	12,950
Federal funds purchased and securities sold under agreements to repurchase	**33,859**	28,583	28,687	26,016
Total	**$ 50,715**	45,187	46,333	38,966
Average daily balance for period				
Commercial paper and other short-term borrowings	**$ 15,761**	16,316	16,885	27,793
Federal funds purchased and securities sold under agreements to repurchase	**30,707**	28,766	28,196	24,179
Total	**$ 46,468**	45,082	45,081	51,972
Maximum month-end balance for period				
Commercial paper and other short-term borrowings (1)	**$ 16,856**	17,388	17,646	62,871
Federal funds purchased and securities sold under agreements to repurchase (2)	**33,859**	28,807	29,270	30,608

(1) The maximum month-end balance was in September 2010, April 2010, March 2010 and February 2009.
(2) The maximum month-end balance was in September 2010, May 2010, February 2010 and February 2009.

Liquidity is also available through our ability to raise funds in a variety of domestic and international money and capital markets. We access capital markets for long-term funding through issuances of registered debt securities, private placements and asset-backed secured funding. Investors in the long-term capital markets generally will consider, among other factors, a company s credit rating in making investment decisions. Rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, the level and quality of earnings, and rating agency assumptions regarding the probability and extent of Federal financial assistance or support for certain large financial institutions. Adverse changes in these factors could result in a

reduction of our credit ratings; however, a reduction in our credit ratings would not cause us to violate any of our debt covenants. See the Risk Factors section of our First Quarter Form 10-Q and Second Quarter Form 10-Q for additional information regarding recent legislative developments and our credit ratings.
We continue to evaluate the potential impact on liquidity management of regulatory proposals, including Basel III and regulations required under the Dodd-Frank Act, as they move closer to the final rule-making process.
Parent. Under SEC rules, the Parent is classified as a well-known seasoned issuer, which allows it to file a registration statement that does not have a limit on issuance capacity. Well-known seasoned issuers generally include those companies with a public float of common equity of at least $700 million or those companies that have issued at least $1 billion in aggregate principal amount of non-convertible securities, other than common equity, in the last three years. In June 2009, the Parent filed a registration statement with the SEC for the issuance of senior and subordinated notes, preferred stock and other securities. The Parent s ability to issue debt and other securities under this registration statement is limited by the debt issuance authority granted by the Board. The Parent is currently authorized by the Board to issue $60 billion in outstanding short-term debt and $170 billion in outstanding long-term debt. At September 30, 2010, the Parent had outstanding short-term debt of $10.4 billion and long-term debt of $102.5 billion under these authorities. During the first nine months of 2010, the Parent issued a total of $1.3 billion in non-guaranteed registered senior notes.

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The following table provides information regarding the Parent s medium-term note (MTN) programs. The Parent may issue senior and subordinated debt securities under Series I & J, and the European and Australian programmes. Under Series K, the Parent may issue senior debt securities linked to one or more indices.

	September 30, 2010		
(in billions)	Date established	Debt issuance authority	Available for issuance
MTN program:			
Series I & J (1)	August 2009	$ 25.0	21.8
Series K (1)	April 2010	25.0	24.9
European (2)	December 2009	25.0	25.0
Australian (2)(3)	June 2005	10.0	6.8

(1) SEC registered.
(2) Not registered with the SEC. May not be offered in the United States without applicable exemptions from registration. The Australian MTN amounts are presented in Australian dollars.
(3) As amended in October 2005 and March 2010.

The proceeds from securities issued in the first nine months of 2010 were used for general corporate purposes, and we expect the proceeds from securities issued in the future will also be used for general corporate purposes. The Parent also issues commercial paper from time to time, subject to its short-term debt limit.

Wells Fargo Bank, N.A. Wells Fargo Bank, N.A. is authorized by its board of directors to issue $100 billion in outstanding short-term debt and $125 billion in outstanding long-term debt. In December 2007, Wells Fargo Bank, N.A. established a $100 billion bank note program under which, subject to any other debt outstanding under the limits described above, it may issue $50 billion in outstanding short-term senior notes and $50 billion in long-term senior or subordinated notes. At September 30, 2010, Wells Fargo Bank, N.A. had remaining issuance capacity on the bank note program of $50 billion in short-term senior notes and $50 billion in long-term senior or subordinated notes. Securities are issued under this program as private placements in accordance with Office of the Comptroller of the Currency (OCC) regulations.

Wells Fargo Financial. In January 2010, Wells Fargo Financial Canada Corporation (WFFCC), an indirect wholly owned Canadian subsidiary of the Parent, qualified with the Canadian provincial securities commissions CAD$7.0 billion in medium-term notes for distribution from time to time in Canada. At September 30, 2010,

CAD$7.0 billion remained available for future issuance. All medium-term notes issued by WFFCC are unconditionally guaranteed by the Parent.

Federal Home Loan Bank Membership

We are a member of the Federal Home Loan Banks based in Dallas, Des Moines and San Francisco (collectively, the FHLBs). Each member of each of the FHLBs is required to maintain a minimum investment in capital stock of the applicable FHLB. The board of directors of each FHLB can increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of the Federal Housing Finance Board. Because the extent of any obligation to increase our investment in any of the FHLBs depends entirely upon the occurrence of a future event, potential future payments to the FHLBs are not determinable.

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CAPITAL MANAGEMENT

We have an active program for managing stockholders equity and regulatory capital and we maintain a comprehensive process for assessing the Company s overall capital adequacy. We generate capital internally primarily through the retention of earnings net of dividends. Our objective is to maintain capital levels at the Company and its bank subsidiaries above the regulatory well-capitalized thresholds by an amount commensurate with our risk profile. Our potential sources of stockholders equity include retained earnings and issuances of common and preferred stock. Retained earnings increased $7.4 billion from December 31, 2009, predominantly from Wells Fargo net income of $8.9 billion, less common and preferred dividends of $1.3 billion. During the first nine months of 2010, we issued approximately 68 million shares of common stock, with net proceeds of $1.1 billion, including 23 million shares during the period under various employee benefit (including our employee stock option plan) and director plans, as well as under our dividend reinvestment and direct stock purchase programs.

From time to time the Board authorizes the Company to repurchase shares of our common stock. Although we announce when the Board authorizes share repurchases, we typically do not give any public notice before we repurchase our shares. Various factors determine the amount and timing of our share repurchases, including our capital requirements, the number of shares we expect to issue for acquisitions and employee benefit plans, market conditions (including the trading price of our stock), and regulatory and legal considerations. The FRB published clarifying supervisory guidance in first quarter 2009, *SR 09-4 Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies,* pertaining to the FRB s criteria, assessment and approval process for reductions in capital. As with all 19 participants in the FRB s Supervisory Capital Assessment Program, under this supervisory letter, before repurchasing our common shares, we must consult with the FRB staff and demonstrate that the proposed actions are consistent with the existing supervisory guidance, including demonstrating that our internal capital assessment process is consistent with the complexity of our activities and risk profile. In 2008, the Board authorized the repurchase of up to 25 million additional shares of our outstanding common stock. During the first nine months of 2010, we repurchased 2 million shares of our common stock, all from our employee benefit plans. At September 30, 2010, the total remaining common stock repurchase authority was approximately 4 million shares.

Historically, our policy has been to repurchase shares under the safe harbor conditions of Rule 10b-18 of the Securities Exchange Act of 1934 including a limitation on the daily volume of repurchases. Rule 10b-18 imposes an additional daily volume limitation on share repurchases during a pending merger or acquisition in which shares of our stock will constitute some or all of the consideration. Our management may determine that during a pending stock merger or acquisition when the safe harbor would otherwise be available, it is in our best interest to repurchase shares in excess of this additional daily volume limitation. In such cases, we intend to repurchase shares in compliance with the other conditions of the safe harbor, including the standing daily volume limitation that applies whether or not there is a pending stock merger or acquisition.

In connection with our participation in the Troubled Asset Relief Program Capital Purchase Program, we issued to the U.S. Treasury Department warrants to purchase 110,261,688 shares of our common stock with an exercise price of $34.01 per share. On May 26, 2010, in an auction by the U.S. Treasury, we purchased 70,165,963 of the warrants at a price of $7.70 per warrant. The Board has authorized the repurchase of up to $1 billion of the warrants, including the warrants purchased in the auction. As of September 30, 2010, $456 million of that authority remained. Depending on market conditions, we may repurchase from time to time additional warrants and/or our outstanding debt securities in privately negotiated or open market transactions, by tender offer or otherwise.

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The Company and each of our subsidiary banks are subject to various regulatory capital adequacy requirements administered by the FRB and the OCC. Risk-based capital (RBC) guidelines establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures. At September 30, 2010, the Company and each of our subsidiary banks were well capitalized under applicable regulatory capital adequacy guidelines. See Note 18 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report for additional information.
Current regulatory RBC rules are based primarily on broad credit-risk considerations and limited market-related risks, but do not take into account other types of risk a financial company may be exposed to. Our capital adequacy assessment process contemplates a wide range of risks that the Company is exposed to and also takes into consideration our performance under a variety of economic conditions, as well as regulatory expectations and guidance, rating agency viewpoints and the view of capital market participants. While Basel III requirements are not final, we continue to evaluate the potential impact and expect to be above a 7% Tier 1 common equity ratio within the next few quarters calculated pursuant to our interpretation of the currently proposed Basel III capital requirements.
At September 30, 2010, stockholders equity and Tier 1 common equity levels were higher than the quarter ending prior to the Wachovia acquisition. During 2009, as regulators and the market focused on the composition of regulatory capital, the Tier 1 common equity ratio gained significant prominence as a metric of capital strength. There is no mandated minimum or well capitalized standard for Tier 1 common equity; instead the RBC rules state voting common stockholders equity should be the dominant element within Tier 1 common equity. Tier 1 common equity was $77.6 billion at September 30, 2010, or 8.01% of risk-weighted assets, an increase of $12.1 billion from December 31, 2009.
The following table provides the details of the Tier 1 common equity calculation.
TIER 1 COMMON EQUITY (1)

(in billions)		**Sept. 30, 2010**	Dec. 31, 2009
Total equity		**$ 125.2**	114.4
Noncontrolling interests		**(1.5)**	(2.6)
Total Wells Fargo stockholders equity		**123.7**	111.8
Adjustments:			
Preferred equity		**(8.1)**	(8.1)
Goodwill and intangible assets (other than MSRs)		**(36.1)**	(37.7)
Applicable deferred taxes		**4.7**	5.3
Deferred tax asset limitation			(1.0)
MSRs over specified limitations		**(0.9)**	(1.6)
Cumulative other comprehensive income		**(5.4)**	(3.0)
Other		**(0.3)**	(0.2)
Tier 1 common equity	(A)	**$ 77.6**	65.5
Total risk-weighted assets (2)	(B)	**$ 968.4**	1,013.6
Tier 1 common equity to total risk-weighted assets	(A)/(B)	**8.01%**	6.46

(1) Tier 1 common equity is a

non-generally accepted accounting principle (GAAP) financial measure that is used by investors, analysts and bank regulatory agencies, to assess the capital position of financial services companies. Tier 1 common equity includes total Wells Fargo stockholders equity, less preferred equity, goodwill and intangible assets (excluding MSRs), net of related deferred taxes, adjusted for specified Tier 1 regulatory capital limitations covering deferred taxes, MSRs, and cumulative other comprehensive income. Management reviews Tier 1 common equity along with other measures of capital as part of its financial analyses and has included this non-GAAP financial information, and the corresponding reconciliation to total equity, because of current interest in such

information on the part of market participants.

(2) Under the regulatory guidelines for risk-based capital, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total risk-weighted assets.

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CRITICAL ACCOUNTING POLICIES

Our significant accounting policies (see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report) are fundamental to understanding our results of operations and financial condition, because they require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. Six of these policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. These policies govern:

- the allowance for credit losses;
- purchased credit-impaired (PCI) loans;
- the valuation of residential mortgage servicing rights (MSRs);
- the fair valuation of financial instruments;
- pension accounting; and
- income taxes.

Management has reviewed and approved these critical accounting policies and has discussed these policies with the Audit and Examination Committee of the Company s Board. These policies are described in the Financial Review Critical Accounting Policies section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2009 Form 10-K.

FAIR VALUATION OF FINANCIAL INSTRUMENTS

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. See our 2009 Form 10-K for the complete critical accounting policy related to fair valuation of financial instruments.

For the securities available-for-sale portfolio, we typically use independent pricing services and brokers to obtain fair value based upon quoted prices. We determine the most appropriate and relevant pricing service for each security class and generally obtain one quoted price for each security. For securities in our trading portfolio, we typically use prices developed internally by our traders to measure the security at fair value. Internal traders base their prices upon their knowledge of current market information for the particular security class being valued. Current market information includes recent transaction prices for the same or similar securities, liquidity conditions, relevant benchmark indices and other market data. For both trading and available-for-sale securities, we validate prices using a variety of methods, including but not limited to, comparison to pricing services, corroboration of pricing by reference to other independent market data such as secondary broker quotes and relevant benchmark indices and, for securities valued using external pricing services or brokers, review of pricing by Company personnel familiar with market liquidity and other market-related conditions. We believe the determination of fair value for our securities is consistent with the accounting guidance on fair value measurements.

The following table presents the summary of the fair value of financial instruments recorded at fair value on a recurring basis, and the amounts measured using significant Level 3 inputs (before derivative netting adjustments). The fair value of the remaining assets and liabilities were measured using valuation methodologies involving market-based or market-derived information, collectively Level 1 and 2 measurements.

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	September 30, 2010		December 31, 2009	
	Total		Total	
		Level 3		Level 3
($ in billions)	**balance**	**(1)**	balance	(1)
Assets carried at fair value	**$ 288.6**	**48.6**	277.4	52.0
As a percentage of total assets	**24%**	**4**	22	4
Liabilities carried at fair value	**$ 18.9**	**7.7**	22.8	7.9
As a percentage of total liabilities	**2%**	**1**	2	1

(1) Before derivative netting adjustments.

See Note 12 (Fair Values of Assets and Liabilities) to Financial Statements in this Report for a complete discussion on our use of fair valuation of financial instruments, our related measurement techniques and its impact to our financial statements.

CURRENT ACCOUNTING DEVELOPMENTS

The following accounting pronouncement has been issued by the Financial Accounting Standards Board, but is not yet effective:

Accounting Standards Update (ASU or Update) 2010-20*, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*.

ASU 2010-20 requires enhanced disclosures for the allowance for credit losses and financing receivables, which include certain loans and long-term accounts receivable. Companies will be required to disaggregate credit quality information, including receivables on nonaccrual status and aging of past due receivables by class of financing receivable, and roll forward the allowance for credit losses by portfolio segment. Portfolio segment is the level at which an entity develops and documents a systematic method to determine its allowance for credit losses. Class of financing receivable is generally a disaggregation of portfolio segment. This guidance is effective for us in fourth quarter 2010 with prospective application. Additionally, companies must also provide more granular information on the nature and extent of TDRs and their effect on the allowance for credit losses effective in first quarter 2011. Our adoption of the Update will not affect our consolidated financial statement results since it amends only the disclosure requirements for financing receivables and the allowance for credit losses.

FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as anticipates, intends, plans, seeks, believe estimates, expects, projects, outlook, forecast, will, may, could, should, can and similar reference Examples of forward-looking statements in this Report include, but are not limited to, statements we make about: (i) future results of the Company; (ii) future credit quality and expectations regarding future loan losses in our loan portfolios and life-of-loan estimates; the level and loss content of NPAs and nonaccrual loans; the adequacy of the allowance for loan losses, including our current expectation of future reductions in the allowance for loan losses; and the reduction or mitigation of risk in our loan portfolios and the effects of loan modification programs; (iii) future capital levels and our expectation that we will be above a 7% Tier 1 common equity ratio under proposed Basel capital regulations within the next few quarters; (iv) our mortgage repurchase exposure and exposure relating to our foreclosure practices; (v) the merger integration of the Company and Wachovia, including expense savings, merger costs and revenue synergies; (vi) the expected outcome and impact of legal, regulatory and legislative developments; and (vii) the Company s plans, objectives and strategies.

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Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you, therefore, against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. While there is no assurance that any list of risks and uncertainties or risk factors is complete, important factors that could cause actual results to differ materially from those in the forward-looking statements include the following, without limitation:

- current and future economic and market conditions, including the effects of further declines in housing prices and high unemployment rates;
- our capital requirements and the ability to raise capital on favorable terms, including regulatory capital standards as determined by applicable regulatory authorities;
- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on our revenue and businesses, including the Dodd-Frank Act and legislation and regulation relating to overdraft fees (and changes to our overdraft practices as a result thereof), credit cards, and other bank services;
- legislative proposals to allow mortgage cram-downs in bankruptcy or require other loan modifications;
- the extent of our success in our loan modification efforts, as well as the effects of regulatory requirements or guidance regarding loan modifications or changes in such requirements or guidance;
- the amount of mortgage loan repurchase demands that we receive and our ability to satisfy any such demands without having to repurchase loans related thereto or otherwise indemnify or reimburse third parties;
- negative effects relating to mortgage foreclosures, including changes in our procedures or practices and/or industry standards or practices, regulatory or judicial requirements, penalties or fines, increased costs, or delays or moratoriums on foreclosures;
- our ability to successfully integrate the Wachovia merger and realize the expected cost savings and other benefits and the effects of any delays or disruptions in systems conversions relating to the Wachovia integration;
- our ability to realize the efficiency initiatives to lower expenses when and in the amount expected;
- recognition of OTTI 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, MSRs and mortgages held for sale;
- hedging gains or losses;
- disruptions in the capital markets and reduced investor demand for mortgage loans;
- our ability to sell more products to our customers;
- the effect of the economic recession on the demand for our products and services;
- the effect of the fall in stock market prices on our investment banking business and our fee income from our brokerage, asset and wealth 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 or interpreted;
- mergers, acquisitions and divestitures;
- changes in the Company s credit ratings and changes in the credit quality of the Company s customers or counterparties;

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- reputational damage from negative publicity, fines, penalties and other negative consequences from regulatory violations and legal actions;
- the loss of checking and savings account deposits to other investments such as the stock market, and the resulting increase in our funding costs and impact on our net interest margin;
- fiscal and monetary policies of the Federal Reserve Board; and
- the other risk factors and uncertainties described under Risk Factors in our 2009 Form 10-K, First Quarter Form 10-Q, Second Quarter Form 10-Q and in this Report.

In addition to the above factors, we also caution that there is no assurance that our allowance for credit losses will be adequate to cover future credit losses, especially if credit markets, housing prices and unemployment do not continue to stabilize or improve. Increases in loan charge-offs or in the allowance for credit losses and related provision expense could materially adversely affect our financial results and condition.

Any forward-looking statement made by us in this Report speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

RISK FACTORS

An investment in the Company involves risk, including the possibility that the value of the investment could fall substantially and that dividends or other distributions on the investment could be reduced or eliminated. We discuss above under Forward-Looking Statements and elsewhere in this Report, as well as in other documents we file with the SEC, risk factors that could adversely affect our financial results and condition and the value of, and return on, an investment in the Company. We refer you to the Financial Review section and Financial Statements (and related Notes) in this Report for more information about credit, interest rate, market and litigation risks, the Risk Factors and Regulation and Supervision sections in our 2009 Form 10-K, the Risk Factors section in our First Quarter Form 10-Q and Second Quarter Form 10-Q, and the Forward-Looking Statements section of this Report for a discussion of risk factors.

The following risk factor supplements the risk factors set forth in our 2009 Form 10-K, First Quarter Form 10-Q and Second Quarter Form 10-Q and should be read in conjunction with the other risk factors described in those reports and in this Report.

We may be terminated as a servicer or master servicer, be required to repurchase a mortgage loan or reimburse investors for credit losses on a mortgage loan, or incur costs and other liabilities if we fail to satisfy our servicing obligations, including our obligations with respect to mortgage loan foreclosure actions.

We act as servicer and/or master servicer for mortgage loans included in securitizations and for unsecuritized mortgage loans owned by investors. As a servicer or master servicer for those loans we have certain contractual obligations to the securitization trusts, investors or other third parties, including, in our capacity as a servicer, foreclosing on defaulted mortgage loans or, to the extent consistent with the applicable securitization or other investor agreement, considering alternatives to foreclosure such as loan modifications or short sales and, in our capacity as a master servicer, overseeing the servicing of mortgage loans by the servicer. If we commit a material breach of our obligations as servicer or master servicer, we may be subject to termination if the breach is not cured within a specified period of time following notice, which can generally be given by the securitization trustee or a specified percentage of

security holders, causing us to lose servicing income. In addition, we may be required to indemnify the securitization trustee against losses from any failure by us, as a servicer or master servicer, to perform our servicing obligations or any act or omission on our part that involves willful misfeasance, bad faith or gross negligence. For certain investors and/or certain transactions, we may be contractually obligated to repurchase a mortgage loan or reimburse the investor for credit losses incurred on the loan as a remedy for servicing errors with respect to the loan. If we have increased repurchase obligations because of claims we did not satisfy our obligations as a servicer or master servicer, or increased loss severity on such repurchases, we may have to materially increase our repurchase reserve.

We may incur costs if we are required to, or if we elect to re-execute or re-file documents or take other action in our capacity as a servicer in connection with pending or completed foreclosures. We may incur litigation costs if the validity of a foreclosure action is challenged by a borrower. If a court were to overturn a foreclosure because of errors or deficiencies in the foreclosure process, we may have liability to a title insurer of the property sold in foreclosure. These costs and liabilities may not be legally or otherwise reimbursable to us, particularly to the extent they relate to securitized mortgage loans. In addition, if certain documents required for a foreclosure action are missing or defective, we could be obligated to cure the defect or repurchase the loan. We may incur liability to securitization investors relating to delays or deficiencies in our processing of mortgage assignments or other documents necessary to comply with state law governing foreclosures. The fair value of our mortgage servicing rights may be negatively affected to the extent our servicing costs increase because of higher foreclosure costs. We may be subject to fines and other sanctions, including a foreclosure moratorium or suspension, imposed by Federal or state regulators as a result of actual or perceived deficiencies in our foreclosure practices or in the foreclosure practices of other mortgage loan servicers. Any of these actions may harm our reputation or negatively affect our residential mortgage origination or servicing business.

For more information, refer to the Risk Management Liability for Mortgage Loan Repurchase Losses and Risks Relating to Servicing Activities sections of this Report and to the Critical Accounting Policies Valuation of Residential Mortgage Servicing Rights section in our 2009 Form 10-K.

Any factor described in this Report or in our 2009 Form 10-K, First Quarter Form 10-Q or Second Quarter Form 10-Q could by itself, or together with other factors, adversely affect our financial results and condition. There are factors not discussed above or elsewhere in this Report that could adversely affect our financial results and condition.

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CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

As required by SEC rules, the Company s management evaluated the effectiveness, as of September 30, 2010, of the Company s disclosure controls and procedures. The Company s chief executive officer and chief financial officer participated in the evaluation. Based on this evaluation, the Company s chief executive officer and chief financial officer concluded that the Company s disclosure controls and procedures were effective as of September 30, 2010.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. No change occurred during third quarter 2010 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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WELLS FARGO & COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Quarter ended Sept. 30,		Nine months ended Sept. 30,	
(in millions, except per share amounts)	**2010**	2009	**2010**	2009
Interest income				
Trading assets	**$ 270**	216	**803**	688
Securities available for sale	**2,492**	2,947	**7,292**	8,543
Mortgages held for sale	**449**	524	**1,241**	1,484
Loans held for sale	**22**	34	**86**	151
Loans	**9,779**	10,170	**30,094**	31,467
Other interest income	**118**	77	**311**	249
Total interest income	**13,130**	13,968	**39,827**	42,582
Interest expense				
Deposits	**721**	905	**2,170**	2,861
Short-term borrowings	**27**	32	**66**	210
Long-term debt	**1,226**	1,301	**3,735**	4,565
Other interest expense	**58**	46	**162**	122
Total interest expense	**2,032**	2,284	**6,133**	7,758
Net interest income	**11,098**	11,684	**33,694**	34,824
Provision for credit losses	**3,445**	6,111	**12,764**	15,755
Net interest income after provision for credit losses	**7,653**	5,573	**20,930**	19,069
Noninterest income				
Service charges on deposit accounts	**1,132**	1,478	**3,881**	4,320
Trust and investment fees	**2,564**	2,502	**7,976**	7,130
Card fees	**935**	946	**2,711**	2,722
Other fees	**1,004**	950	**2,927**	2,814
Mortgage banking	**2,499**	3,067	**6,980**	8,617
Insurance	**397**	468	**1,562**	1,644
Net gains from trading activities	**470**	622	**1,116**	2,158
Net losses on debt securities available for sale (1)	**(114)**	(40)	**(56)**	(237)
Net gains (losses) from equity investments (2)	**131**	29	**462**	(88)
Operating leases	**222**	224	**736**	522
Other	**536**	536	**1,727**	1,564
Total noninterest income	**9,776**	10,782	**30,022**	31,166
Noninterest expense				
Salaries	**3,478**	3,428	**10,356**	10,252

Commission and incentive compensation	**2,280**	2,051	**6,497**	5,935
Employee benefits	**1,074**	1,034	**3,459**	3,545
Equipment	**557**	563	**1,823**	1,825
Net occupancy	**742**	778	**2,280**	2,357
Core deposit and other intangibles	**548**	642	**1,650**	1,935
FDIC and other deposit assessments	**300**	228	**896**	1,547
Other	**3,274**	2,960	**10,155**	8,803
Total noninterest expense	**12,253**	11,684	**37,116**	36,199
Income before income tax expense	**5,176**	4,671	**13,836**	14,036
Income tax expense	**1,751**	1,355	**4,666**	4,382
Net income before noncontrolling interests	**3,425**	3,316	**9,170**	9,654
Less: Net income from noncontrolling interests	**86**	81	**222**	202
Wells Fargo net income	**$ 3,339**	3,235	**8,948**	9,452
Wells Fargo net income applicable to common stock	**$ 3,150**	2,637	**8,400**	7,596
Per share information				
Earnings per common share	**$ 0.60**	0.56	**1.61**	1.70
Diluted earnings per common share	**0.60**	0.56	**1.60**	1.69
Dividends declared per common share	**0.05**	0.05	**0.15**	0.44
Average common shares outstanding	**5,240.1**	4,678.3	**5,216.9**	4,471.2
Diluted average common shares outstanding	**5,273.2**	4,706.4	**5,252.9**	4,485.3

(1) Includes other-than-temporary impairment (OTTI) losses of $144 million and $273 million recognized in earnings ($50 million and $314 million of total OTTI losses, net of $(94) million and $41 million recognized as an increase (decrease) to OTTI losses in other comprehensive income) for the quarters ended September 30, 2010 and 2009, respectively, and OTTI losses of $342 million and $850 million

recognized in earnings ($253 million and $1,889 million of total OTTI losses, net of $(89) million and $1,039 million recognized as an increase (decrease) to OTTI losses in other comprehensive income) for the nine months ended September 30, 2010 and 2009, respectively.

(2) Includes OTTI losses of $35 million and $123 million for the quarters ended September 30, 2010 and 2009, respectively, and $202 million and $525 million for the nine months ended September 30, 2010 and 2009, respectively.

The accompanying notes are an integral part of these statements.

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WELLS FARGO & COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (UNAUDITED)

(in millions, except shares)	**Sept. 30, 2010**	Dec. 31, 2009
Assets		
Cash and due from banks	**$ 16,001**	27,080
Federal funds sold, securities purchased under resale agreements and other short-term investments	**56,549**	40,885
Trading assets	**49,271**	43,039
Securities available for sale	**176,875**	172,710
Mortgages held for sale (includes $42,791 and $36,962 carried at fair value)	**46,001**	39,094
Loans held for sale (includes $436 and $149 carried at fair value)	**1,188**	5,733
Loans (includes $353 carried at fair value at September 30, 2010)	**753,664**	782,770
Allowance for loan losses	**(23,939)**	(24,516)
Net loans	**729,725**	758,254
Mortgage servicing rights:		
Measured at fair value (residential MSRs)	**12,486**	16,004
Amortized	**1,013**	1,119
Premises and equipment, net	**9,636**	10,736
Goodwill	**24,831**	24,812
Other assets	**97,208**	104,180
Total assets (1)	**$ 1,220,784**	1,243,646
Liabilities		
Noninterest-bearing deposits	**$ 184,451**	181,356
Interest-bearing deposits	**630,061**	642,662
Total deposits	**814,512**	824,018
Short-term borrowings	**50,715**	38,966
Accrued expenses and other liabilities	**67,249**	62,442
Long-term debt (includes $351 carried at fair value at September 30, 2010)	**163,143**	203,861
Total liabilities (2)	**1,095,619**	1,129,287
Equity		
Wells Fargo stockholders equity:		
Preferred stock	**8,840**	8,485
Common stock $1-2/3 par value, authorized 9,000,000,000 shares; issued 5,253,819,623 shares and 5,245,971,422 shares	**8,756**	8,743
Additional paid-in capital	**52,899**	52,878
Retained earnings	**48,953**	41,563
Cumulative other comprehensive income	**5,502**	3,009

Treasury stock 9,442,860 shares and 67,346,829 shares	**(466)**	(2,450)
Unearned ESOP shares	**(826)**	(442)
Total Wells Fargo stockholders equity	**123,658**	111,786
Noncontrolling interests	**1,507**	2,573
Total equity	**125,165**	114,359
Total liabilities and equity	**$ 1,220,784**	1,243,646

(1) Our consolidated assets at September 30, 2010, include the following assets of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs: Cash and due from banks, $150 million; Trading assets, $95 million; Securities available for sale, $2.7 billion; Net loans, $18.7 billion; Other assets, $1.5 billion, and Total assets, $23.2 billion.

(2) Our consolidated liabilities at September 30, 2010, include the following VIE liabilities for which the VIE creditors do not have recourse to Wells Fargo: Short-term borrowings, $6 million;

Accrued expenses and other liabilities, $205 million; Long-term debt, $8.9 billion; and Total liabilities, $9.1 billion.

The accompanying notes are an integral part of these statements.

WELLS FARGO & COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND COMPREHENSIVE INCOME (UNAUDITED)

(in millions, except shares)	Preferred stock *Shares*	Preferred stock Amount	Common stock *Shares*	Common stock Amount
Balance, December 31, 2008	*10,111,821*	$ 31,332	*4,228,630,889*	$ 7,273
Cumulative effect from change in accounting for other-than-temporary impairment on debt securities				
Effect of change in accounting for noncontrolling interests				
Balance, January 1, 2009	*10,111,821*	31,332	*4,228,630,889*	7,273
Comprehensive income:				
Net income				
Other comprehensive income, net of tax:				
Translation adjustments				
Net unrealized gains on securities available for sale, net of reclassification of $45 million of net gains included in net income				
Net unrealized losses on derivatives and hedging activities, net of reclassification of $257 million of net gains on cash flow hedges included in net income				
Unamortized gains under defined benefit plans, net of amortization				
Total comprehensive income				
Noncontrolling interests				
Common stock issued			*451,324,822*	654
Common stock repurchased			*(3,353,597)*	
Preferred stock released to ESOP				
Preferred stock converted to common shares	*(41,280)*	(41)	*2,593,044*	
Common stock dividends				
Preferred stock dividends and accretion		298		
Tax benefit upon exercise of stock options				
Stock option compensation expense				
Net change in deferred compensation and related plans				
Net change	*(41,280)*	257	*450,564,269*	654
Balance, September 30, 2009	*10,070,541*	$ 31,589	*4,679,195,158*	$ 7,927

Balance, January 1, 2010	***9,980,940***	**$ 8,485**	***5,178,624,593***	**$ 8,743**
Cumulative effect from change in accounting for VIEs				
Cumulative effect from change in accounting for embedded credit derivatives				
Comprehensive income:				
Net income				
Other comprehensive income, net of tax:				
Translation adjustments				
Net unrealized gains on securities available for sale, net of reclassification of $86 million of net gains included in net income				
Net unrealized gains on derivatives and hedging activities, net of reclassification of $363 million of net gains on cash flow hedges included in net income				
Unamortized gains under defined benefit plans, net of amortization				
Total comprehensive income				
Noncontrolling interests				
Common stock issued			***44,660,913***	**4**
Common stock repurchased			***(2,321,917)***	
Preferred stock issued to ESOP	***1,000,000***	**1,000**		
Preferred stock released to ESOP				
Preferred stock converted to common shares	***(644,958)***	**(645)**	***23,413,174***	**9**
Common stock warrants repurchased				
Common stock dividends				
Preferred stock dividends				
Tax benefit upon exercise of stock options				
Stock option compensation expense				
Net change in deferred compensation and related plans				
Net change	***355,042***	**355**	***65,752,170***	**13**
Balance, September 30, 2010	***10,335,982***	**$ 8,840**	***5,244,376,763***	**$ 8,756**

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AND COMPREHENSIVE INCOME

		Wells Fargo stockholders' equity					
Additional paid-in capital	Retained earnings	Cumulative other comprehensive income	Treasury stock	Unearned ESOP shares	Total Wells Fargo stockholders equity	Noncontrolling interests	Total equity
36,026	36,543	(6,869)	(4,666)	(555)	99,084	3,232	$ 102,316
	53	(53)					
(3,716)					(3,716)	3,716	
32,310	36,596	(6,922)	(4,666)	(555)	95,368	6,948	102,316
	9,452				9,452	202	9,654
		63			63	(5)	58
		10,566			10,566	64	10,630
		(189)			(189)		(189)
		570			570		570
					20,462	261	20,723
21					21	(435)	(414)
7,845	(816)		1,907		9,590		9,590
			(80)		(80)		(80)
(3)				44	41		41
(42)			83				
	(1,891)				(1,891)		(1,891)
	(1,856)				(1,558)		(1,558)
9					9		9
180					180		180
23			(15)		8		8
8,033	4,889	11,010	1,895	44	26,782	(174)	26,608
40,343	41,485	4,088	(2,771)	(511)	122,150	6,774	$ 128,924
52,878	**41,563**	**3,009**	**(2,450)**	**(442)**	**111,786**	**2,573**	**$ 114,359**
	183				**183**		**183**
	(28)				**(28)**		**(28)**
	8,948				**8,948**	**222**	**9,170**

		16			16	12	28
		2,202			2,202	16	2,218
		227			227		227
		48			48		48
					11,441	250	11,691
(3)					(3)	(1,316)	(1,319)
72	(375)		1,349		1,050		1,050
			(71)		(71)		(71)
80				(1,080)			
(51)				696	645		645
69			567				
(544)					(544)		(544)
2	(785)				(783)		(783)
	(553)				(553)		(553)
79					79		79
93					93		93
224			139		363		363
21	7,390	2,493	1,984	(384)	11,872	(1,066)	10,806
52,899	48,953	5,502	(466)	(826)	123,658	1,507	$ 125,165

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WELLS FARGO & COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(in millions)	Nine months ended Sept. 30, 2010	2009
Cash flows from operating activities:		
Net income before noncontrolling interests	$ **9,170**	9,654
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	**12,764**	15,755
Changes in fair value of MSRs (residential), MHFS and LHFS carried at fair value	**1,195**	1,366
Depreciation and amortization	**1,502**	2,437
Other net losses (gains)	**4,376**	(2,261)
Preferred shares released to ESOP	**645**	41
Stock option compensation expense	**93**	180
Excess tax benefits related to stock option payments	**(79)**	(9)
Originations of MHFS	**(252,075)**	(321,098)
Proceeds from sales of and principal collected on mortgages originated for sale	**251,814**	306,882
Originations of LHFS	**(4,554)**	(8,641)
Proceeds from sales of and principal collected on LHFS	**15,220**	15,937
Purchases of LHFS	**(5,998)**	(6,461)
Net change in:		
Trading assets	**873**	13,834
Deferred income taxes	**4,015**	4,835
Accrued interest receivable	**771**	948
Accrued interest payable	**(238)**	(1,157)
Other assets, net	**(12,034)**	(6,159)
Other accrued expenses and liabilities, net	**(4,660)**	(833)
Net cash provided by operating activities	**22,800**	25,250
Cash flows from investing activities:		
Net change in:		
Federal funds sold, securities purchased under resale agreements and other short-term investments	**(15,664)**	31,942
Securities available for sale:		
Sales proceeds	**5,125**	46,337
Prepayments and maturities	**33,349**	28,746
Purchases	**(37,161)**	(89,395)
Loans:		
Decrease in banking subsidiaries loan originations, net of collections	**27,359**	44,337
Proceeds from sales (including participations) of loans originated for investment by banking subsidiaries	**5,011**	4,569
Purchases (including participations) of loans by banking subsidiaries	**(1,673)**	(2,007)
Principal collected on nonbank entities loans	**11,706**	10,224
Loans originated by nonbank entities	**(7,960)**	(7,117)
Net cash paid for acquisitions	**(23)**	(132)

Proceeds from sales of foreclosed assets	**3,669**	2,708
Changes in MSRs from purchases and sales	**(29)**	(9)
Other, net	**1,827**	4,951
Net cash provided by investing activities	**25,536**	75,154
Cash flows from financing activities:		
Net change in:		
Deposits	**(9,506)**	15,212
Short-term borrowings	**6,622**	(77,274)
Long-term debt:		
Proceeds from issuance	**2,638**	4,803
Repayment	**(57,790)**	(55,332)
Preferred stock:		
Cash dividends paid	**(620)**	(1,616)
Common stock:		
Proceeds from issuance	**1,050**	9,590
Repurchased	**(71)**	(80)
Cash dividends paid	**(783)**	(1,891)
Common stock warrants repurchased	**(544)**	
Excess tax benefits related to stock option payments	**79**	9
Net change in noncontrolling interests	**(490)**	(355)
Net cash used by financing activities	**(59,415)**	(106,934)
Net change in cash and due from banks	**(11,079)**	(6,530)
Cash and due from banks at beginning of period	**27,080**	23,763
Cash and due from banks at end of period	**$ 16,001**	17,233
Supplemental cash flow disclosures:		
Cash paid for interest	**$ 6,371**	8,915
Cash paid for income taxes	**917**	2,834

The accompanying notes are an integral part of these statements. See Note 1 for noncash activities.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

See the Glossary of Acronyms at the end of this Report for terms used throughout the Financial Statements and related Notes of this Form 10-Q.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Wells Fargo & Company is a nation-wide diversified, community-based 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, the District of Columbia, and in other countries. When we refer to Wells Fargo, the Company, we, ou or us in this Form 10-Q, 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 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 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 (OTTI) on investment securities (Note 4), allowance for credit losses and purchased credit-impaired (PCI) loans (Note 5), valuing residential mortgage servicing rights (MSRs) (Notes 7 and 8) and financial instruments (Note 12), liability for mortgage loan repurchase losses (Note 7), pension accounting (Note 14) and income taxes. Actual results could differ from those estimates. Among other effects, such changes could result in future impairments of investment securities, increases to the allowance for loan losses, as well as increased future pension expense.

The information furnished in these unaudited interim statements reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The results of operations in the interim statements do not necessarily indicate the results that may be expected for the full year. The interim financial information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009 (2009 Form 10-K). Certain amounts in the financial statements for prior years have been revised to conform with current financial statement presentation.

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Accounting Developments

In first quarter 2010, we adopted the following accounting updates to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification):

- Accounting Standards Update (ASU or Update) 2010-6, *Improving Disclosures about Fair Value Measurements*;
- ASU 2009-16, *Accounting for Transfers of Financial Assets* (Statement of Financial Accounting Standards (FAS) 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*);
- ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (FAS 167, *Amendments to FASB Interpretation No. 46(R)*); and
- ASU 2010-10, *Amendments for Certain Investment Funds.*

In third quarter 2010, we adopted the following accounting updates to the Codification:

- ASU 2010-18, *Effect of a Loan Modification When the Loan is Part of a Pool That is Accounted for as a Single Asset;* and
- ASU 2010-11, *Scope Exception Related to Embedded Credit Derivatives*.

Information about these accounting updates is further described in more detail below.

ASU 2010-6 amends the disclosure requirements for fair value measurements. Companies are now required to disclose significant transfers in and out of Levels 1 and 2 of the fair value hierarchy, whereas the previous rules only required the disclosure of transfers in and out of Level 3. Additionally, in the rollforward of Level 3 activity, companies must present information on purchases, sales, issuances, and settlements on a gross basis rather than on a net basis. The Update also clarifies that fair value measurement disclosures should be presented for each class of assets and liabilities. A class is typically a subset of a line item in the statement of financial position. Companies should also provide information about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring instruments classified as either Level 2 or Level 3. We adopted this guidance in first quarter 2010 with prospective application, except for the new requirement related to the Level 3 rollforward. Gross presentation in the Level 3 rollforward is effective for us in first quarter 2011 with prospective application. Our adoption of the Update did not affect our consolidated financial statement results since it amends only the disclosure requirements for fair value measurements.

ASU 2009-16 (FAS 166) modifies certain guidance contained in ASC 860, *Transfers and Servicing*. This pronouncement eliminates the concept of qualifying special purpose entities (QSPEs) and provides additional criteria transferors must use to evaluate transfers of financial assets. The Update also requires that any assets or liabilities retained from a transfer accounted for as a sale must be initially recognized at fair value. We adopted this guidance in first quarter 2010 with prospective application for transfers that occurred on and after January 1, 2010.

ASU 2009-17 (FAS 167) amends several key consolidation provisions related to variable interest entities (VIEs), which are included in ASC 810, *Consolidation*. The scope of the new guidance includes entities that were previously designated as QSPEs. The Update also changes the approach companies must use to identify VIEs for which they are deemed to be the primary beneficiary and are required to consolidate. Under the new guidance, a VIE s primary beneficiary is the entity that has the power to direct the VIE s significant activities, and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The Update also requires companies to continually reassess whether they are the primary beneficiary of a VIE, whereas the previous rules only required reconsideration upon the occurrence of certain triggering events. We adopted this guidance in first quarter 2010, which resulted

in the consolidation of $18.6 billion of incremental assets onto our consolidated balance sheet and a $183 million increase to beginning retained earnings as a cumulative effect adjustment.

We also elected the fair value option for those newly consolidated VIEs for which our interests, prior to January 1, 2010, were predominantly carried at fair value with changes in fair value recorded to earnings. Accordingly, the fair value option was elected to effectively continue fair value accounting through earnings for those interests. Conversely, we did not elect the fair value option for those newly consolidated VIEs that did not share these characteristics. At January 1, 2010, the fair value of loans and long-term debt for which we elected the fair value option was $1.0 billion and $1.0 billion, respectively. The incremental impact of electing the fair value option (compared to not electing) on the cumulative effect adjustment to retained earnings was an increase of $15 million. See Notes 7 and 12 in this Report for additional information.

ASU 2010-10 amends consolidation accounting guidance to defer indefinitely the application of ASU 2009-17 to certain investment funds. The amendment was effective for us in first quarter 2010. As a result, we did not consolidate any investment funds upon adoption of ASU 2009-17.

ASU 2010-18 provides guidance for modified PCI loans that are accounted for within a pool. Under the new guidance, modified PCI loans should not be removed from a pool even if those loans would otherwise be deemed troubled debt restructurings. The Update also clarifies that entities should consider the impact of modifications on a pool of PCI loans when evaluating that pool for impairment. These accounting changes were effective for us in third quarter 2010. Our adoption of the Update did not affect our consolidated financial statement results, as the new guidance is consistent with our current accounting practice.

ASU 2010-11 provides guidance clarifying when entities should evaluate embedded credit derivative features in financial instruments issued from structures such as collateralized debt obligations (CDOs) and synthetic CDOs. The Update clarifies that bifurcation and separate accounting is not required for embedded credit derivative features that are only related to the transfer of credit risk that occurs when one financial instrument is subordinate to another. Embedded derivatives related to other types of credit risk must be analyzed to determine the appropriate accounting treatment. The guidance also allows companies to elect fair value option upon adoption for any investment in a beneficial interest in securitized financial assets. By making this election, companies would not be required to evaluate whether embedded credit derivative features exist for those interests. This guidance was effective for us in third quarter 2010. In conjunction with our adoption of this standard, we recorded a $28 million decrease to beginning retained earnings as a cumulative effect adjustment.

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Supplemental Cash Flow Information

Noncash activities are presented below, including information on transfers affecting mortgages held for sale (MHFS), loans held for sale (LHFS), and MSRs.

	Nine months ended Sept. 30,	
(in millions)	**2010**	2009
Transfers from trading assets to securities available for sale	$	845
Transfers from (to) loans to (from) securities available for sale	**3,468**	(258)
Transfers from MHFS to trading assets	**6,950**	2,993
Transfers from MHFS to MSRs	**3,086**	5,088
Transfers from MHFS to foreclosed assets	**189**	125
Transfers from loans to MHFS	**126**	60
Transfers from (to) loans to (from) LHFS	**100**	(6)
Transfers from loans to foreclosed assets	**6,736**	5,067
Adoption of consolidation accounting guidance:		
Trading assets	**155**	
Securities available for sale	**(7,590)**	
Loans	**25,657**	
Other assets	**193**	
Short-term borrowings	**5,127**	
Long-term debt	**13,134**	
Accrued expenses and other liabilities	**(32)**	
Decrease in noncontrolling interests due to deconsolidation of subsidiaries	**440**	
Transfer from noncontrolling interests to long-term debt	**345**	

Subsequent Events

We have evaluated the effects of subsequent events that have occurred subsequent to period end September 30, 2010. There have been no material events that would require recognition in our third quarter 2010 consolidated financial statements or disclosure in the Notes to the financial statements.

On October 27, 2010, we announced that we are submitting supplemental affidavits for approximately 55,000 foreclosures pending before courts in 23 judicial foreclosure states following our identification of instances where a final step in our process relating to the execution of foreclosure affidavits (including a final review of the affidavit, as well as some aspects of the notarization process) did not strictly adhere to the required procedures. The issues we have identified do not relate to the quality of the customer and loan data, and we do not believe that any of these instances led to foreclosures which should not have otherwise occurred.

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2. **BUSINESS COMBINATIONS**

We regularly explore opportunities to acquire financial services companies and businesses. Generally, we do not make a public announcement about an acquisition opportunity until a definitive agreement has been signed. For information on additional consideration related to acquisitions, which is considered to be a guarantee, see Note 10 in this Report.

In the first nine months of 2010, we completed three acquisitions with combined total assets of $440 million consisting of a factoring business and two insurance brokerage businesses. At September 30, 2010, we had no pending business combinations.

On December 31, 2008, Wells Fargo acquired Wachovia Corporation (Wachovia). The purchase accounting for the Wachovia acquisition was finalized as of December 31, 2009. Costs associated with involuntary employee termination, contract terminations and closing duplicate facilities were recorded throughout 2009 and allocated to the purchase price. The following table summarizes the first nine months of 2010 usage of the exit reserves associated with the Wachovia acquisition.

(in millions)		Employee termination	Contract termination	Facilities related	Total
Balance, December 31, 2009	$	355	58	344	757
Cash payments / utilization		**(162)**	**(47)**	**(183)**	**(392)**
Balance, September 30, 2010	**$**	**193**	**11**	**161**	**365**

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

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

(in millions)	**Sept. 30, 2010**	Dec. 31, 2009
Federal funds sold and securities purchased under resale agreements	**$ 20,761**	8,042
Interest-earning deposits	**33,826**	31,668
Other short-term investments	**1,962**	1,175
Total	**$ 56,549**	40,885

We pledge certain financial instruments that we own to collateralize repurchase agreements and other securities financings. The types of collateral we pledge include securities issued by federal agencies, government-sponsored entities (GSEs), and domestic and foreign companies. We pledged $21.9 billion at September 30, 2010, and $14.8 billion at December 31, 2009, under agreements that permit the secured parties to sell or repledge the collateral. Pledged collateral where the secured party cannot sell or repledge was $944 million at September 30, 2010, and $434 million at December 31, 2009.

We receive collateral from other entities under resale agreements and securities borrowings. We received $12.4 billion at September 30, 2010, and $31.4 billion at December 31, 2009, for which we have the right to sell or repledge the collateral. These amounts include securities we have sold or repledged to others with a fair value of $9.9 billion at September 30, 2010, and $29.7 billion at December 31, 2009.

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4. **SECURITIES AVAILABLE FOR SALE**

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

(in millions)	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
September 30, 2010				
Securities of U.S. Treasury and federal agencies	**$ 1,652**	**91**		**1,743**
Securities of U.S. states and political subdivisions	**17,756**	**922**	**(511)**	**18,167**
Mortgage-backed securities:				
Federal agencies	**79,898**	**3,723**	**(26)**	**83,595**
Residential	**18,538**	**2,710**	**(462)**	**20,786**
Commercial	**12,791**	**1,253**	**(1,050)**	**12,994**
Total mortgage-backed securities	**111,227**	**7,686**	**(1,538)**	**117,375**
Corporate debt securities	**9,027**	**1,419**	**(36)**	**10,410**
Collateralized debt obligations	**4,483**	**327**	**(284)**	**4,526**
Other (1)	**18,968**	**784**	**(374)**	**19,378**
Total debt securities	**163,113**	**11,229**	**(2,743)**	**171,599**
Marketable equity securities:				
Perpetual preferred securities	**3,769**	**267**	**(100)**	**3,936**
Other marketable equity securities	**612**	**731**	**(3)**	**1,340**
Total marketable equity securities	**4,381**	**998**	**(103)**	**5,276**
Total	**$ 167,494**	**12,227**	**(2,846)**	**176,875**
December 31, 2009				
Securities of U.S. Treasury and federal agencies	$ 2,256	38	(14)	2,280
Securities of U.S. states and political subdivisions	13,212	683	(365)	13,530
Mortgage-backed securities:				
Federal agencies	79,542	3,285	(9)	82,818
Residential	28,153	2,480	(2,043)	28,590
Commercial	12,221	602	(1,862)	10,961
Total mortgage-backed securities	119,916	6,367	(3,914)	122,369
Corporate debt securities	8,245	1,167	(77)	9,335
Collateralized debt obligations	3,660	432	(367)	3,725
Other (1)	15,025	1,099	(245)	15,879
Total debt securities	162,314	9,786	(4,982)	167,118

Marketable equity securities:				
Perpetual preferred securities	3,677	263	(65)	3,875
Other marketable equity securities	1,072	654	(9)	1,717
Total marketable equity securities	4,749	917	(74)	5,592
Total	$ 167,063	10,703	(5,056)	172,710

(1) Included in the Other category are asset-backed securities collateralized by auto leases or loans and cash reserves with a cost basis and fair value of $8.1 billion and $8.3 billion, respectively, at September 30, 2010, and $8.2 billion and $8.5 billion, respectively, at December 31, 2009. Also included in the Other category are asset-backed securities collateralized by home equity loans with a cost basis and fair value of $864 million and $1.0 billion, respectively, at September 30, 2010, and $2.3 billion and $2.5 billion, respectively, at December 31, 2009. The remaining balances

primarily
include
asset-backed
securities
collateralized by
credit cards and
student loans.

As part of our liquidity management strategy, we pledge securities to secure borrowings from the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank. We also pledge securities to secure trust and public deposits and for other purposes as required or permitted by law. Securities pledged where the secured party does not have the right to sell or repledge totaled $97.9 billion at September 30, 2010, and

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$98.9 billion at December 31, 2009. We did not pledge any securities where the secured party has the right to sell or repledge the collateral as of the same periods, respectively.

Gross Unrealized Losses and Fair Value

The following table shows the gross unrealized losses and fair value of securities in the securities available-for-sale portfolio by length of time that individual securities in each category had been in a continuous loss position. Debt securities on which we have taken credit-related OTTI write-downs are categorized as being less than 12 months or 12 months or more in a continuous loss position based on the point in time that the fair value declined to below the cost basis and not the period of time since the credit-related OTTI write-down.

	Less than 12 months		12 months or more		Total	
(in millions)	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
September 30, 2010						
Securities of U.S. states and political subdivisions	**$ (112)**	**2,990**	**(399)**	**2,929**	**(511)**	**5,919**
Mortgage-backed securities:						
Federal agencies	**(26)**	**10,856**			**(26)**	**10,856**
Residential	**(39)**	**724**	**(423)**	**4,741**	**(462)**	**5,465**
Commercial	**(6)**	**249**	**(1,044)**	**5,737**	**(1,050)**	**5,986**
Total mortgage-backed securities	**(71)**	**11,829**	**(1,467)**	**10,478**	**(1,538)**	**22,307**
Corporate debt securities	**(8)**	**185**	**(28)**	**168**	**(36)**	**353**
Collateralized debt obligations	**(26)**	**923**	**(258)**	**411**	**(284)**	**1,334**
Other	**(63)**	**1,913**	**(311)**	**596**	**(374)**	**2,509**
Total debt securities	**(280)**	**17,840**	**(2,463)**	**14,582**	**(2,743)**	**32,422**
Marketable equity securities:						
Perpetual preferred securities	**(47)**	**979**	**(53)**	**383**	**(100)**	**1,362**
Other marketable equity securities	**(3)**	**21**			**(3)**	**21**
Total marketable equity securities	**(50)**	**1,000**	**(53)**	**383**	**(103)**	**1,383**
Total	**$ (330)**	**18,840**	**(2,516)**	**14,965**	**(2,846)**	**33,805**
December 31, 2009						
Securities of U.S. Treasury and federal agencies	$ (14)	530			(14)	530
Securities of U.S. states and political subdivisions	(55)	1,120	(310)	2,826	(365)	3,946
Mortgage-backed securities:						
Federal agencies	(9)	767			(9)	767
Residential	(243)	2,991	(1,800)	9,697	(2,043)	12,688
Commercial	(37)	816	(1,825)	6,370	(1,862)	7,186

Total mortgage-backed securities	(289)	4,574	(3,625)	16,067	(3,914)	20,641
Corporate debt securities	(7)	281	(70)	442	(77)	723
Collateralized debt obligations	(55)	398	(312)	512	(367)	910
Other	(73)	746	(172)	286	(245)	1,032
Total debt securities	(493)	7,649	(4,489)	20,133	(4,982)	27,782
Marketable equity securities:						
Perpetual preferred securities	(1)	93	(64)	527	(65)	620
Other marketable equity securities	(9)	175			(9)	175
Total marketable equity securities	(10)	268	(64)	527	(74)	795
Total	$ (503)	7,917	(4,553)	20,660	(5,056)	28,577

We do not have the intent to sell any securities included in the table above. For debt securities included in the previous table, we have concluded it is more likely than not that we will not be required to sell prior to recovery of the amortized cost basis. We have assessed each security for credit impairment. For debt

securities, we evaluate, where necessary, whether credit impairment exists by comparing the present value of the expected cash flows to the securities amortized cost basis. For equity securities, we consider numerous factors in determining whether impairment exists, including our intent and ability to hold the securities for a period of time sufficient to recover the cost basis of the securities.

For complete descriptions of the factors we consider when analyzing debt securities for impairment, see Note 5 in our 2009 Form 10-K. There have been no material changes to our methodologies for assessing impairment in third quarter 2010.

Securities of U.S. Treasury and federal agencies

The unrealized losses associated with U.S. Treasury and federal agency securities do not have any credit losses due to the guarantees provided by the United States government.

Securities of U.S. states and political subdivisions

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. Substantially all of these investments are investment grade. The securities were generally underwritten in accordance with our own investment standards prior to the decision to purchase, without relying on a bond insurer s guarantee in making the investment decision. These investments will continue to be monitored as part of our ongoing impairment analysis, but are expected to perform, even if the rating agencies reduce the credit rating of the bond insurers. As a result, we expect to recover the entire amortized cost basis of these securities.

Federal Agency Mortgage-Backed Securities (MBS)

The unrealized losses associated with federal agency MBS are primarily driven by changes in interest rates and not due to credit losses. These securities are issued by U.S. government or GSEs and do not have any credit losses given the explicit or implicit government guarantee.

Residential Mortgage-Backed Securities

The unrealized losses associated with private residential MBS are primarily driven by changes in projected collateral losses, credit spreads and interest rates. We assess for credit impairment using a cash flow model. The key assumptions include default rates, severities and prepayment rates. We estimate losses to a security by forecasting the underlying mortgage loans in each transaction. The forecasted loan performance is used to project cash flows to the various tranches in the structure. Cash flow forecasts are also considered, and as applicable, independent industry analyst reports and forecasts, sector credit ratings, and other independent market data. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared with our credit enhancement, we expect to recover the entire amortized cost basis of these securities.

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Commercial Mortgage-Backed Securities

The unrealized losses associated with commercial MBS are primarily driven by changes in projected collateral losses, credit spreads and interest rates. These investments are predominantly investment grade. We assess for credit impairment using a cash flow model. The key assumptions include default rates and severities. We estimate losses to a security by forecasting the underlying loans in each transaction. The forecasted loan performance is used to project cash flows to the various tranches in the structure. Cash flow forecasts are also considered, and as applicable, independent industry analyst reports and forecasts, sector credit ratings, and other independent market data. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared with our credit enhancement, we expect to recover the entire amortized cost basis of these securities.

Corporate Debt Securities

The unrealized losses associated with corporate debt securities are primarily 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 that the issuer can make all contractual principal and interest payments. Based upon this assessment, we expect to recover the entire cost basis of these securities.

Collateralized Debt Obligations (CDOs)

The unrealized losses associated with CDOs relate to securities primarily backed by commercial, residential or other consumer collateral. The losses are primarily driven by changes in projected collateral losses, credit spreads and interest rates. We assess for credit impairment using a cash flow model. The key assumptions include default rates, severities and prepayment rates. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared with our credit enhancement, we expect to recover the entire amortized cost basis of these securities.

Other Debt Securities

The unrealized losses associated with other debt securities primarily relate to other asset-backed securities, which are primarily backed by auto, home equity and student loans. The losses are primarily driven by changes in projected collateral losses, credit spreads and interest rates. We assess for credit impairment using a cash flow model. The key assumptions include default rates, severities and prepayment rates. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared with our credit enhancement, we expect to recover the entire amortized cost basis of these securities.

Marketable Equity Securities

Our marketable equity securities include investments in perpetual preferred securities, which provide very attractive tax-equivalent yields. We evaluated these hybrid financial instruments with investment-grade ratings for impairment using an evaluation methodology similar to that used for debt securities. Perpetual preferred securities are not considered other-than-temporarily impaired at September 30, 2010, if there is no evidence of credit deterioration or investment rating downgrades of any issuers to below investment grade, and we expected to 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 estimating OTTI. We have recorded impairment write-downs on perpetual preferred securities where there was evidence of credit deterioration.

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The fair values of our investment securities could decline in the future if the underlying performance of the collateral for the residential and commercial MBS 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 OTTI may occur in the future given the current economic environment.

The following table shows the gross unrealized losses and fair value of debt and perpetual preferred securities available for sale by those rated investment grade and those rated less than investment grade, according to their lowest credit rating by Standard & Poor s Rating Services (S&P) or Moody s Investors Service (Moody s). Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by S&P or Baa3 or higher by Moody s, are generally considered by the rating agencies and market participants to be low credit risk. Conversely, securities rated below investment grade, labeled as speculative grade by the rating agencies, are considered to be distinctively higher credit risk than investment grade securities. We have also included securities not rated by S&P or Moody s in the table below based on the internal credit grade of the securities (used for credit risk management purposes) equivalent to the credit rating assigned by major credit agencies. The unrealized losses and fair value of unrated securities categorized as investment grade based on internal credit grades were $234 million and $1.1 billion, respectively, at September 30, 2010. There were no unrated securities in a loss position categorized as investment grade based on internal credit grades as of December 31, 2009. If an internal credit grade was not assigned, we categorized the security as non-investment grade.

	Investment grade		Non-investment grade	
(in millions)	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
September 30, 2010				
Securities of U.S. states and political subdivisions	**$ (415)**	**5,429**	**(96)**	**490**
Mortgage-backed securities:				
Federal agencies	**(26)**	**10,856**		
Residential	**(13)**	**401**	**(449)**	**5,064**
Commercial	**(585)**	**5,229**	**(465)**	**757**
Total mortgage-backed securities	**(624)**	**16,486**	**(914)**	**5,821**
Corporate debt securities	**(22)**	**143**	**(14)**	**210**
Collateralized debt obligations	**(71)**	**801**	**(213)**	**533**
Other	**(262)**	**2,259**	**(112)**	**250**
Total debt securities	**(1,394)**	**25,118**	**(1,349)**	**7,304**
Perpetual preferred securities	**(94)**	**1,268**	**(6)**	**94**
Total	**$ (1,488)**	**26,386**	**(1,355)**	**7,398**
December 31, 2009				
Securities of U.S. Treasury and federal agencies	$ (14)	530		
Securities of U.S. states and political subdivisions	(275)	3,621	(90)	325
Mortgage-backed securities:				
Federal agencies	(9)	767		
Residential	(480)	5,661	(1,563)	7,027

Commercial	(1,247)	6,543	(615)	643
Total mortgage-backed securities	(1,736)	12,971	(2,178)	7,670
Corporate debt securities	(31)	260	(46)	463
Collateralized debt obligations	(104)	471	(263)	439
Other	(85)	644	(160)	388
Total debt securities	(2,245)	18,497	(2,737)	9,285
Perpetual preferred securities	(65)	620		
Total	$ (2,310)	19,117	(2,737)	9,285

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Contractual Maturities

The following table shows the remaining contractual principal maturities and contractual yields of debt securities available for sale. The remaining contractual principal maturities for MBS were determined 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. The weighted-average yield is computed using the contractual coupon of each security weighted based on the fair value of each security.

			Remaining contractual principal maturity							
		Weighted-			After one year		After five years			
			Within one		through five		through ten			
	Total	average	year		years		years		After ten years	
(in millions)	amount	yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
September 30, 2010										
Securities of U.S. Treasury and federal agencies	**$ 1,743**	**3.16%**	**$ 11**	**4.54%**	**$ 732**	**3.02%**	**$ 897**	**3.15%**	**$ 103**	**4.12%**
Securities of U.S. states and political subdivisions	**18,167**	**6.44**	**392**	**2.97**	**1,742**	**4.76**	**1,540**	**6.59**	**14,493**	**6.72**
Mortgage-backed securities:										
Federal agencies	**83,595**	**5.15**	**5**	**6.54**	**36**	**5.95**	**514**	**5.26**	**83,040**	**5.14**
Residential	**20,786**	**5.21**	**33**	**0.38**	**76**	**0.48**	**203**	**5.05**	**20,474**	**5.23**
Commercial	**12,994**	**5.38**			**102**	**5.60**	**528**	**3.55**	**12,364**	**5.46**
Total mortgage-backed securities	**117,375**	**5.18**	**38**	**1.26**	**214**	**3.84**	**1,245**	**4.50**	**115,878**	**5.19**
Corporate debt securities	**10,410**	**5.78**	**656**	**4.76**	**3,890**	**5.96**	**4,813**	**5.87**	**1,051**	**5.31**
Collateralized debt obligations	**4,526**	**1.04**	**2**	**5.39**	**462**	**1.21**	**2,212**	**0.96**	**1,850**	**1.09**
Other	**19,378**	**2.87**	**3,346**	**4.02**	**10,711**	**3.02**	**2,167**	**1.86**	**3,154**	**1.85**
Total debt securities at fair value	**$ 171,599**	**4.96%**	**$ 4,445**	**4.01%**	**$ 17,751**	**3.80%**	**$ 12,874**	**4.12%**	**$ 136,529**	**5.22%**
December 31, 2009										
Securities of U.S. Treasury and federal agencies	$ 2,280	2.80%	$ 413	0.79%	$ 669	2.14%	$ 1,192	3.87%	$ 6	4.03%
	13,530	6.75	77	7.48	703	6.88	1,055	6.56	11,695	6.76

Securities of U.S. states and political subdivisions										
Mortgage-backed securities:										
Federal agencies	82,818	5.50	12	4.68	50	5.91	271	5.56	82,485	5.50
Residential	28,590	5.40	51	4.80	115	0.45	283	5.69	28,141	5.41
Commercial	10,961	5.29	85	0.68	71	5.55	169	5.66	10,636	5.32
Total mortgage-backed securities	122,369	5.46	148	2.44	236	3.14	723	5.63	121,262	5.46
Corporate debt securities	9,335	5.53	684	4.00	3,937	5.68	3,959	5.68	755	5.32
Collateralized debt obligations	3,725	1.70	2	5.53	492	4.48	1,837	1.56	1,394	0.90
Other	15,879	4.22	2,128	5.62	7,762	5.96	697	2.46	5,292	1.33
Total debt securities at fair value	$ 167,118	5.33%	$ 3,452	4.63%	$ 13,799	5.64%	$ 9,463	4.51%	$ 140,404	5.37%

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Realized Gains and Losses

The following table shows the gross realized gains and losses on sales from the securities available-for-sale portfolio, which includes marketable equity securities, but does not include nonmarketable equity securities (see Note 6 Other Assets).

	Quarter ended Sept. 30,		Nine months ended Sept. 30,	
(in millions)	**2010**	2009	**2010**	2009
Gross realized gains	**$ 71**	378	**515**	1,088
Gross realized losses	**(3)**	(23)	**(21)**	(94)
Write-downs	**(145)**	(277)	**(357)**	(924)
Net realized gains (losses)	**$ (77)**	78	**137**	70

Other-Than-Temporary Impairment

The following table shows the detail of OTTI write-downs included in earnings for debt securities and marketable and nonmarketable equity securities.

	Quarter ended Sept. 30,		Nine months ended Sept. 30,	
(in millions)	**2010**	2009	**2010**	2009
OTTI write-downs included in earnings				
Debt securities:				
U.S. states and political subdivisions	**$ 8**	1	**16**	6
Mortgage-backed securities:				
Federal agencies	**14**		**14**	
Residential	**56**	134	**132**	526
Commercial	**50**	67	**105**	78
Corporate debt securities	**5**	5	**10**	58
Collateralized debt obligations	**1**	25	**12**	121
Other debt securities	**10**	41	**53**	61
Total debt securities	**144**	273	**342**	850
Equity securities:				
Marketable equity securities:				
Perpetual preferred securities	**1**	2	**15**	47
Other marketable equity securities		2		27
Total marketable equity securities	**1**	4	**15**	74
Total securities available for sale	**145**	277	**357**	924

Nonmarketable equity securities	**34**	119	**187**	451
Total OTTI write-downs included in earnings	**$ 179**	396	**544**	1,375

Other-Than-Temporarily Impaired Debt Securities

We recognize OTTI for debt securities classified as available for sale in accordance with FASB ASC 320, *Investments Debt and Equity Securities*, which requires that we assess whether we intend to sell or it is more likely than not that we will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that we do not intend to sell and will not be required to sell prior to recovery of our amortized cost basis, we separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security s amortized cost basis and the present value of its expected future cash flows discounted at the security s effective yield. The remaining difference between the security s fair value and the present value of future expected cash flows is due to factors that are not credit related and, therefore, is not required to be recognized as losses in the income statement, but is recognized in OCI. We believe that we will fully collect the carrying value of securities on which we have recorded a non-credit-related impairment in OCI.

The following table shows the detail of OTTI write-downs on debt securities available for sale included in earnings and the related changes in OCI for the same securities.

	Quarter ended Sept. 30,		Nine months ended Sept. 30,	
(in millions)	**2010**	2009	**2010**	2009
OTTI on debt securities				
Recorded as part of gross realized losses:				
Credit-related OTTI	**$ 129**	251	**324**	821
Securities we intend to sell	**15**	22	**18**	29
Total recorded as part of gross realized losses	**144**	273	**342**	850
Recorded directly to OCI for non-credit-related impairment:				
U.S. states and political subdivisions	**1**		**(4)**	4
Residential mortgage-backed securities	**(160)**	75	**(258)**	997
Commercial mortgage-backed securities	**69**	(1)	**151**	20
Corporate debt securities	**(1)**		**(1)**	(2)
Collateralized debt obligations		(18)	**56**	12
Other debt securities	**(3)**	(15)	**(33)**	8
Total recorded directly to OCI for non-credit-related impairment (1)	**(94)**	41	**(89)**	1,039
Total OTTI on debt securities	**$ 50**	314	**253**	1,889

(1) Represents amounts recorded to OCI on debt securities in periods OTTI write-downs

have occurred. Changes in fair value in subsequent periods on such securities are not reflected in this total unless the securities also had a credit impairment charge to income recorded for the subsequent period.

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The following table presents a roll-forward of the credit loss component recognized in earnings for debt securities we still own (referred to as credit-impaired debt securities). The credit loss component of the amortized cost represents the difference between the present value of expected future cash flows and the amortized cost basis of the security prior to considering credit losses. OTTI recognized in earnings for credit-impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit-impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairments). The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired debt securities. Additionally, the credit loss component is reduced if we receive or expect to receive cash flows in excess of what we previously expected to receive over the remaining life of the credit-impaired debt security, the security matures or is fully written down.
Changes in the credit loss component of credit-impaired debt securities that we do not intend to sell were:

	Quarter ended Sept. 30,		Nine months ended Sept. 30,	
(in millions)	**2010**	2009	**2010**	2009
Credit loss component, beginning of period	**$ 1,049**	1,012	**1,187**	471
Additions:				
Initial credit impairments	**42**	124	**101**	537
Subsequent credit impairments	**87**	127	**223**	284
Total additions	**129**	251	**324**	821
Reductions:				
For securities sold	**(105)**	(8)	**(181)**	(31)
For securities derecognized resulting from adoption of consolidation accounting guidance			**(242)**	
Due to change in intent to sell or requirement to sell			**(2)**	(1)
For increases in expected cash flows	**(11)**		**(24)**	(5)
Total reductions	**(116)**	(8)	**(449)**	(37)
Credit loss component, end of period	**$ 1,062**	1,255	**1,062**	1,255

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For asset-backed securities (e.g., residential MBS), we estimated expected future cash flows of the security by estimating the expected future cash flows of the underlying collateral and applying those collateral cash flows, together with any credit enhancements such as subordinated interests owned by third parties, to the security. The expected future cash flows of the underlying collateral are determined using the remaining contractual cash flows adjusted for future expected credit losses (which consider current delinquencies and nonperforming assets, future expected default rates and collateral value by vintage and geographic region) and prepayments. The expected cash flows of the security are then discounted at the interest rate used to recognize interest income on the security to arrive at a present value amount. Total credit impairment losses on residential MBS that we do not intend to sell are shown in the table below. The table also presents a summary of the significant inputs considered in determining the measurement of the credit loss component recognized in earnings for residential MBS.

	Quarter ended Sept. 30,	Nine months ende