WELLS FARGO & CO/MN
Form 10-Q
November 02, 2006

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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, 2006
Commission file number 001-2979
WELLS FARGO & COMPANY
(Exact name of registrant as specified in its charter)

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

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

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

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer 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 31, 2006
Common stock, $1-2/3 par value	3,375,964,759

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PART I FINANCIAL INFORMATION
FINANCIAL REVIEW
SUMMARY FINANCIAL DATA

	Quarter ended			% Change Sept. 30, 2006 from		Nine months ended		
($ in millions, except per share amounts)	**Sept. 30, 2006**	June 30, 2006	Sept. 30, 2005	June 30, 2006	Sept. 30, 2005	**Sept. 30, 2006**	Sept. 30, 2005	% Change
For the Period								
Net income	**$ 2,194**	$ 2,089	$ 1,975	5%	11%	**$ 6,301**	$ 5,741	10%
Diluted earnings per common share	**0.64**	0.61	0.58	5	10	**1.85**	1.68	10
Profitability ratios (annualized)								
Net income to average total assets (ROA)	**1.76%**	1.71%	1.75%	3	1	**1.73%**	1.75%	(1)
Net income to average stockholders equity (ROE)	**20.00**	19.76	19.72	1	1	**19.89**	19.70	1
Efficiency ratio (1)	**56.9**	58.9	57.5	(3)	(1)	**58.3**	57.8	1
Total revenue	**$ 8,934**	$ 8,789	$ 8,503	2	5	**$ 26,278**	$ 24,457	7
Dividends declared per common share		0.54	0.26	(100)	(100)	**0.80**	0.74	8
Average common shares outstanding	**3,371.9**	3,363.8	3,373.5			**3,364.6**	3,379.8	
Diluted average common shares outstanding	**3,416.0**	3,404.4	3,410.6			**3,405.5**	3,418.7	
Average loans	**$ 303,980**	$ 300,388	$ 295,611	1	3	**$ 305,141**	$ 292,874	4
Average assets	**494,679**	491,456	448,159	1	10	**487,182**	438,143	11
Average core deposits (2)	**260,430**	257,695	247,187	1	5	**257,402**	239,171	8
Average retail core deposits (3)	**212,440**	213,588	205,078	(1)	4	**212,980**	198,881	7
Net interest margin	**4.79%**	4.76%	4.86%	1	(1)	**4.80%**	4.87%	(1)
At Period End								
Securities available for sale	**$ 52,635**	$ 71,420	$ 34,480	(26)	53	**$ 52,635**	$ 34,480	53
Loans	**307,491**	300,622	296,189	2	4	**307,491**	296,189	4
Allowance for loan losses	**3,799**	3,851	3,886	(1)	(2)	**3,799**	3,886	(2)
Goodwill	**11,192**	11,091	10,776	1	4	**11,192**	10,776	4
Assets	**483,441**	499,516	453,494	(3)	7	**483,441**	453,494	7
Core deposits (2)	**260,793**	260,427	248,384		5	**260,793**	248,384	5
Stockholders equity	**44,862**	41,894	39,835	7	13	**44,862**	39,835	13
Tier 1 capital (4)	**35,551**	33,344	30,996	7	15	**35,551**	30,996	15

Total capital (4)	**50,197**	47,202	43,925	6	14	**50,197**	43,925	14
Capital ratios								
Stockholders equity to assets	**9.28%**	8.39%	8.78%	11	6	**9.28%**	8.78%	6
Risk-based capital (4)								
Tier 1 capital	**8.74**	8.35	8.35	5	5	**8.74**	8.35	5
Total capital	**12.34**	11.82	11.84	4	4	**12.34**	11.84	4
Tier 1 leverage (4)	**7.41**	6.99	7.16	6	3	**7.41**	7.16	3
Book value per common share	**$ 13.30**	$ 12.46	$ 11.86	7	12	**$ 13.30**	$ 11.86	12
Team members (active, full-time equivalent)	**156,400**	154,300	151,300	1	3	**156,400**	151,300	3
Common Stock Price								
High	**$ 36.89**	$ 34.86	$ 31.44	6	17	**$ 36.89**	$ 31.44	17
Low	**33.36**	31.90	29.00	5	15	**30.31**	28.89	5
Period end	**36.18**	33.54	29.29	8	24	**36.18**	29.29	24

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

(2) Core deposits are noninterest-bearing deposits, interest-bearing checking, savings certificates and market rate and other savings.

(3) Retail core deposits are total core deposits excluding Wholesale Banking core deposits and retail mortgage escrow deposits.

(4) See Note 18 (Regulatory and Agency Capital Requirements) to Financial Statements for additional information.

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This Report on Form 10-Q for the quarter ended September 30, 2006, including the Financial Review and the Financial Statements and related Notes, has forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. We identify some of the forward-looking statements contained in this Report in the Risk Factors section. Do not unduly rely on forward-looking statements. Actual results might differ significantly from our forecasts and expectations due to several factors. Some of these factors are described in the Financial Review and in the Financial Statements and related Notes. For a discussion of other factors, refer to the Risk Factors section in this Report and to the Risk Factors and Regulation and Supervision sections of our Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Form 10-K), filed with the Securities and Exchange Commission (SEC) and available on the SEC s website at www.sec.gov.

OVERVIEW

Wells Fargo & Company is a $483 billion diversified financial services company providing banking, insurance, investments, mortgage banking and consumer finance through banking stores, the internet and other distribution channels to consumers, businesses and institutions in all 50 states of the U.S. and in other countries. We ranked fifth in assets and fourth in market value of our common stock among U.S. bank holding companies at September 30, 2006. When we refer to the Company, we, our and us in this Report, we mean Wells Fargo & Company and Subsidiaries (consolidated). When we refer to the Parent, we mean Wells Fargo & Company.

In third quarter 2006, we achieved record diluted earnings per share of $0.64, up 10% from a year ago, and record net income of $2.19 billion, up 11% from a year ago. All common share and per share disclosures in this Report reflect the two-for-one stock split in the form of a 100% stock dividend distributed August 11, 2006. Our results were driven by solid revenue growth, with revenue in businesses other than Wells Fargo Home Mortgage (Home Mortgage) up a combined 13% from last year, and positive operating leverage, and once again demonstrated the advantage of our diversified business model. Despite the uncertain economic and interest rate environment, our diverse group of more than 80 businesses once again produced double-digit earnings growth, led by particular strength in regional banking and wholesale/commercial banking. We continued to have strong performance on numerous financial measures, including a wider net interest margin, improved operating efficiency and, at 20%, the highest return on equity since first quarter 2004. We continued to have the widest net interest margin among large bank holding companies. The relative stability of our margin, despite the persistently challenging yield curve, reflected our discipline around managing our loan and securities portfolios for high long-term yield, as well as continued growth in our large base of core deposits while maintaining disciplined deposit pricing.

Our vision is to satisfy all the financial needs of our customers, help them succeed financially, be recognized as the premier financial services company in our markets and be one of America s great companies. Our primary strategy to achieve this vision is to increase the number of products our customers buy from us and to give them all of the financial products that fulfill their needs. Our cross-sell strategy and diversified business model facilitate growth in strong and weak economic cycles, as we can grow by expanding the number of products our current customers have with us. Our average retail banking household now has a record 5.1 products with us and our average Wholesale Banking customer has 5.9 products. Our goal is eight

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products per customer, which is currently half of our estimate of potential demand. Our core products in third quarter 2006 grew from a year ago, with average loans up 3%, even with the sales of lower-yielding adjustable rate mortgages (ARMs) through second quarter 2006, average core deposits up 5% and assets managed and administered up 17%. Our owned mortgage loan servicing portfolio was a record $1.33 trillion at September 30, 2006, including the $140 billion mortgage servicing portfolio acquired from Washington Mutual, Inc. in July 2006.

We believe it is important to maintain a well-controlled environment as we continue to grow our businesses. We manage our credit risk by maintaining prudent credit policies for underwriting and effective procedures for monitoring and review. We manage the interest rate and market risks inherent in our asset and liability balances within prudent ranges, while ensuring adequate liquidity and funding. Our stockholder value has increased over time due to customer satisfaction, strong financial results, investment in our businesses and the prudent way we attempt to manage our business risks.

Our financial results included the following:

Net income for third quarter 2006 increased 11% to $2.19 billion from $1.98 billion for third quarter 2005. Diluted earnings per share for third quarter 2006 increased 10% to $0.64 from $0.58 for third quarter 2005. Return on average assets (ROA) was 1.76% and return on average common equity (ROE) was 20.00% for third quarter 2006, and 1.75% and 19.72%, respectively, for third quarter 2005.

Net income for the first nine months of 2006 was $6.30 billion, or $1.85 per share, compared with $5.74 billion, or $1.68 per share, for the first nine months of 2005. ROA was 1.73% in the first nine months of 2006, compared with 1.75% for the first nine months of 2005. ROE was 19.89% in the first nine months of 2006, compared with 19.70% for the first nine months of 2005.

Net interest income on a taxable-equivalent basis increased 8% to $5.08 billion for third quarter 2006 on 9% earning assets growth from $4.70 billion for third quarter 2005. Solid growth in net interest income again was driven by continued growth in high-quality earning assets and solid core deposit growth. With short-term interest rates now above 5%, our cumulative sales of lower-yielding ARMs and debt securities over the last two years continued to add to net interest income.

Noninterest income increased $60 million, or 2%, to $3.89 billion in third quarter 2006 from $3.83 billion in third quarter 2005. Excluding mortgage banking, noninterest income for third quarter 2006 increased 10% from third quarter 2005, reflecting strong growth in deposit service charges (up 8%), trust and investment fees (up 8%), debit and credit card fees (up 23%) and insurance fees (up 26%).

Mortgage banking noninterest income declined $259 million in third quarter 2006 from a year ago, largely due to the change in mortgage servicing rights (MSRs) valuation. In third quarter 2005 a quarter in which long-term mortgage interest rates increased 51 basis points the difference between MSRs impairment reserve release (income) and hedging losses was a net gain of $296 million. In third quarter 2006 a quarter in which mortgage rates declined 48 basis points the reduction in the value of MSRs net of hedging gains was a net loss of $86 million.

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Revenue, the sum of net interest income and noninterest income, grew $431 million, or 5%, to $8.93 billion in third quarter 2006 from $8.50 billion in third quarter 2005. Home Mortgage revenue declined $502 million to $923 million from $1.4 billion in third quarter 2005, largely due to the $356 million mortgage servicing rights valuation reserve release (income) partly offset by $60 million of hedging losses recorded in third quarter 2005. Combined revenue of businesses other than Home Mortgage grew 13% from third quarter 2005. Businesses with double-digit, year-over-year revenue growth included business direct, regional banking, merchant card services, credit cards, debit cards, corporate trust, asset-based lending, Eastdil Secured, commercial banking, insurance, international, commercial real estate, specialized financial services and consumer finance.

Noninterest expense was $5.08 billion for third quarter 2006, up 4% from $4.89 billion for the same period of 2005. Noninterest expense included $28 million in stock option expense. We continued to invest in our businesses during the quarter. In the last 12 months, we opened 119 new regional banking stores, including 27 stores this quarter. We grew our sales and service force by adding 5,100 team members (full-time equivalents), including 667 retail bankers in third quarter 2006. As a result of continued positive operating leverage, our efficiency ratio improved to 56.9%, the lowest since first quarter 2004.

Net charge-offs for third quarter 2006 were $663 million (0.86% of average total loans, annualized), compared with $541 million (0.73%) during third quarter 2005. During the first nine months of 2006, net charge-offs were $1,528 million (0.67%), compared with $1,580 million (0.72%), for the first nine months of 2005, which included $163 million (0.11%) related to changes in loss recognition rules at Wells Fargo Financial to conform to Federal Financial Institutions Examination Council (FFIEC) bank standards for recognizing credit losses. Our wholesale businesses continued to show little or no loss and historically low levels of nonperforming assets. However, we saw an increase in loss rates in consumer loans to 1.17% in third quarter 2006 from 0.91% in third quarter 2005 due primarily to higher losses in other revolving credit and installment loans. Third quarter 2006 loan losses in other consumer loan categories were comparable to, or better than, loss rates in third quarter 2005, and were well within a range of acceptable expected losses.

Consumer auto loan losses increased $150 million from second quarter 2006, accounting for 65% of the total increase in consolidated net charge-offs of $231 million for the same period. The increase in consumer auto loan losses in part was due to growth and expected seasoning in the portfolio. In addition, loss rates in this portfolio increased in third quarter 2006 in large part due to collection capacity constraints experienced by Wells Fargo Financial and restrictive payment extension practices in the spring of 2006 while Wells Fargo Financial began integrating the prime and non-prime auto loan businesses. During third quarter 2006, Wells Fargo Financial adopted collection practices and standards appropriate for the combined portfolio, began reducing higher risk new auto loans and hired additional collectors and managers, which have now been increased by almost 1,000, or 60%, since the beginning of the year. We believe we will see improvement in collections by early 2007, but losses will remain above normal through at least the fourth quarter given the limits to how fast the increased collection capability produces effective results. Loans 90 days or more past due and still accruing for other revolving credit and installment consumer loans increased $85 million to $516 million at September 30, 2006, from June 30, 2006, with approximately half of the increase due to the auto portfolio.

The allowance for credit losses, which consists of the allowance for loan losses and the reserve for unfunded credit commitments, was $3.98 billion (1.29% of total loans) at September 30, 2006, compared with $4.06 billion (1.31%) at December 31, 2005, and $4.06 billion (1.37%) at September 30, 2005. In third quarter 2005, we provided $100 million for estimated credit losses related to Hurricane Katrina. Since that time, we have identified and recorded approximately $50 million of Katrina-related losses. Because we do not anticipate any further credit losses attributable to Katrina, we released the remaining $50 million balance in third quarter 2006. We consider the allowance for credit losses of $3.98 billion adequate to cover losses inherent in the loan portfolio at September 30, 2006.

Total nonaccrual loans were $1.49 billion (0.48% of total loans) at September 30, 2006, compared with $1.34 billion (0.43%) at December 31, 2005, and $1.30 billion (0.44%) at September 30, 2005. Total nonperforming assets were $2.10 billion (0.68% of total loans) at September 30, 2006, compared with $1.53 billion (0.49%) at December 31, 2005, and $1.49 billion (0.50%) at September 30, 2005. Foreclosed assets were $608 million at September 30, 2006, compared with $191 million at December 31, 2005, and $187 million at September 30, 2005. Foreclosed assets, a component of total nonperforming assets, included an additional $266 million of foreclosed real estate securing Government National Mortgage Association (GNMA) loans at September 30, 2006, due to a change in regulatory reporting requirements effective January 1, 2006. The GNMA foreclosed real estate of $266 million represented 9 basis points of the ratio of nonperforming assets to loans at September 30, 2006. These assets are fully collectible because the corresponding GNMA loans are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs.

The ratio of stockholders equity to total assets was 9.28% at September 30, 2006, 8.44% at December 31, 2005, and 8.78% at September 30, 2005. Our total risk-based capital (RBC) ratio at September 30, 2006, was 12.34% and our Tier 1 RBC ratio was 8.74%, exceeding the minimum regulatory guidelines of 8% and 4%, respectively, for bank holding companies. Our RBC ratios at September 30, 2005, were 11.84% and 8.35%, respectively. Our Tier 1 leverage ratios were 7.41% and 7.16% at September 30, 2006 and 2005, respectively, exceeding the minimum regulatory guideline of 3% for bank holding companies.

Current Accounting Developments

On July 13, 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48, *Accounting for Income Tax Uncertainties* (FIN 48). FIN 48 supplements Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (FAS 109), by defining the threshold for recognizing tax benefits in the financial statements as more-likely-than-not to be sustained by the applicable taxing authority. The benefit recognized for a tax position that meets the more-likely-than-not criterion is measured based on the largest benefit that is more than 50% likely to be realized, taking into consideration the amounts and probabilities of the outcomes upon settlement. We will adopt FIN 48 on January 1, 2007, as required. Any necessary adjustment must be recorded directly to the beginning balance of retained earnings in the period of adoption and reported as a change in accounting principle. We are currently in the process of identifying the impact of this guidance on our consolidated financial statements.

Also on July 13, 2006, the FASB issued Staff Position 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Related to Income Taxes Generated by a*

Leveraged Lease Transaction (FSP 13-2). FSP 13-2 relates to the accounting for leveraged lease transactions for which there have been cash flow estimate changes based on when income tax benefits are recognized. Certain of our leveraged lease transactions have been challenged by the Internal Revenue Service (IRS). While we have not made investments in a broad class of transactions that the IRS commonly refers as Lease-In, Lease-Out (LILO) transactions, we have previously invested in certain leveraged lease transactions that the IRS labels as Sale-In Lease-Out (SILO) transactions. We have paid the IRS the income tax associated with our SILO transactions. However, we are continuing to vigorously defend our initial filing position as to the timing of the tax benefits associated with these transactions. We will adopt FSP 13-2 on January 1, 2007, as required. We estimate that the cumulative effect of change in accounting principle upon adoption of the FSP will require a reduction of the beginning balance of retained earnings by approximately $75 million after tax ($115 million pre tax). This amount will be recognized back into income over the remaining terms of the affected leases.

On February 16, 2006, the FASB issued FAS 155, *Accounting for Certain Hybrid Financial Instruments*, which amends FAS 133*, Accounting for Derivatives and Hedging Activities*, and FAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Hybrid financial instruments are single financial instruments that contain an embedded derivative. Under FAS 155, entities can elect to record certain hybrid financial instruments at fair value as individual financial instruments. Prior to this amendment, certain hybrid financial instruments were required to be separated into two instruments a derivative and host and generally only the derivative was recorded at fair value. FAS 155 also requires that beneficial interests in securitized assets be evaluated for either freestanding or embedded derivatives. FAS 155 is effective for all financial instruments acquired or issued after January 1, 2007. FAS 155 will have no effect on our consolidated financial statements on the date of adoption.

On September 15, 2006, the FASB issued FAS 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. FAS 157 is effective for the year beginning January 1, 2008, with early adoption permitted on January 1, 2007. We are currently evaluating if we will choose to adopt FAS 157 early, on January 1, 2007. We do not expect that the adoption of FAS 157 will have a material effect on our consolidated financial statements.

On September 29, 2006, the FASB issued FAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB Statements No. 87, 88, 106, and 132R*, requiring an employer to recognize on its balance sheet the funded status of pension and other postretirement plans, measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year and recognize changes in a plan s funded status in the year in which the changes occur in comprehensive income. The requirement to recognize the funded status of our plans is effective December 31, 2006. The funded status will be determined by comparing the fair value of plan assets and the projected benefit obligation or accumulated postretirement benefit obligation, as applicable, including actuarial gains and losses, prior service cost, and any remaining transition amounts. To the extent the fair value of plan assets is larger, the plan is considered overfunded and an asset is recorded. Any previously recorded prepaid pension asset would be adjusted to reflect the funded status of the plan with the

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offset to accumulated other comprehensive income. Conversely, if a plan is underfunded, a liability would be reported. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. We do not expect adoption of FAS 158 to have a material impact on our consolidated balance sheet.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are fundamental to understanding our results of operations and financial condition, because some accounting policies require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. Three of these policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. These policies govern the allowance for credit losses, the valuation of residential MSRs and pension accounting.
Management has reviewed and approved these critical accounting policies and has discussed these policies with the Audit and Examination Committee. Policies covering the allowance for credit losses and pension accounting are described in Financial Review Critical Accounting Policies and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2005 Form 10-K. Due to adoption of FAS 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140,* our accounting policy covering the valuation of residential mortgage servicing rights has been updated and is described below.

VALUATION OF RESIDENTIAL MORTGAGE SERVICING RIGHTS

We recognize as assets the rights to service mortgage loans for others, or mortgage servicing rights (MSRs), whether we purchase the servicing rights, or the servicing rights result from the sale or securitization of loans we originate (asset transfers). Effective January 1, 2006, under FAS 156, we elected to initially measure and carry our MSRs related to residential mortgage loans (residential MSRs) using the fair value measurement method. Under this method, purchased MSRs and MSRs from asset transfers are capitalized and carried at fair value. Prior to the adoption of FAS 156, we capitalized purchased residential MSRs at cost, and MSRs from asset transfers based on the relative fair value of the servicing right and the residential mortgage loan at the time of sale, and carried both purchased MSRs and MSRs from asset transfers at the lower of cost or market. Effective January 1, 2006, upon the remeasurement of our residential MSRs at fair value, we recorded a cumulative-effect adjustment to the 2006 beginning balance of retained earnings of $101 million after tax ($158 million pre tax) in our Statement of Changes in Stockholders Equity.
At the end of each quarter, we determine the fair value of MSRs using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, ancillary income and late fees. The valuation of MSRs is discussed further in this section and in Note 1 (Summary of Significant Accounting Policies) and Note 15 (Mortgage Banking Activities) to Financial Statements in this Report and in Note 20 (Securitizations and Variable Interest Entities) and Note 21 (Mortgage Banking Activities) to Financial Statements in our 2005 Form 10-K.

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

Net servicing income, a component of mortgage banking noninterest income, includes the changes from period to period in fair value of both our residential MSRs and the free-standing derivatives (economic hedges) used to hedge our residential MSRs. Changes in the fair value of residential MSRs from period to period result from (1) changes in the valuation model inputs or assumptions (principally reflecting changes in discount rates and prepayment speed assumptions, mostly due to changes in interest rates) and (2) other changes, representing changes due to collection/realization of expected cash flows over time. Prior to the adoption of FAS 156, we carried residential MSRs at the lower of cost or market, with amortization of MSRs and changes in the MSRs valuation allowance recognized in net servicing income.

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

These key economic assumptions and the sensitivity of the fair value of MSRs to an immediate adverse change in those assumptions are shown in Note 20 (Securitizations and Variable Interest Entities) to Financial Statements in our 2005 Form 10-K.

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

						Quarter ended September 30,
			2006			2005
(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	**$ 4,247**	**5.00%**	**$ 53**	$ 5,647	3.17%	$ 45
Trading assets	**3,880**	**5.19**	**51**	4,782	3.68	44
Debt securities available for sale (3):						
Securities of U.S. Treasury and federal agencies	**912**	**4.42**	**10**	1,042	3.70	10
Securities of U.S. states and political subdivisions	**3,240**	**7.99**	**63**	3,321	8.12	63
Mortgage-backed securities:						
Federal agencies	**47,009**	**6.09**	**716**	17,815	6.08	264
Private collateralized mortgage obligations	**7,696**	**6.78**	**129**	4,245	5.63	59
Total mortgage-backed securities	**54,705**	**6.19**	**845**	22,060	5.99	323
Other debt securities (4)	**6,865**	**6.80**	**116**	3,888	7.21	68
Total debt securities available for sale (4)	**65,722**	**6.31**	**1,034**	30,311	6.29	464
Mortgages held for sale (3)	**42,369**	**6.63**	**702**	47,510	5.68	674
Loans held for sale (3)	**622**	**7.73**	**12**	626	5.86	9
Loans:						
Commercial and commercial real estate:						
Commercial	**66,216**	**8.36**	**1,395**	59,434	6.83	1,023
Other real estate mortgage	**29,851**	**7.47**	**562**	28,614	6.42	464
Real estate construction	**15,073**	**8.13**	**309**	12,259	6.64	204
Lease financing	**5,385**	**5.65**	**76**	5,252	5.74	75
Total commercial and commercial real estate	**116,525**	**7.98**	**2,342**	105,559	6.64	1,766
Consumer:						
Real estate 1-4 family first mortgage	**50,138**	**7.54**	**951**	72,479	6.60	1,201
	65,991	**8.14**	**1,353**	56,412	6.71	954

Real estate 1-4 family junior lien mortgage						
Credit card	**12,810**	**13.45**	**431**	10,867	12.38	336
Other revolving credit and installment	**51,988**	**9.75**	**1,278**	45,380	8.72	998
Total consumer	**180,927**	**8.81**	**4,013**	185,138	7.49	3,489
Foreign	**6,528**	**12.42**	**204**	4,914	13.35	164
Total loans (5)	**303,980**	**8.57**	**6,559**	295,611	7.29	5,419
Other	**1,348**	**5.12**	**18**	1,511	3.83	16
Total earning assets	**$ 422,168**	**7.95**	**8,429**	$ 385,998	6.89	6,671
FUNDING SOURCES						
Deposits:						
Interest-bearing checking	**$ 4,370**	**3.24**	**36**	$ 3,698	1.50	13
Market rate and other savings	**132,906**	**2.55**	**854**	129,390	1.57	513
Savings certificates	**33,909**	**4.03**	**344**	23,434	2.98	176
Other time deposits	**36,920**	**5.27**	**491**	22,204	3.48	196
Deposits in foreign offices	**22,303**	**4.84**	**272**	12,359	3.28	102
Total interest-bearing deposits	**230,408**	**3.44**	**1,997**	191,085	2.08	1,000
Short-term borrowings	**21,539**	**4.99**	**271**	22,797	3.28	189
Long-term debt	**84,112**	**5.13**	**1,084**	82,840	3.75	780
Total interest-bearing liabilities	**336,059**	**3.96**	**3,352**	296,722	2.64	1,969
Portion of noninterest-bearing funding sources	**86,109**			89,276		
Total funding sources	**$ 422,168**	**3.16**	**3,352**	$385,998	2.03	1,969
Net interest margin and net interest income on a taxable-equivalent basis(6)		**4.79%**	**$ 5,077**		4.86%	$ 4,702
NONINTEREST-EARNING ASSETS						
Cash and due from banks	**$ 12,159**			$ 13,100		
Goodwill	**11,156**			10,736		
Other	**49,196**			38,325		
Total noninterest-earning assets	**$ 72,511**			$ 62,161		
NONINTEREST-BEARING FUNDING SOURCES						
Deposits	**$ 89,245**			$ 90,665		
Other liabilities	**25,839**			21,074		

Stockholders equity	**43,536**	39,698
Noninterest-bearing funding sources used to fund earning assets	**(86,109)**	(89,276)
Net noninterest-bearing funding sources	**$ 72,511**	$ 62,161
TOTAL ASSETS	**$ 494,679**	$ 448,159

(1) Our average prime rate was 8.25% and 6.42% for the quarters ended September 30, 2006 and 2005, respectively, and 7.86% and 5.93% for the nine months ended September 30, 2006 and 2005, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 5.43% and 3.77% for the quarters ended September 30, 2006 and 2005, respectively, and 5.14% and 3.30% for the nine months ended September 30, 2006 and 2005, respectively.

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

categories.

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

(4) Includes certain preferred securities.

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

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

	Nine months ended September 30,					
			2006			2005
(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	**$ 4,761**	**4.58%**	**$ 163**	$ 5,546	2.81%	$ 117
Trading assets	**5,298**	**4.91**	**195**	5,529	3.43	142
Debt securities available for sale (3):						
Securities of U.S. Treasury and federal agencies	**905**	**4.38**	**30**	979	3.78	28
Securities of U.S. states and political subdivisions	**3,120**	**8.11**	**183**	3,441	8.28	202
Mortgage-backed securities:						
Federal agencies	**38,366**	**5.99**	**1,723**	18,495	6.06	815
Private collateralized mortgage obligations	**7,149**	**6.65**	**352**	4,140	5.55	169
Total mortgage-backed securities	**45,515**	**6.10**	**2,075**	22,635	5.97	984
Other debt securities (4)	**6,136**	**7.06**	**324**	3,511	7.25	184
Total debt securities available for sale (4)	**55,676**	**6.28**	**2,612**	30,566	6.30	1,398
Mortgages held for sale (3)	**44,533**	**6.34**	**2,119**	37,958	5.57	1,585
Loans held for sale (3)	**619**	**7.33**	**34**	3,617	5.02	136
Loans:						
Commercial and commercial real estate:						
Commercial	**64,816**	**8.07**	**3,914**	57,469	6.55	2,816
Other real estate mortgage	**29,162**	**7.26**	**1,585**	29,325	6.14	1,347
Real estate construction	**14,485**	**7.89**	**854**	10,428	6.43	501
Lease financing	**5,416**	**5.74**	**233**	5,185	5.97	232
Total commercial and commercial real estate	**113,879**	**7.73**	**6,586**	102,407	6.39	4,896
Consumer:						
Real estate 1-4 family first mortgage	**59,758**	**7.20**	**3,221**	78,822	6.31	3,725
Real estate 1-4 family junior lien mortgage	**62,923**	**7.91**	**3,723**	54,760	6.38	2,612

Credit card	**12,178**	**13.29**	**1,213**	10,439	12.16	952
Other revolving credit and installment	**50,152**	**9.57**	**3,592**	41,926	8.68	2,723
Total consumer	**185,011**	**8.49**	**11,749**	185,947	7.19	10,012
Foreign	**6,251**	**12.53**	**587**	4,520	13.66	462
Total loans (5)	**305,141**	**8.29**	**18,922**	292,874	7.01	15,370
Other	**1,366**	**4.90**	**50**	1,637	4.30	52
Total earning assets	**$ 417,394**	**7.72**	**24,095**	$ 377,727	6.66	18,800
FUNDING SOURCES						
Deposits:						
Interest-bearing checking	**$ 4,243**	**2.77**	**88**	$ 3,543	1.29	34
Market rate and other savings	**133,767**	**2.31**	**2,307**	128,364	1.31	1,255
Savings certificates	**30,997**	**3.75**	**868**	21,299	2.74	437
Other time deposits	**36,324**	**4.94**	**1,343**	25,775	2.95	569
Deposits in foreign offices	**19,477**	**4.58**	**667**	10,450	2.85	222
Total interest-bearing deposits	**224,808**	**3.14**	**5,273**	189,431	1.78	2,517
Short-term borrowings	**24,168**	**4.59**	**830**	23,629	2.84	502
Long-term debt	**83,437**	**4.81**	**3,004**	79,126	3.43	2,034
Total interest-bearing liabilities	**332,413**	**3.66**	**9,107**	292,186	2.31	5,053
Portion of noninterest-bearing funding sources	**84,981**			85,541		
Total funding sources	**$ 417,394**	**2.92**	**9,107**	$ 377,727	1.79	5,053
Net interest margin and net interest income on a taxable-equivalent basis(6)		**4.80%**	**$ 14,988**		4.87%	$ 13,747
NONINTEREST-EARNING ASSETS						
Cash and due from banks	**$ 12,495**			$ 13,060		
Goodwill	**11,066**			10,680		
Other	**46,227**			36,676		
Total noninterest-earning assets	**$ 69,788**			$ 60,416		
NONINTEREST-BEARING FUNDING SOURCES						
Deposits	**$ 88,395**			$ 85,965		
Other liabilities	**24,007**			21,055		
Stockholders equity	**42,367**			38,937		
	(84,981)			(85,541)		

Noninterest-bearing funding sources used to fund earning assets		
Net noninterest-bearing funding sources	**$ 69,788**	$ 60,416
TOTAL ASSETS	**$ 487,182**	$ 438,143

(1) Our average prime rate was 8.25% and 6.42% for the quarters ended September 30, 2006 and 2005, respectively, and 7.86% and 5.93% for the nine months ended September 30, 2006 and 2005, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 5.43% and 3.77% for the quarters ended September 30, 2006 and 2005, respectively, and 5.14% and 3.30% for the nine months ended September 30, 2006 and 2005, respectively.

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

categories.

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

(4) Includes certain preferred securities.

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

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

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NET INTEREST INCOME

Net interest income is the interest earned on debt securities, loans (including yield-related loan fees) and other interest-earning assets minus the interest paid for deposits and long-term and short-term debt. The net interest margin is the average yield on earning assets minus the average interest rate paid for deposits and our other sources of funding. Net interest income and the net interest margin are presented in the table on pages 10 and 11 on a taxable-equivalent basis to consistently reflect income from taxable and tax-exempt loans and securities based on a 35% marginal tax rate.

Net interest income on a taxable-equivalent basis increased 8% to $5.08 billion in third quarter 2006 from $4.70 billion in third quarter 2005, primarily driven by a 9% growth in average earning assets and purchases of securities in the last year.

Our net interest margin has remained relatively stable since the Federal Reserve began raising short-term interest rates in mid 2004, increasing 3 basis points from second quarter 2006 to 4.79% in third quarter 2006, and down only 7 basis points from third quarter 2005. The relative stability of our net interest margin in the face of a 4.25 percentage point increase in the federal funds rate and flattening of the yield curve since June 2004 is the result of our continued growth in low-cost transaction and savings deposits as well as the cumulative effect of selling our lower-yielding ARMs and debt securities during the past two years.

Average earning assets increased $36.2 billion to $422.2 billion in third quarter 2006 from $386.0 billion in third quarter 2005, due to an increase in average loans and mortgage-backed securities. Loans averaged $304.0 billion in third quarter 2006, compared with $295.6 billion in third quarter 2005. The increase was primarily due to an increase in commercial and commercial real estate loans, real estate 1-4 family junior lien mortgages, and other revolving credit and installment loans, partly offset by the sale of lower-yielding ARMs through second quarter 2006.

Average mortgages held for sale decreased to $42.4 billion in third quarter 2006 from $47.5 billion in third quarter 2005, due to the sale of lower-yielding ARMs completed in second quarter 2006, partly offset by an increase in loan originations. Debt securities available for sale averaged $65.7 billion during third quarter 2006 and $30.3 billion in third quarter 2005.

Average core deposits are an important contributor to growth in net interest income and the net interest margin. This low-cost source of funding rose 5% from a year ago. Average core deposits were $260.4 billion and $247.2 billion in third quarter 2006 and 2005, respectively. Total average retail core deposits, which exclude Wholesale Banking core deposits and retail mortgage escrow deposits, for third quarter 2006 grew $7.4 billion, or 4%, from a year ago. Average mortgage escrow deposits were $19.4 billion for third quarter 2006, up $367 million from a year ago. Savings certificates of deposits increased on average to $33.9 billion in third quarter 2006 from $23.4 billion in third quarter 2005 and noninterest-bearing checking accounts and other core deposit categories increased on average to $226.5 billion in third quarter 2006 from $223.8 billion in third quarter 2005. Total average interest-bearing deposits increased to $230.4 billion in third quarter 2006 from $191.1 billion in third quarter 2005.

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NONINTEREST INCOME

(in millions)	Quarter ended Sept. 30, 2006	Quarter ended Sept. 30, 2005	% Change	Nine months ended Sept. 30, 2006	Nine months ended Sept. 30, 2005	% Change
Service charges on deposit accounts	**$ 707**	$ 654	8%	**$ 1,995**	$ 1,857	7%
Trust and investment fees:						
Trust, investment and IRA fees	**508**	473	7	**1,508**	1,374	10
Commissions and all other fees	**156**	141	11	**494**	439	13
Total trust and investment fees	**664**	614	8	**2,002**	1,813	10
Card fees	**464**	377	23	**1,266**	1,064	19
Other fees:						
Cash network fees	**48**	45	7	**140**	135	4
Charges and fees on loans	**244**	280	(13)	**735**	785	(6)
All other	**217**	195	11	**632**	531	19
Total other fees	**509**	520	(2)	**1,507**	1,451	4
Mortgage banking:						
Servicing income, net	**188**	373	(50)	**579**	730	(21)
Net gains on mortgage loan origination/ sales activities	**179**	273	(34)	**811**	816	(1)
All other	**117**	97	21	**244**	248	(2)
Total mortgage banking	**484**	743	(35)	**1,634**	1,794	(9)
Operating leases	**192**	202	(5)	**593**	612	(3)
Insurance	**313**	248	26	**1,041**	943	10
Trading assets	**106**	184	(42)	**331**	391	(15)
Net gains (losses) on debt securities available for sale	**121**	(31)		**(70)**	4	--
Net gains from equity investments	**159**	146	9	**482**	418	15
Net gains on sales of loans	**2**	3	(33)	**7**	3	133
All other	**166**	167	(1)	**589**	442	33
Total	**$ 3,887**	$ 3,827	2	**$ 11,377**	$ 10,792	5

We earn trust, investment and IRA fees from managing and administering assets, including mutual funds, corporate trust, personal trust, employee benefit trust and agency assets. At September 30, 2006, these assets totaled $868 billion, up 17% from $744 billion at September 30, 2005. Generally, trust, investment and IRA fees are based on the market value of the assets that are managed, administered, or both. The increase from third quarter 2005 was due to continued strong momentum in growth of managed investment accounts for institutional customers and our successful efforts to grow the business.

Also, we receive commissions and other fees for providing services to full-service and discount brokerage customers. At September 30, 2006 and 2005, brokerage balances were $110 billion and $94 billion, respectively. Generally, these fees include transactional commissions, which are based on the number of transactions executed at the customer s direction, or asset-based fees, which are based on the market value of the customer s assets. The increase from third quarter 2005 was primarily due to continued growth in asset-based fees.

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Card fees increased 23% from third quarter 2005, due to growth in distribution of debit and credit cards to our customers and increased usage. Purchase volume on debit and credit cards was up 21% from a year ago and average card balances were up 18%.

Mortgage banking noninterest income was $484 million and $1,634 million in the third quarter and first nine months of 2006, respectively, compared with $743 million and $1,794 million in the same periods of 2005. The decrease of $259 million from third quarter 2005 to third quarter 2006 was largely due to the change in MSRs valuation. With the adoption of FAS 156 in first quarter 2006 and measuring our residential MSRs at fair value, net servicing income includes both changes in the fair value of MSRs during the period as well as changes in derivatives (economic hedges) used to hedge the MSRs. Prior to adoption of FAS 156, servicing income included net derivative gains and losses (primarily the ineffective portion of the change in value of derivatives used to hedge MSRs under FAS 133), amortization and MSRs impairment, which are all influenced by both the level and direction of mortgage interest rates.

Net gains on mortgage loan origination/sales activities decreased $94 million to $179 million for third quarter 2006, from $273 million for third quarter 2005, largely due to lower investor demand for ARMs loans. Third quarter 2006 results included a $48 million loss due to the impact of interest rate volatility on ARMs spreads, reflecting changes in the value of ARMs production held for sale not fully offset by Treasury and LIBOR-indexed economic hedging activity. Net gains on mortgage loan origination/sales activities of $811 million for the first nine months of 2006 were comparable to the same period a year ago. Mortgage originations in third quarter 2006 totaled $104 billion, compared with $103 billion a year ago. Mortgage originations included $27 billion and $11 billion of co-issue volume in third quarter 2006 and 2005, respectively. Under co-issue arrangements, we become the servicer when the correspondent securitizes the related loans. The application pipeline at quarter end was $55 billion, down from $66 billion a year ago.

Servicing fees grew to $947 million in third quarter 2006 from $619 million in third quarter 2005 largely due to a 52% increase in the portfolio of mortgage loans serviced for others, which was $1.24 trillion at September 30, 2006, up from $815 billion a year ago. In July 2006, we acquired a $140 billion mortgage servicing portfolio from Washington Mutual, Inc. The change in the value of MSRs net of economic hedging results in third quarter 2006 a quarter in which interest rates declined was a loss of $86 million. The interest rate-related effect (impairment reserve release net of hedging results) in third quarter 2005 a quarter in which interest rates increased was a gain of $296 million.

Insurance income increased 26% from third quarter 2005 primarily due to an increase in premium volume.

Net gains (losses) on debt securities available for sale were $121 million and $(70) million in the third quarter and first nine months of 2006, respectively, compared with $(31) million and $4 million in the same periods of 2005. Gains in third quarter 2006 included $106 million related to securities previously held on the balance sheet as economic hedges of mortgage banking activities. Third quarter 2006 other noninterest income includes a $38 million loss on certain forward sales contracts related to these securities. Net gains from equity investments were $159 million and $482 million in the third quarter and first nine months of 2006, respectively, and $146 million and $418 million in the same periods of 2005.

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

NONINTEREST EXPENSE

	Quarter ended Sept. 30,		%	Nine months ended Sept. 30,		%
(in millions)	**2006**	2005	Change	**2006**	2005	Change
Salaries	**$ 1,769**	$ 1,571	13%	**$ 5,195**	$ 4,602	13%
Incentive compensation	**710**	676	5	**2,092**	1,703	23
Employee benefits	**458**	467	(2)	**1,534**	1,446	6
Equipment	**294**	306	(4)	**913**	939	(3)
Net occupancy	**357**	354	1	**1,038**	1,068	(3)
Operating leases	**155**	159	(3)	**473**	474	
Outside professional services	**240**	230	4	**669**	582	15
Contract services	**143**	163	(12)	**414**	443	(7)
Travel and entertainment	**132**	120	10	**401**	347	16
Outside data processing	**111**	114	(3)	**324**	341	(5)
Advertising and promotion	**123**	128	(4)	**354**	334	6
Postage	**75**	72	4	**235**	212	11
Telecommunications	**70**	74	(5)	**213**	213	
Insurance	**43**	17	153	**218**	196	11
Stationery and supplies	**57**	48	19	**163**	148	10
Operating losses	**33**	52	(37)	**140**	156	(10)
Security	**43**	42	2	**130**	125	4
Core deposit intangibles	**28**	30	(7)	**85**	93	(9)
Charitable donations	**15**	8	88	**51**	48	6
Net gains from debt extinguishment	**(2)**	(1)	100	**(6)**	(1)	500
All other	**227**	259	(12)	**695**	666	4
Total	**$ 5,081**	$ 4,889	4	**$ 15,331**	$ 14,135	8

The 4% increase in noninterest expense to $5.08 billion in third quarter 2006 from third quarter 2005 was due to the increase in salary and incentive compensation from an additional 5,100 team members (full-time equivalent), largely sales people, across our businesses. We recognized stock option expense, included in incentive compensation, of $28 million in third quarter 2006 and $108 million in the first nine months of 2006, which included $33 million in first quarter 2006 for the immediate expensing of stock options for retirement-eligible team members. We continued to invest in our businesses during the quarter. In the last 12 months, we opened 119 new regional banking stores, including 27 stores this quarter.

INCOME TAX EXPENSE

Our effective income tax rate was 32.28% for third quarter 2006, down from 33.57% for third quarter 2005, largely reflecting the benefits associated with tax-advantaged investments and favorable resolution of disputed positions with taxing jurisdictions. For the first nine months of 2006, our effective tax rate was 33.45% compared with 33.57% in the same period of 2005.

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OPERATING SEGMENT RESULTS

Our lines of business for management reporting are Community Banking, Wholesale Banking and Wells Fargo Financial. For a more complete description of our operating segments, including additional financial information and the underlying management accounting process, see Note 13 (Operating Segments) to Financial Statements.

Segment results for prior periods have been revised due to the realignment of our insurance business into Wholesale Banking in first quarter 2006, designed to leverage the expertise, systems and resources of the existing businesses.

Community Banking s net income decreased 1% to $1.47 billion in third quarter 2006 from $1.49 billion in third quarter 2005. Net income decreased 2% to $4.02 billion in the first nine months of 2006 from $4.09 billion in the first nine months of 2005. Net interest income increased 3% to $3.29 billion, and 5% to $9.87 billion in the third quarter and first nine months of 2006, respectively, from the same periods of 2005, primarily due to growth in earning assets and deposits. Average loans were $172.5 billion in third quarter 2006, down 6% from a year ago, predominantly due to sales of ARMs. Excluding real estate 1-4 family mortgages the loan category affected by the sales of ARMs total average loans grew by $13.8 billion, or 11%. Core deposits averaged $231.2 billion in third quarter 2006, up 3% over the prior year. Noninterest income of $2.49 billion in third quarter 2006 decreased $127 million, or 5%, from third quarter 2005, predominantly due to a $356 million MSRs valuation reserve release (income) recorded in third quarter 2005, partially offset by gains of $106 million on the sale of debt securities in third quarter 2006. Noninterest income for the first nine months of 2006 increased by $47 million from the same period of 2005. Noninterest expense increased $42 million and $628 million in the third quarter and first nine months of 2006, respectively, from the same periods of 2005, primarily due to an increase in the number of sales and service team members, as well as investments in new banking stores, ATMs and online banking.

Wholesale Banking s net income increased 31% to $527 million in third quarter 2006 from $403 million in third quarter 2005. Net income increased 17% to $1.58 billion in the first nine months of 2006 from $1.34 billion in the first nine months of 2005. Revenue was $1.78 billion in third quarter 2006, up 20% from $1.49 billion in third quarter 2005, primarily due to strong asset management, insurance and capital markets revenue, along with the acquisition of Secured Capital Corp in January 2006 and Reilly Mortgage in July 2006. Average loans increased 14% and average core deposits grew 23% from third quarter 2005. Noninterest income for the third quarter and first nine months of 2006 increased by $140 million and $365 million, respectively, from the same periods of 2005. Wholesale Banking recorded no provision for credit losses in third quarter 2006 or third quarter 2005. Noninterest expense increased 12% to $999 million and 15% to $3.01 billion in the third quarter and first nine months of 2006, respectively, from the same periods of 2005, due to higher personnel related expenses and additional expenses from the Secured Capital Corp and Reilly Mortgage acquisitions.

Wells Fargo Financial s net income increased 146% to $194 million in third quarter 2006 from $79 million in third quarter 2005. For the first nine months of 2006, net income was $704 million, compared with $311 million for the same period a year ago, which included a first quarter $163 million pre-tax charge to conform Wells Fargo Financial s charge-off practices with FFIEC guidelines. Net income for third quarter 2006 included a $50 million (pre tax) release of provision for credit losses reversing the remaining portion of the $100 million (pre tax) provision

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for credit losses related to Hurricane Katrina recorded in third quarter 2005. Total revenue rose 15% in third quarter 2006, reaching $1.37 billion, compared with $1.18 billion in third quarter 2005. Net interest income increased $135 million, or 16%, to $1.0 billion in third quarter 2006 from $869 million in third quarter 2005, due to growth in average loans. Average real estate secured receivables increased 21% to $21.0 billion and average auto finance receivables rose 34% to $26.4 billion from third quarter 2005. Noninterest expense increased 7% to $690 million in third quarter 2006, primarily due to additional investments in the collections, underwriting and service teams as a result of the growth of the business.

BALANCE SHEET ANALYSIS

SECURITIES AVAILABLE FOR SALE

Our securities available for sale portfolio consists of both debt and marketable equity securities. We hold debt securities available for sale primarily for liquidity, interest rate risk management and yield enhancement. Accordingly, this portfolio primarily includes very liquid, high-quality federal agency debt securities. At September 30, 2006, we held $51.8 billion of debt securities available for sale, compared with $40.9 billion at December 31, 2005, with a net unrealized gain of $733 million and $591 million for the same periods, respectively. The $18.8 billion decline in debt securities from $70.6 billion at June 30, 2006, was primarily due to sales of debt securities related to securities held on the balance sheet as economic hedges of mortgage banking activities. We also held $829 million of marketable equity securities available for sale at September 30, 2006, and $900 million at December 31, 2005, with a net unrealized gain of $232 million and $342 million for the same periods, respectively.

The weighted-average expected maturity of debt securities available for sale was 5.2 years at September 30, 2006. Since 79% of this portfolio was mortgage-backed securities, the expected remaining maturity may differ from contractual maturity because borrowers may have the right to prepay obligations before the underlying mortgages mature.

The estimated effect of a 200 basis point increase or decrease in interest rates on the fair value and the expected remaining maturity of the mortgage-backed securities available for sale portfolio are shown below.

MORTGAGE-BACKED SECURITIES

(in billions)	Fair value	Net unrealized gain (loss)	Remaining maturity
At September 30, 2006	$ 41.0	$ 0.6	4.3yrs
At September 30, 2006, assuming a 200 basis point:			
Increase in interest rates	37.7	(2.7)	6.9yrs
Decrease in interest rates	41.8	1.4	1.1yrs

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

LOAN PORTFOLIO

A discussion of average loan balances is included in Earnings Performance Net Interest Income on page 12 and a comparative schedule of average loan balances is included in the table on page 10; quarter-end balances are in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements.

Total loans at September 30, 2006, were $307.5 billion, compared with $296.2 billion at September 30, 2005. Real estate 1-4 family first mortgage loans decreased $19.5 billion to $49.8 billion at September 30, 2006, from $69.3 billion at September 30, 2005, due to the sale of lower-yielding ARMs earlier this year. This was offset by an increase of $9.7 billion in real estate 1-4 family junior lien mortgage loans to $67.2 billion from $57.5 billion for the same periods. Commercial and commercial real estate loans increased $10.6 billion to $117.6 billion from September 30, 2005. Mortgages held for sale decreased to $39.9 billion at September 30, 2006, from $46.1 billion a year ago.

DEPOSITS

(in millions)	**Sept. 30, 2006**	Dec. 31, 2005	Sept. 30, 2005
Noninterest-bearing	**$ 86,849**	$ 87,712	$ 89,304
Interest-bearing checking	**3,279**	3,324	2,992
Market rate and other savings	**135,837**	134,811	130,829
Savings certificates	**34,828**	27,494	25,259
Core deposits	**260,793**	253,341	248,384
Other time deposits	**32,185**	46,488	26,718
Deposits in foreign offices	**21,341**	14,621	13,927
Total deposits	**$ 314,319**	$ 314,450	$ 289,029

Average core deposits increased $13.2 billion to $260.4 billion in third quarter 2006 from third quarter 2005, predominantly due to growth in market rate and other savings, and savings certificates, partially offset by a decrease in non-interest bearing deposits.

OFF-BALANCE SHEET ARRANGEMENTS AND AGGREGATE CONTRACTUAL OBLIGATIONS

In the ordinary course of business, we engage in financial transactions that are not recorded on the balance sheet, or may be recorded on the balance sheet in amounts that are different than the full contract or notional amount of the transaction. We also enter into certain contractual obligations. For additional information on off-balance sheet arrangements and other contractual obligations see Financial Review Off-Balance Sheet Arrangements and Aggregate Contractual Obligations in our 2005 Form 10-K and Note 17 (Guarantees) to Financial Statements in this Report.

RISK MANAGEMENT

CREDIT RISK MANAGEMENT PROCESS

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

Nonaccrual Loans and Other Assets

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

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

Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2005 Form 10-K describes our accounting policy for nonaccrual loans.

NONACCRUAL LOANS AND OTHER ASSETS

(in millions)	**Sept. 30, 2006**	June 30, 2006	Dec. 31, 2005	Sept. 30, 2005
Nonaccrual loans:				
Commercial and commercial real estate:				
Commercial	**$ 256**	$ 253	$ 286	$ 293
Other real estate mortgage	**116**	137	165	197
Real estate construction	**90**	31	31	43
Lease financing	**27**	26	45	68
Total commercial and commercial real estate	**489**	447	527	601
Consumer:				
Real estate 1-4 family first mortgage	**595**	585	471	409
Real estate 1-4 family junior lien mortgage	**200**	179	144	119
Other revolving credit and installment	**167**	139	171	149
Total consumer	**962**	903	786	677
Foreign	**38**	45	25	23
Total nonaccrual loans (1)	**1,489**	1,395	1,338	1,301
As a percentage of total loans	**0.48%**	0.46%	0.43%	0.44%
Foreclosed assets:				
GNMA loans (2)	**266**	238		
Other	**342**	275	191	187
Real estate and other nonaccrual investments (3)	**3**	9	2	2
Total nonaccrual loans and other assets	**$ 2,100**	$ 1,917	$ 1,531	$ 1,490
As a percentage of total loans	**0.68%**	0.64%	0.49%	0.50%

(1) Includes impaired loans

of $192 million, $138 million, $190 million and $240 million at September 30, 2006, June 30, 2006, December 31, 2005, and September 30, 2005, respectively. See Note 5 to Financial Statements in this Report and Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in our 2005 Form 10-K for further information on impaired loans.

(2) As a result of a change in regulatory reporting requirements effective January 1, 2006, foreclosed real estate securing GNMA loans has been classified as nonperforming. These assets are fully collectible because the corresponding GNMA loans are insured by the FHA or guaranteed by the Department of Veterans Affairs.

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

About half of the $67 million increase in other foreclosed assets from June 30, 2006, to September 30, 2006, related to consumer auto loans. We expect that the amount of nonaccrual loans will change due to portfolio growth, portfolio seasoning, routine problem loan recognition and resolution through collections, sales or charge-offs. The performance of any one loan can be

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affected by external factors, such as economic conditions, or factors particular to a borrower, such as actions of a borrower s management.

Loans 90 Days or More Past Due and Still Accruing

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

The total of loans 90 days or more past due and still accruing was $3,664 million, $3,343 million, $3,606 million and $2,955 million at September 30, 2006, June 30, 2006, December 31, 2005, and September 30, 2005, respectively. At September 30, 2006, June 30, 2006, December 31, 2005, and September 30, 2005, the total included $2,689 million, $2,526 million, $2,923 million and $2,328 million, respectively, in advances pursuant to our servicing agreements to GNMA mortgage pools whose repayments are insured by the FHA or guaranteed by the Department of Veterans Affairs.

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

(in millions)	**Sept. 30, 2006**	June 30, 2006	Dec. 31, 2005	Sept. 30, 2005
Commercial and commercial real estate:				
Commercial	**$ 20**	$ 11	$ 18	$ 19
Other real estate mortgage	**8**	2	13	3
Real estate construction	**4**	10	9	3
Total commercial and commercial real estate	**32**	23	40	25
Consumer:				
Real estate 1-4 family first mortgage	**123**	107	103	100
Real estate 1-4 family junior lien mortgage	**50**	39	50	41
Credit card	**213**	181	159	145
Other revolving credit and installment	**516**	431	290	272
Total consumer	**902**	758	602	558
Foreign	**41**	36	41	44
Total	**$ 975**	$ 817	$ 683	$ 627

Approximately half of the $85 million increase in other revolving credit and installment loans from June 30, 2006, to September 30, 2006, related to consumer auto loans.

Allowance for Credit Losses

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

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In third quarter 2005, we provided $100 million for estimated credit losses related to Hurricane Katrina. Since that time, we have identified and recorded approximately $50 million of Katrina-related losses. Because we do not anticipate any further credit losses attributable to Katrina, we released the remaining $50 million balance in third quarter 2006.

We consider the allowance for credit losses of $3.98 billion adequate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, at September 30, 2006. The process for determining the adequacy of the allowance for credit losses is critical to our financial results. It requires difficult, subjective and complex judgments, as a result of the need to make estimates about the effect of matters that are uncertain. (See Financial Review Critical Accounting Policies Allowance for Credit Losses in our 2005 Form 10-K.) Therefore, we cannot provide assurance that, in any particular period, we will not have sizeable credit losses in relation to the amount reserved. We may need to significantly adjust the allowance for credit losses, considering current factors at the time, including economic conditions and ongoing internal and external examination processes. Our process for determining the adequacy of the allowance for credit losses is discussed in Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in our 2005 Form 10-K.

ASSET/LIABILITY AND MARKET RISK MANAGEMENT

Asset/liability management involves the evaluation, monitoring and management of interest rate risk, market risk, liquidity and funding. The Corporate Asset/Liability Management Committee (Corporate ALCO) which oversees these risks and reports periodically to the Finance Committee of the Board of Directors consists of senior financial and business executives. Each of our principal business groups Community Banking (including Mortgage Banking), Wholesale Banking and Wells Fargo Financial have individual asset/liability management committees and processes linked to the Corporate ALCO process.

Interest Rate Risk

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

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

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

We assess interest rate risk by comparing our most likely earnings plan with various earnings simulations using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, as of September 30, 2006, our most recent simulation indicated estimated earnings at risk of less than 1% of our most likely earnings plan over the next 12 months to either a scenario in which the federal funds rate declines 275 basis points to 2.50% and the Constant Maturity Treasury bond yield declines 125 basis points to 3.75%, or a scenario in which the federal funds rate rises 175 basis points to 7.00% and the Constant Maturity Treasury bond yield rises 225 basis points to 7.25%, over the same 12 month period. 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 twelve month simulation period, depending on the path of interest rates and on our MSRs hedging strategies. See Mortgage Banking Interest Rate Risk below.

We use exchange-traded and over-the-counter interest rate derivatives to hedge our interest rate exposures. The credit risk amount and estimated net fair values of these derivatives as of September 30, 2006, and December 31, 2005, are presented in Note 19 (Derivatives) to Financial Statements. We use derivatives for asset/liability management in three ways:

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

Mortgage Banking Interest Rate Risk

We originate, fund and service mortgage loans, which subjects us to various risks, including credit, liquidity and interest rate risks. We reduce unwanted credit and liquidity risks by selling or securitizing virtually all of the long-term fixed-rate mortgage loans we originate and most of the ARMs we originate. From time to time, we have held originated ARMs in portfolio as an investment for our growing base of core deposits. We determine whether the loans will be held for investment or held for sale at the time of origination. We may subsequently change our intent to hold loans for investment and sell some or all of our ARMs as part of our corporate asset/liability management.

While credit and liquidity risks have historically been relatively low for mortgage banking activities, interest rate risk can be substantial. Changes in interest rates may potentially impact total origination and servicing fees, the value of our residential MSRs measured at fair value and the associated income and loss reflected in mortgage banking noninterest income, the income and expense associated with instruments (economic hedges) used to hedge changes in the fair value of MSRs, and the value of derivative loan commitments extended to mortgage applicants.

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

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

We hedge the risk of changes in the fair value of residential MSRs with market-based free-standing derivative instruments (economic hedges), such as swaps, swaptions, Treasury futures and options, Eurodollar futures and options, and forward contracts, and we also use securities available for sale. Changes in the fair value of these free-standing derivatives, based on quoted market prices, as well as changes in the fair value of MSRs determined by our valuation model, are both included in net servicing income. Changes in fair value of securities available for sale (unrealized gains and losses) are not included in net servicing income, but are reported in cumulative other comprehensive income (net of tax) or, upon sale or determination that any impairment is other than temporary, are reported in gains (losses) on debt securities available for sale.

A decline in interest rates increases the propensity for refinancing, reduces the expected duration of the servicing portfolio and therefore reduces the estimated fair value of MSRs. This reduction in fair value causes a charge to income (net of any gains on free-standing derivatives (economic hedges) used to hedge MSRs). We may choose to not fully hedge all of the potential decline in the value of our MSRs resulting from a decline in interest rates because the potential increase in origination/servicing fees in that scenario may provide a partial natural business hedge. In a rising rate period, when the MSRs may not be fully hedged with free-standing derivatives, the change in the fair value of the MSRs that can be recaptured into income will typically although

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not always exceed the losses on any free-standing derivatives hedging the MSRs. In third quarter 2006, the decrease in the fair value of our MSRs exceeded the gains on derivatives used to hedge the MSRs by $86 million. In the first nine months of 2006, the decrease in the fair value of our MSRs and losses on free-standing derivatives used to hedge the MSRs totaled $253 million.

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

- MSRs valuation changes associated with interest rate changes are recorded in earnings immediately within the accounting period in which those interest rate changes occur, whereas the impact of those same changes in interest rates on origination and servicing fees occur with a lag and over time. Thus, the mortgage business could be protected from adverse changes in interest rates over a period of time on a cumulative basis but still display large variations in income in any accounting period.
- The degree to which the natural business hedge offsets changes in MSRs valuations is imperfect, varies at different points in the interest rate cycle, and depends not just on the direction of interest rates but on the pattern of quarterly interest rate changes. For example, given the relatively high level of refinancing activity in recent years and the increase in interest rates during the same period, any significant increase in refinancing activity would likely occur only if rates drop substantially from year-end 2005 levels.
- Origination volumes, the valuation of MSRs and hedging results and associated costs are also impacted by many factors. Such factors include the mix of new business between ARMs and fixed-rate mortgages, the relationship between short-term and long-term interest rates, the degree of volatility in interest rates, the relationship between mortgage interest rates and other interest rate markets, and other interest rate factors. Many of these factors are hard to predict and we may not be able to directly or perfectly hedge their effect.
- While our hedging activities are designed to balance our mortgage banking interest rate risks, the financial instruments we use may not perfectly correlate with the values and income being hedged. For example, the change in value of ARMs production held for sale from changes in mortgage interest rates may or may not be fully offset by Treasury and LIBOR index-based financial instruments used as economic hedges for such ARMs.

The total carrying value of our residential and commercial MSRs was $18.0 billion at September 30, 2006, and $12.5 billion, net of a valuation allowance of $1.2 billion, at December 31, 2005. The weighted-average note rate on the owned servicing portfolio was 5.86% at September 30, 2006, and 5.72% at December 31, 2005. Our total MSRs were 1.46% of mortgage loans serviced for others at September 30, 2006, compared with 1.44% at December 31, 2005.

As part of our mortgage banking activities, we enter into commitments to fund residential mortgage loans at specified times in the future. A mortgage loan commitment is an interest rate lock that binds us to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock. These loan commitments are derivative loan commitments if the loans that will result from the exercise of the commitments will be held for sale. Under FAS 133, these derivative loan commitments are

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recognized at fair value on the balance sheet with changes in their fair values recorded as part of mortgage banking noninterest income. Consistent with Emerging Issues Task Force Issue No. 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities,* and SEC Staff Accounting Bulletin No. 105, *Application of Accounting Principles to Loan Commitments,* we record no value for the loan commitment at inception. Subsequent to inception, we recognize the fair value of the derivative loan commitment based on estimated changes in the fair value of the underlying loan that would result from the exercise of that commitment and on changes in the probability that the loan will not fund within the terms of the commitment (referred to as a fall-out factor). The value of that loan is affected primarily by changes in interest rates and the passage of time. The value of the MSRs is recognized only after the servicing asset has been contractually separated from the underlying loan by sale or securitization.

Outstanding derivative loan commitments expose us to the risk that the price of the loans underlying the commitments might decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. To minimize this risk, we utilize Treasury futures, forwards and options, Eurodollar futures and forward contracts as economic hedges against the potential decreases in the values of the loans that could result from the exercise of the loan commitments. We expect that these derivative financial instruments will experience changes in fair value that will either fully or partially offset the changes in fair value of the derivative loan commitments.

Market Risk   Trading Activities

From a market risk perspective, our net income is exposed to changes in interest rates, credit spreads, foreign exchange rates, equity and commodity prices and their implied volatilities. The primary purpose of our trading businesses is to accommodate customers in the management of their market price risks. Also, we take positions based on market expectations or to benefit from price differences between financial instruments and markets, subject to risk limits established and monitored by Corporate ALCO. All securities, foreign exchange transactions, commodity transactions and derivatives   transacted with customers or used to hedge capital market transactions with customers are carried at fair value. The Institutional Risk Committee establishes and monitors counterparty risk limits. The credit risk amount and estimated net fair value of all customer accommodation derivatives at September 30, 2006, and December 31, 2005, are included in Note 19 (Derivatives) to Financial Statements. Open,   at risk   positions for all trading business are monitored by Corporate ALCO.

The standardized approach for monitoring and reporting market risk for the trading activities is the value-at-risk (VAR) metrics complemented with factor analysis and stress testing. VAR measures the worst expected loss over a given time interval and within a given confidence interval. We measure and report daily VAR at a 99% confidence interval based on actual changes in rates and prices over the past 250 days. The analysis captures all financial instruments that are considered trading positions. The average one-day VAR throughout third quarter 2006 was $19.6 million, with a lower bound of $10.2 million and an upper bound of $35.1 million.

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Market Risk Equity Markets

We are directly and indirectly affected by changes in the equity markets. We make and manage direct equity investments in start-up businesses, emerging growth companies, management buy-outs, acquisitions and corporate recapitalizations. We also invest in non-affiliated funds that make similar private equity investments. These private equity investments are made within capital allocations approved by management and the Board of Directors (the Board). The Board reviews business developments, key risks and historical returns for the private equity investments at least annually. Management reviews these investments at least quarterly and assesses them for possible other-than-temporary impairment. For nonmarketable investments, the analysis is based on facts and circumstances of each individual investment and the expectations for that investment s cash flows and capital needs, the viability of its business model and our exit strategy. Private equity investments totaled $1.65 billion at September 30, 2006, compared with $1.54 billion at December 31, 2005.

We also have marketable equity securities in the available for sale investment portfolio, including securities relating to our venture capital activities. We manage these investments within capital risk limits approved by management and the Board and monitored by Corporate ALCO. Gains and losses on these securities are recognized in net income when realized and other-than-temporary impairment may be periodically recorded when identified. The initial indicator of impairment for marketable equity securities is a sustained decline in market price below the amount recorded for that investment. We consider a variety of factors, such as the length of time and the extent to which the market value has been less than cost; the issuer s financial condition, capital strength, and near-term prospects; any recent events specific to that issuer and economic conditions of its industry; and, to a lesser degree, our investment horizon in relationship to an anticipated near-term recovery in the stock price, if any. The fair value of marketable equity securities was $829 million and cost was $597 million at September 30, 2006, compared with $900 million and $558 million, respectively, at December 31, 2005.

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

Liquidity and Funding

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

Debt securities in the securities available for sale portfolio provide asset liquidity, in addition to the immediately liquid resources of cash and due from banks, 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 through whole-loan sales and securitizations.

Core customer deposits have historically provided a sizeable source of relatively stable and low-cost funds. The remaining assets were funded by long-term debt, deposits in foreign offices, short-term borrowings (federal funds purchased, securities sold under repurchase agreements, commercial paper and other short-term borrowings) and trust preferred securities.

Liquidity is also available through our ability to raise funds in a variety of domestic and international money and capital markets. We access capital markets for long-term funding by issuing registered debt, private placements and asset-backed secured funding. In September 2003, Moody s Investors Service rated Wells Fargo Bank, N.A. as Aaa, its highest investment grade, and rated the Company s senior debt as Aa1. In August 2006, Standard & Poor s raised Wells Fargo Bank, N.A. s rating to AA+ from AA, and raised the Company s senior debt rating to AA from AA-. Rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, and level and quality of earnings.

Parent. Under SEC rules effective December 1, 2005, 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. However, the Parent s ability to issue debt and other securities under a registration statement filed with the SEC under these new rules is limited by the debt issuance authority granted by the Board. The Parent is currently authorized by the Board to issue $20 billion in outstanding short-term debt and $90 billion in outstanding long-term debt, subject to a total outstanding debt limit of $100 billion. In June 2006, the Parent s registration statement with the SEC for issuance of senior and subordinated notes, preferred stock and other securities became effective. During the first nine months of 2006, the Parent issued a total of $8.9 billion of registered senior notes, including $0.9 billion (denominated in pounds sterling) sold primarily in the United Kingdom and $2.0 billion (denominated in euros) sold primarily in Europe. Also, in the first nine months of 2006, the Parent issued $0.5 billion in private placements (denominated in Australian dollars) under the Parent s Australian debt issuance program. We used the proceeds from securities issued in the first nine months of 2006 for general corporate purposes and expect that the proceeds 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 $20 billion in outstanding short-term debt and $40 billion in outstanding long-term debt. In March 2003, Wells Fargo Bank, N.A. established a $50 billion bank note program under which, subject to any other debt outstanding under the limits described above, it may issue $20 billion in outstanding short-term senior notes and $30 billion in long-term senior notes. Securities are issued under this program as private placements in accordance with Office of the Comptroller of the Currency (OCC) regulations. During the first nine months of 2006, Wells Fargo Bank, N.A. issued $3.2 billion in long-term senior and subordinated notes, which included long-term senior notes issued under the bank note program.

Wells Fargo Financial. In January 2006, Wells Fargo Financial Canada Corporation (WFFCC), a wholly-owned Canadian subsidiary of Wells Fargo Financial, Inc. (WFFI), qualified for distribution with the provincial securities exchanges in Canada $7.0 billion (Canadian) of issuance authority. During the first nine months of 2006, WFFCC issued $1.3 billion (Canadian) in senior notes. At September 30, 2006, the remaining issuance capacity for WFFCC was $5.7 billion (Canadian). WFFI issued $0.5 billion (U.S.) in private placements in the first nine months of 2006.

CAPITAL MANAGEMENT

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

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 legal considerations. These factors can change at any time, and there can be no assurance as to the number of shares we will repurchase or when we will repurchase them. Historically, our policy has been to repurchase shares under the safe harbor conditions of Rule 10b-18 of the Exchange Act including a limitation on the daily volume of repurchases. Rule 10b-18 imposes an additional daily volume limitation on share repurchases during a pending merger or acquisition in which shares of our stock will constitute some or all of the consideration. Our management may determine that during a pending stock merger or acquisition when the safe harbor would otherwise be available, it is in our best interest to repurchase shares in excess of this additional daily volume limitation. In such cases, we intend to repurchase shares in compliance with the other conditions of the safe harbor, including the standing daily volume limitation that applies whether or not there is a pending stock merger or acquisition.

In 2005, the Board authorized the repurchase of up to 150 million additional shares of our outstanding common stock. In June 2006, the Board authorized the repurchase of up to 50 million additional shares of our outstanding common stock. During the first nine months of 2006, we repurchased 47 million shares of our common stock. At September 30, 2006, the total remaining common stock repurchase authority under the 2005 and 2006 authorizations was 73 million shares. (For additional information regarding share repurchases and repurchase authorizations, see Part II Item 2 of this Report.)

On June 27, 2006, the Board declared a two-for-one stock split in the form of a 100% stock dividend on our common stock which was distributed August 11, 2006, to stockholders of record at the close of business August 4, 2006. We distributed one share of common stock for each share of common stock issued and outstanding or held in the treasury of the Company. Also, in June 2006, the Board declared an increase in the quarterly common stock dividend to 56 cents per share, up 4 cents, or 8%. The cash dividend was on a pre-split basis and was payable September 1, 2006, to stockholders of record at the close of business August 4, 2006.

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Our potential sources of capital include retained earnings, and issuances of common and preferred stock and subordinated debt. In the first nine months of 2006, retained earnings increased $3.5 billion, predominantly resulting from net income of $6.3 billion and $0.1 billion from the adoption of FAS 156 upon remeasurement of our residential MSRs to fair value, less dividends of $2.7 billion. In the first nine months of 2006, we issued $1.7 billion of common stock (including shares issued for our ESOP plan) under various employee benefit and director plans and under our dividend reinvestment and direct stock repurchase programs.

At September 30, 2006, the Company and each of our subsidiary banks were well capitalized under the applicable regulatory capital adequacy guidelines. See Note 18 (Regulatory and Agency Capital Requirements) to Financial Statements for additional information.

RISK FACTORS

An investment in the Company has risk. In addition, in accordance with the Private Securities Litigation Reform Act of 1995, we caution you that actual results may differ from forward-looking statements about our future financial and business performance contained in this Report and other reports we file with the SEC and in other Company communications. This Report contains forward-looking statements about:

- our belief that we will see an improvement in early 2007 in collections relating to our consumer auto loans;
- our anticipation that we will not incur additional credit losses attributable to Hurricane Katrina;
- the expected impact of changes in interest rates on loan demand, credit losses, mortgage origination volume, the value of MSRs, and other items that may affect earnings;
- the expected time periods over which unrecognized compensation expense relating to stock options and restricted share rights will be recognized;
- the expected timing and impact of the adoption of new accounting standards and policies;
- future credit losses and nonperforming assets, including changes in the amount of nonaccrual loans due to portfolio growth, portfolio seasoning, and other factors;
- the extent to which changes in the fair value of derivative financial instruments will offset changes in the fair value of derivative loan commitments;
- future short-term and long-term interest rate levels and their impact on net interest margin, net income, liquidity and capital;
- the anticipated use of proceeds from the issuance of securities;
- how and when we intend to repurchase shares of our common stock;
- the amount and timing of future contributions to the Cash Balance Plan;
- the recovery of our investment in variable interest entities;
- future reclassification to earnings of deferred net gains on derivatives;
- expected completion dates of pending business combinations and other acquisitions; and
- the amount of contingent consideration payable in connection with certain acquisitions.

Factors that could cause our financial results and condition to vary significantly from quarter to quarter or cause actual results to differ from our expectations for our future financial and business performance include:

- lower or negative revenue growth because of our inability to sell more products to our existing customers;

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decreased demand for our products and services because of an economic slowdown;
reduced fee income from our brokerage and asset management businesses because of a fall in stock market prices;
lower net interest margin, decreased mortgage loan originations and reductions in the value of our MSRs because of changes in interest rates;
reduced earnings because of higher credit losses generally and specifically because of higher than expected losses in our consumer auto loan portfolio because our increased collection efforts are not as effective as we expect or take longer than we expect to produce meaningful results;
reduced earnings because of changes in the value of our venture capital investments;
changes in our accounting policies or in accounting standards;
reduced earnings from not realizing the expected benefits of acquisitions or from unexpected difficulties integrating acquisitions;
federal and state regulations;
reputational damage from negative publicity;
fines, penalties and other negative consequences from regulatory violations, even inadvertent or unintentional violations;
the loss of checking and saving account deposits to alternative investments such as the stock market and higher-yielding fixed income investments; and
fiscal and monetary policies of the Federal Reserve Board.

Refer to our 2005 Form 10-K, including Risk Factors, for information about these factors. Refer also to this Report, including the discussion below and under Risk Management in the Financial Review section, for additional risk factors and other information that may supplement or modify the discussion of risk factors in our 2005 Form 10-K.

Changes in interest rates could reduce the value of our mortgage servicing rights (MSRs) and earnings.

We have a sizeable portfolio of MSRs. A mortgage servicing right (MSR) is the right to service a mortgage loan collect principal, interest, escrow amounts, etc. for a fee. We acquire MSRs when we keep the servicing rights after we sell or securitize the loans we have originated or when we purchase the servicing rights to mortgage loans originated by other lenders. Effective January 1, 2006, upon adoption of FAS 156, we elected to initially measure and carry our residential MSRs using the fair value measurement method. Fair value is the present value of estimated future net servicing income, calculated based on a number of variables, including assumptions about the likelihood of prepayment by borrowers.

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

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

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Our mortgage banking revenue can be volatile from quarter to quarter.

We earn revenue from fees we receive for originating mortgage loans and for servicing mortgage loans. When rates rise, the demand for mortgage loans tends to fall, reducing the revenue we receive from loan originations. At the same time, revenue from our MSRs can increase, through increases in fair value. When rates fall, mortgage originations tend to increase and the value of our MSRs tends to decline, also with some offsetting revenue effect. Even though they can act as a natural hedge, the hedge is not perfect, either in amount or timing. For example, the negative effect on revenue from a decrease in the fair value of residential MSRs is immediate, but any offsetting revenue benefit from more originations and the MSRs relating to the new loans would accrue over time.

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

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

We may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations.

We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations. However, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there was in place at the time systems and procedures designed to ensure compliance. For example, we are subject to regulations issued by the Office of Foreign Assets Control (OFAC) that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain foreign countries and designated nationals of those countries. OFAC may impose penalties for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. Therefore, the establishment and maintenance of systems and procedures reasonably designed to ensure compliance cannot guarantee that we will be able to avoid a fine or penalty for noncompliance. For example, in April 2003 and January 2005 OFAC reported settlements with Wells Fargo Bank, N.A. in amounts of $5,500 and $42,833, respectively. These settlements related to transactions involving inadvertent acts or human error alleged to have violated OFAC regulations. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage our reputation (see Negative publicity could damage our reputation under Risk Factors in our 2005 Form 10-K) and could restrict the ability of institutional investment managers to invest in our securities.

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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, 2006, 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, 2006.

Internal Control Over Financial Reporting

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. No change occurred during third quarter 2006 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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WELLS FARGO & COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share amounts)	Quarter ended Sept. 30, **2006**	2005	Nine months ended Sept. 30, **2006**	2005
INTEREST INCOME				
Trading assets	**$ 45**	$ 44	**$ 179**	$ 142
Securities available for sale	**1,014**	442	**2,552**	1,327
Mortgages held for sale	**702**	674	**2,119**	1,585
Loans held for sale	**12**	9	**34**	136
Loans	**6,555**	5,416	**18,910**	15,359
Other interest income	**71**	60	**214**	169
Total interest income	**8,399**	6,645	**24,008**	18,718
INTEREST EXPENSE				
Deposits	**1,997**	1,000	**5,273**	2,517
Short-term borrowings	**271**	189	**830**	502
Long-term debt	**1,084**	780	**3,004**	2,034
Total interest expense	**3,352**	1,969	**9,107**	5,053
NET INTEREST INCOME	**5,047**	4,676	**14,901**	13,665
Provision for credit losses	**613**	641	**1,478**	1,680
Net interest income after provision for credit losses	**4,434**	4,035	**13,423**	11,985
NONINTEREST INCOME				
Service charges on deposit accounts	**707**	654	**1,995**	1,857
Trust and investment fees	**664**	614	**2,002**	1,813
Card fees	**464**	377	**1,266**	1,064
Other fees	**509**	520	**1,507**	1,451
Mortgage banking	**484**	743	**1,634**	1,794
Operating leases	**192**	202	**593**	612
Insurance	**313**	248	**1,041**	943
Net gains (losses) on debt securities available for sale	**121**	(31)	**(70)**	4
Net gains from equity investments	**159**	146	**482**	418
Other	**274**	354	**927**	836
Total noninterest income	**3,887**	3,827	**11,377**	10,792

NONINTEREST EXPENSE				
Salaries	**1,769**	1,571	**5,195**	4,602
Incentive compensation	**710**	676	**2,092**	1,703
Employee benefits	**458**	467	**1,534**	1,446
Equipment	**294**	306	**913**	939
Net occupancy	**357**	354	**1,038**	1,068
Operating leases	**155**	159	**473**	474
Other	**1,338**	1,356	**4,086**	3,903
Total noninterest expense	**5,081**	4,889	**15,331**	14,135
INCOME BEFORE INCOME TAX EXPENSE	**3,240**	2,973	**9,469**	8,642
Income tax expense	**1,046**	998	**3,168**	2,901
NET INCOME	**$ 2,194**	$ 1,975	**$ 6,301**	$ 5,741
EARNINGS PER COMMON SHARE	**$ 0.65**	$ 0.59	**$ 1.87**	$ 1.70
DILUTED EARNINGS PER COMMON SHARE	**$ 0.64**	$ 0.58	**$ 1.85**	$ 1.68
DIVIDENDS DECLARED PER COMMON SHARE	**$**	$ 0.26	**$ 0.80**	$ 0.74
Average common shares outstanding	**3,371.9**	3,373.5	**3,364.6**	3,379.8
Diluted average common shares outstanding	**3,416.0**	3,410.6	**3,405.5**	3,418.7

The accompanying notes are an integral part of these statements.

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WELLS FARGO & COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

(in millions, except shares)	**September 30, 2006**	December 31, 2005	September 30, 2005
ASSETS			
Cash and due from banks	**$ 12,591**	$ 15,397	$ 13,931
Federal funds sold, securities purchased under resale agreements and other short-term investments	**4,079**	5,306	5,861
Trading assets	**5,300**	10,905	8,477
Securities available for sale	**52,635**	41,834	34,480
Mortgages held for sale	**39,913**	40,534	46,119
Loans held for sale	**617**	612	629
Loans	**307,491**	310,837	296,189
Allowance for loan losses	**(3,799)**	(3,871)	(3,886)
Net loans	**303,692**	306,966	292,303
Mortgage servicing rights:			
Measured at fair value (residential MSRs beginning 2006)	**17,712**		
Amortized	**328**	12,511	10,711
Premises and equipment, net	**4,645**	4,417	4,223
Goodwill	**11,192**	10,787	10,776
Other assets	**30,737**	32,472	25,984
Total assets	**$ 483,441**	$ 481,741	$ 453,494
LIABILITIES			
Noninterest-bearing deposits	**$ 86,849**	$ 87,712	$ 89,304
Interest-bearing deposits	**227,470**	226,738	199,725
Total deposits	**314,319**	314,450	289,029
Short-term borrowings	**13,800**	23,892	23,243
Accrued expenses and other liabilities	**26,369**	23,071	22,795
Long-term debt	**84,091**	79,668	78,592
Total liabilities	**438,579**	441,081	413,659
STOCKHOLDERS EQUITY			

Preferred stock	**465**	325	389
Common stock $1-2/3 par value, authorized 6,000,000,000 shares; issued 3,472,762,050 shares	**5,788**	5,788	5,788
Additional paid-in capital	**7,667**	7,040	6,984
Retained earnings	**34,080**	30,580	29,636
Cumulative other comprehensive income	**633**	665	721
Treasury stock 100,057,636 shares, 117,595,986 shares and 114,421,240 shares	**(3,273)**	(3,390)	(3,267)
Unearned ESOP shares	**(498)**	(348)	(416)
Total stockholders equity	**44,862**	40,660	39,835
Total liabilities and stockholders equity	**$ 483,441**	$ 481,741	$ 453,494

The accompanying notes are an integral part of these statements.

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WELLS FARGO & COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME

(in millions, except shares)	Number of common shares	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Cumulative other comprehensive income	Treasury stock	Unearned ESOP shares	Total stockholders' equity
BALANCE DECEMBER 31, 2004	3,389,183,274	$ 270	$ 5,788	$ 6,912	$ 26,482	$ 950	$ (2,247)	$ (289)	$ 37,866
Comprehensive income:									
Net income					5,741				5,741
Other comprehensive income, net of tax:									
Translation adjustments						6			6
Net unrealized losses on securities available for sale and other interests held, net of reclassification of $96 million of net gains included in net income						(316)			(316)
Net unrealized gains on derivatives and hedging activities, net of reclassification of $39 million of net losses on cash flow hedges included in net income						81			81
Total comprehensive income									5,512
Common stock issued	35,491,748			(44)	(82)		984		858
Common stock issued for acquisitions	3,909,004			12			110		122
Common stock repurchased	(78,367,178)						(2,343)		(2,343)
Preferred stock (363,000) issued to ESOP		363		24				(387)	
Preferred stock released to ESOP				(16)				260	244
Preferred stock (243,669) converted to common shares	8,123,962	(244)		16			228		
Common stock dividends					(2,505)				(2,505)
Tax benefit upon exercise of stock options				80					80

Other, net							1		1
Net change	(30,842,464)	119		72	3,154	(229)	(1,020)	(127)	1,969
BALANCE SEPTEMBER 30, 2005	3,358,340,810	$ 389	$ 5,788	$ 6,984	$ 29,636	$ 721	$ (3,267)	$ (416)	$ 39,835
BALANCE DECEMBER 31, 2005	**3,355,166,064**	**$ 325**	**$ 5,788**	**$ 7,040**	**$ 30,580**	**$ 665**	**$ (3,390)**	**$ (348)**	**$ 40,660**
Cumulative effect from adoption of FAS 156					**101**				**101**
BALANCE JANUARY 1, 2006	**3,355,166,064**	**325**	**5,788**	**7,040**	**30,681**	**665**	**(3,390)**	**(348)**	**40,761**
Comprehensive income:									
Net income					**6,301**				**6,301**
Other comprehensive income, net of tax:									
Translation adjustments						**4**			**4**
Minimum pension liability adjustment						**(3)**			**(3)**
Net unrealized losses on securities available for sale and other interests held, net of reclassification of $87 million of net gains included in net income						**(6)**			**(6)**
Net unrealized losses on derivatives and hedging activities, net of reclassification of $71 million of net gains on cash flow hedges included in net income						**(27)**			**(27)**
Total comprehensive income									**6,269**
Common stock issued	**56,859,649**			**(48)**	**(207)**		**1,674**		**1,419**
Common stock repurchased	**(47,488,608)**						**(1,566)**		**(1,566)**
Preferred stock (414,000) issued to ESOP		**414**		**29**				**(443)**	
Preferred stock released to ESOP				**(19)**				**293**	**274**
Preferred stock (274,457) converted to common	**8,167,309**	**(274)**		**31**			**243**		

shares									
Common stock dividends					**(2,695)**				**(2,695)**
Tax benefit upon exercise of stock options				**179**					**179**
Stock option compensation expense				**108**					**108**
Net change in deferred compensation and related plans				**39**			**(23)**		**16**
Reclassification of share-based plans				**308**			**(211)**		**97**
Net change	**17,538,350**	**140**		**627**	**3,399**	**(32)**	**117**	**(150)**	**4,101**
BALANCE SEPTEMBER 30, 2006	**3,372,704,414**	**$ 465**	**$ 5,788**	**$ 7,667**	**$ 34,080**	**$ 633**	**$ (3,273)**	**$ (498)**	**$ 44,862**

The accompanying notes are an integral part of these statements.

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WELLS FARGO & COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine months ended September 30,	
(in millions)	**2006**	2005
Cash flows from operating activities:		
Net income	**$ 6,301**	$ 5,741
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	**1,478**	1,680
Provision for MSRs in excess of fair value		(323)
Change in fair value of residential MSRs	**(1,736)**	
Depreciation and amortization	**2,250**	3,002
Net gains on securities available for sale	**(117)**	(138)
Net losses (gains) on mortgage loan origination/sales activities	**811**	(816)
Other net gains	**(200)**	(29)
Preferred shares released to ESOP	**274**	244
Stock option compensation expense	**108**	
Excess tax benefits related to stock option payments	**(179)**	
Net decrease in trading assets	**5,582**	523
Net increase in deferred income taxes	**877**	214
Net increase in accrued interest receivable	**(265)**	(500)
Net increase in accrued interest payable	**358**	271
Originations of mortgages held for sale	**(180,739)**	(170,005)
Proceeds from sales of mortgages originated for sale	**175,655**	150,456
Principal collected on mortgages originated for sale	**1,762**	923
Net increase (decrease) in loans originated for sale	**(5)**	666
Other assets, net	**2,949**	(353)
Other accrued expenses and liabilities, net	**3,136**	2,680
Net cash provided (used) by operating activities	**18,300**	(5,764)
Cash flows from investing activities:		
Securities available for sale:		
Sales proceeds	**43,896**	7,343
Prepayments and maturities	**5,757**	5,295
Purchases	**(61,347)**	(10,578)
Net cash acquired from (paid for) acquisitions	**(526)**	54
Increase in banking subsidiaries loan originations, net of collections	**(26,503)**	(25,867)
Proceeds from sales (including participations) of loans by banking subsidiaries	**35,637**	35,141
Purchases (including participations) of loans by banking subsidiaries	**(4,136)**	(5,611)
Principal collected on nonbank entities loans	**18,130**	16,679
Loans originated by nonbank entities	**(19,956)**	(24,503)

Proceeds from sales of foreclosed assets	**376**	331
Net decrease (increase) in federal funds sold, securities purchased under resale agreements and other short-term investments	**1,282**	(836)
Net increase in MSRs	**(1,655)**	(2,922)
Other, net	**(3,287)**	(3,528)
Net cash used by investing activities	**(12,332)**	(9,002)
Cash flows from financing activities:		
Net increase (decrease) in deposits	**(376)**	13,540
Net increase (decrease) in short-term borrowings	**(10,139)**	1,230
Proceeds from issuance of long-term debt	**14,987**	22,285
Long-term debt repayment	**(10,632)**	(17,470)
Proceeds from issuance of common stock	**1,419**	859
Common stock repurchased	**(1,566)**	(2,343)
Cash dividends paid on common stock	**(2,695)**	(2,505)
Excess tax benefits related to stock option payments	**179**	
Other, net	**49**	198
Net cash provided (used) by financing activities	**(8,774)**	15,794
Net change in cash and due from banks	**(2,806)**	1,028
Cash and due from banks at beginning of period	**15,397**	12,903
Cash and due from banks at end of period	**$ 12,591**	$ 13,931
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	**$ 8,749**	$ 5,324
Income taxes	**1,423**	1,564
Noncash investing and financing activities:		
Net transfers from loans to mortgages held for sale	**$ 32,381**	$ 34,906
Net transfers from loans held for sale to loans		7,444
Transfers from loans to foreclosed assets	**1,243**	416
Transfers from mortgages held for sale to securities held for sale		3,382

The accompanying notes are an integral part of these statements.

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NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Wells Fargo & Company is a diversified financial services company. We provide banking, insurance, investments, mortgage banking and consumer finance through banking stores, the internet and other distribution channels to consumers, businesses and institutions in all 50 states of the U.S. and in other countries. When we refer to the Company , we , our and 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.

Our accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expenses during the reporting period.

The information furnished in these unaudited interim statements reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The results of operations in the interim statements do not necessarily indicate the results that may be expected for the full year. The interim financial information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Form 10-K).

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

Descriptions of our significant accounting policies are included in Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2005 Form 10-K. There have been no significant changes to these policies, except as discussed below for transfers and servicing of financial assets and stock-based compensation.

TRANSFERS AND SERVICING OF FINANCIAL ASSETS

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

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

MSRs Measured at Fair Value

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

Effective January 1, 2006, upon the remeasurement of our residential MSRs at fair value, we recorded a cumulative-effect adjustment to the 2006 beginning balance of retained earnings of $101 million after tax ($158 million pre tax) in our Statement of Changes in Stockholders Equity.

Amortized MSRs

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

STOCK-BASED COMPENSATION

We have several stock-based employee compensation plans, which are more fully discussed in Note 10. Prior to January 1, 2006, we accounted for stock options and stock awards under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations, as permitted by FAS 123, *Accounting for Stock-Based Compensation*. Under this guidance, no stock option expense was recognized in our income statement for periods prior to January 1, 2006, as all options granted under our plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective January 1, 2006, we adopted FAS 123(R), *Share-Based Payment*, using the modified-prospective transition method. Accordingly, compensation cost recognized in the first nine months of 2006 includes; (1) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with FAS 123, and (2) compensation cost for all share-based awards granted on or after January 1, 2006, including cost for retirement-eligible team members, which is immediately expensed upon grant, based on the grant date fair value estimated in accordance with FAS 123(R). Results for prior periods have not been restated. In calculating the common stock equivalents for purposes of diluted earnings per share, we selected the transition

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method provided by FASB Staff Position FAS 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*.

As a result of adopting FAS 123(R), as required, on January 1, 2006, our income before income taxes of $3,240 million and net income of $2,194 million for the third quarter of 2006 was $28 million and $17 million lower, respectively, and our income before income taxes of $9,469 million and net income of $6,301 million for the first nine months of 2006 was $108 million and $67 million lower, respectively, than if we had continued to account for share-based compensation under APB 25. Earnings per share and diluted earnings per share for the third quarter of 2006 of $0.65 and $0.64, respectively, were both less than $0.01 per share lower than if we had not adopted FAS 123(R). Earnings per share and diluted earnings per share for the first nine months of 2006 of $1.87 and $1.85, respectively, were both $0.02 per share lower than if we had not adopted FAS 123(R).

Prior to the adoption of FAS 123(R), we presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. FAS 123(R) requires the cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The $179 million excess tax benefit for the first nine months of 2006 classified as a financing cash inflow would have been classified as an operating cash inflow under APB 25.

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

(in millions, except per share amounts)		Quarter ended Sept. 30, 2005	Nine months ended Sept. 30, 2005
Net income, as reported		$ 1,975	$ 5,741
Add:	Stock-based employee compensation expense included in reported net income, net of tax	1	1
Less:	Total stock-based employee compensation expense under the fair value method for all awards, net of tax	(19)	(167)
Net income, pro forma		$ 1,957	$ 5,575
Earnings per common share			
As reported		$ 0.59	$ 1.70
Pro forma		0.58	1.65
Diluted earnings per common share			
As reported		$ 0.58	$ 1.68
Pro forma		0.57	1.63

Stock options granted in our February 2005 grant, under our Long-Term Incentive Compensation Plan, fully vested upon grant, resulting in full recognition of stock-based compensation expense under the fair value method in the table above.

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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.

Transactions completed in the first nine months of 2006 were:

(in millions)	Date	Assets
Secured Capital Corp / Secured Capital LLC, Los Angeles, California	January 18	$ 132
Martinius Corporation, Rogers, Minnesota	March 1	91
Commerce Funding Corporation, Vienna, Virginia	April 17	82
Fremont National Bank of Canon City / Centennial Bank of Pueblo, Canon City and Pueblo, Colorado	June 7	201
Certain assets of the Reilly Mortgage Companies, McLean, Virginia	August 1	303
Other (1)	Various	19
		$ 828

(1) Consists of six acquisitions of insurance brokerage businesses.

At September 30, 2006, we had one pending business combination with assets of approximately $8 million. We expect to complete this transaction in fourth quarter 2006.

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, 2006**	Dec. 31, 2005	Sept. 30, 2005
Federal funds sold and securities purchased under resale agreements	**$ 2,768**	$ 3,789	$ 3,854
Interest-earning deposits	**629**	847	1,289
Other short-term investments	**682**	670	718
Total	**$ 4,079**	$ 5,306	$ 5,861

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

	Sept. 30, 2006		Dec. 31, 2005		Sept. 30, 2005	
(in millions)	**Cost**	**Estimated fair value**	Cost	Estimated fair value	Cost	Estimated fair value
Securities of U.S. Treasury and federal agencies	**$ 892**	**$ 886**	$ 845	$ 839	$ 1,061	$ 1,058
Securities of U.S. states and political subdivisions	**3,241**	**3,388**	3,048	3,191	3,129	3,291
Mortgage-backed securities:						
Federal agencies	**35,549**	**36,045**	25,304	25,616	17,803	18,155
Private collateralized mortgage obligations (1)	**4,842**	**4,912**	6,628	6,750	6,118	6,194
Total mortgage-backed securities	**40,391**	**40,957**	31,932	32,366	23,921	24,349
Other	**6,549**	**6,575**	4,518	4,538	4,915	4,965
Total debt securities	**51,073**	**51,806**	40,343	40,934	33,026	33,663
Marketable equity securities	**597**	**829**	558	900	553	817
Total	**$ 51,670**	**$ 52,635**	$ 40,901	$ 41,834	$ 33,579	$ 34,480

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

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

(in millions)	**Sept. 30, 2006**	Dec. 31, 2005	Sept. 30, 2005

Estimated unrealized gross gains	**$ 1,050**	$ 1,041	$ 1,021
Estimated unrealized gross losses	**(85)**	(108)	(120)
Estimated unrealized net gains	**$ 965**	$ 933	$ 901

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

	Quarter ended Sept. 30,		Nine months ended Sept. 30,	
(in millions)	**2006**	2005	**2006**	2005
Realized gross gains	**$ 143**	$ 29	**$ 390**	$ 316
Realized gross losses (1)	**(15)**	(61)	**(273)**	(178)
Realized net gains (losses)	**$ 128**	$ (32)	**$ 117**	$ 138

(1) Includes other-than-temporary impairment of $4 million and $17 million for the third quarter and first nine months of 2006, respectively, and $27 million and $42 million for the third quarter and first nine months of 2005, respectively.

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5. LOANS AND ALLOWANCE FOR CREDIT LOSSES

A summary of the major categories of loans outstanding is shown in the following table. Outstanding loan balances reflect unearned income, net deferred loan fees, and unamortized discount and premium totaling $3,050 million, $3,918 million and $3,586 million, at September 30, 2006, December 31, 2005, and September 30, 2005, respectively.

(in millions)	**Sept. 30, 2006**	Dec. 31, 2005	Sept. 30, 2005
Commercial and commercial real estate:			
Commercial	**$ 66,797**	$ 61,552	$ 60,588
Other real estate mortgage	**29,914**	28,545	28,571
Real estate construction	**15,397**	13,406	12,587
Lease financing	**5,443**	5,400	5,244
Total commercial and commercial real estate	**117,551**	108,903	106,990
Consumer:			
Real estate 1-4 family first mortgage	**49,765**	77,768	69,259
Real estate 1-4 family junior lien mortgage	**67,185**	59,143	57,491
Credit card	**13,343**	12,009	11,060
Other revolving credit and installment	**53,080**	47,462	46,201
Total consumer	**183,373**	196,382	184,011
Foreign	**6,567**	5,552	5,188
Total loans	**$ 307,491**	$ 310,837	$ 296,189

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

(in millions)	**Sept. 30, 2006**	Dec. 31, 2005	Sept. 30, 2005
Impairment measurement based on:			
Collateral value method	**$ 121**	$ 115	$ 132
Discounted cash flow method	**71**	75	108
Total (1)	**$ 192**	$ 190	$ 240

(1) Includes $61 million, $56 million and $41 million of impaired loans

with a related allowance of $8 million, $10 million and $9 million at September 30, 2006, December 31, 2005, and September 30, 2005, respectively.

The average recorded investment in impaired loans was $168 million and $252 million during third quarter 2006 and 2005, respectively, and $159 million and $278 million in the first nine months of 2006 and 2005, respectively.

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

	Quarter ended Sept. 30,		Nine months ended Sept. 30,	
(in millions)	**2006**	2005	**2006**	2005
Balance, beginning of period	**$ 4,035**	$ 3,944	**$ 4,057**	$ 3,950
Provision for credit losses	**613**	641	**1,478**	1,680
Loan charge-offs:				
Commercial and commercial real estate:				
Commercial	**(103)**	(95)	**(275)**	(271)
Other real estate mortgage	**(1)**	(1)	**(3)**	(6)
Real estate construction	**(1)**	(1)	**(1)**	(6)
Lease financing	**(6)**	(7)	**(22)**	(27)
Total commercial and commercial real estate	**(111)**	(104)	**(301)**	(310)
Consumer:				
Real estate 1-4 family first mortgage	**(30)**	(24)	**(81)**	(83)
Real estate 1-4 family junior lien mortgage	**(36)**	(37)	**(98)**	(100)
Credit card	**(133)**	(128)	**(351)**	(389)
Other revolving credit and installment	**(501)**	(369)	**(1,172)**	(1,015)
Total consumer	**(700)**	(558)	**(1,702)**	(1,587)
Foreign	**(74)**	(72)	**(222)**	(216)
Total loan charge-offs	**(885)**	(734)	**(2,225)**	(2,113)
Loan recoveries:				
Commercial and commercial real estate:				
Commercial	**26**	35	**84**	102
Other real estate mortgage	**8**	4	**14**	13
Real estate construction			**2**	7
Lease financing	**4**	5	**16**	16
Total commercial and commercial real estate	**38**	44	**116**	138
Consumer:				
Real estate 1-4 family first mortgage	**8**	6	**20**	15
Real estate 1-4 family junior lien mortgage	**9**	8	**27**	22
Credit card	**23**	20	**72**	64
Other revolving credit and installment	**124**	97	**401**	250
Total consumer	**164**	131	**520**	351
Foreign	**20**	18	**61**	44

Total loan recoveries	**222**	193	**697**	533
Net loan charge-offs	**(663)**	(541)	**(1,528)**	(1,580)
Other	**(7)**	13	**(29)**	7
Balance, end of period	**$ 3,978**	$ 4,057	**$ 3,978**	$ 4,057
Components:				
Allowance for loan losses	**$ 3,799**	$ 3,886	**$ 3,799**	$ 3,886
Reserve for unfunded credit commitments	**179**	171	**179**	171
Allowance for credit losses	**$ 3,978**	$ 4,057	**$ 3,978**	$ 4,057
Net loan charge-offs (annualized) as a percentage of average total loans	**0.86%**	0.73%	**0.67%**	0.72%
Allowance for loan losses as a percentage of total loans	**1.24%**	1.31%	**1.24%**	1.31%
Allowance for credit losses as a percentage of total loans	**1.29**	1.37	**1.29**	1.37

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6. OTHER ASSETS

The components of other assets were:

(in millions)	**Sept. 30, 2006**	Dec. 31, 2005	Sept. 30, 2005
Nonmarketable equity investments:			
Private equity investments	**$ 1,654**	$ 1,537	$ 1,500
Federal bank stock	**1,338**	1,402	1,423
All other	**2,084**	2,151	2,106
Total nonmarketable equity investments (1)	**5,076**	5,090	5,029
Operating lease assets	**3,120**	3,414	3,425
Accounts receivable	**7,048**	11,606	3,777
Interest receivable	**2,544**	2,279	1,983
Core deposit intangibles	**410**	489	519
Foreclosed assets:			
GNMA loans (2)	**266**		
Other	**342**	191	187
Due from customers on acceptances	**140**	104	133
Other	**11,791**	9,299	10,931
Total other assets	**$ 30,737**	$ 32,472	$ 25,984

(1) At September 30, 2006, December 31, 2005, and September 30, 2005, $4.4 billion, $3.1 billion and $3.1 billion, respectively, of nonmarketable equity investments, including all federal bank stock, were accounted for at cost.

(2)

As a result of a change in regulatory reporting requirements effective January 1, 2006, foreclosed assets included foreclosed real estate securing Government National Mortgage Association (GNMA) loans. These assets are fully collectible because the corresponding GNMA loans are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Such assets were included in accounts receivable at December 31, 2005, and September 30, 2005.

Income related to nonmarketable equity investments was:

	Quarter ended Sept. 30,		Nine months ended Sept. 30,	
(in millions)	**2006**	2005	**2006**	2005
Net gains from private equity investments	**$ 152**	$ 147	**$ 295**	$ 284
Net gains (losses) from all other nonmarketable equity investments	**8**	22	**(11)**	15
Net gains from nonmarketable equity investments	**$ 160**	$ 169	**$ 284**	$ 299

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7. INTANGIBLE ASSETS

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

(in millions)	**Gross carrying amount**	**2006 Accumulated amortization**	Gross carrying amount	September 30, 2005 Accumulated amortization
Amortized intangible assets:				
MSRs, before valuation allowance (1):				
Residential	**$**	**$**	$ 22,748	$ 10,902
Commercial	**396**	**68**	147	40
Core deposit intangibles	**2,374**	**1,964**	2,432	1,913
Credit card and other intangibles	**576**	**370**	562	301
Total intangible assets	**$ 3,346**	**$ 2,402**	$ 25,889	$ 13,156
MSRs (fair value) (1)	**$ 17,712**		$	
Trademark	**14**		14	

(1) Prior to 2006, amortized intangible assets included both residential and commercial MSRs. Effective January 1, 2006, upon adoption of FAS 156, residential MSRs are measured at fair value and are no longer amortized. See Note 15 for additional information on MSRs.

As of September 30, 2006, the current year and estimated future amortization expense for intangible assets was:

Core deposit

(in millions)		intangibles		Other(1)		Total
Nine months ended September 30, 2006 (actual)	**$**	**85**	**$**	**77**	**$**	**162**
Estimate for year ended December 31,						
2006	$	112	$	99	$	211
2007		102		78		180
2008		94		72		166
2009		86		66		152
2010		77		62		139
2011		19		53		72

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

We based the projections of amortization expense for core deposit intangibles shown above on existing asset balances at September 30, 2006. Future amortization expense may vary based on additional core deposit intangibles acquired through business combinations.

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8. GOODWILL

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

(in millions)	Community Banking	Wholesale Banking	Wells Fargo Financial	Consolidated Company
December 31, 2004	$ 7,291	$ 3,037	$ 353	$ 10,681
Reduction in goodwill related to divested business	(31)	(3)		(34)
Goodwill from business combinations	125	2		127
Realignment of automobile financing business	(11)		11	
Foreign currency translation adjustments			2	2
September 30, 2005	$ 7,374	$ 3,036	$ 366	$ 10,776
December 31, 2005	**$ 7,374**	**$ 3,047**	**$ 366**	**$ 10,787**
Goodwill from business combinations (including contingent payments)	**30**	**373**		**403**
Foreign currency translation adjustments			**2**	**2**
Realignment of businesses (primarily insurance)	**(19)**	**19**		**--**
September 30, 2006	**$ 7,385**	**$ 3,439**	**$ 368**	**$ 11,192**

For our goodwill impairment analysis, we allocate all of the goodwill to the individual operating segments. For management reporting we do not allocate all of the goodwill to the individual operating segments: some is allocated at the enterprise level. See Note 13 for further information on management reporting. The balances of goodwill for management reporting were:

(in millions)	Community Banking	Wholesale Banking	Wells Fargo Financial	Enterprise	Consolidated Company
September 30, 2005	$ 3,516	$ 1,097	$ 366	$ 5,797	$ 10,776
September 30, 2006	**3,538**	**1,489**	**368**	**5,797**	**11,192**

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9. PREFERRED STOCK

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

	Shares issued and outstanding			Carrying amount (in millions)			Adjustable dividends rate	
	Sept. 30, 2006	Dec. 31, 2005	Sept. 30, 2005	**Sept. 30, 2006**	Dec. 31, 2005	Sept. 30, 2005	Minimum	Maximum
ESOP Preferred Stock (1):								
2006	**162,493**			**$ 162**	$	$	10.75%	11.75%
2005	**89,984**	102,184	135,845	**90**	102	136	9.75	10.75
2004	**71,280**	74,880	81,180	**71**	75	81	8.50	9.50
2003	**49,843**	52,643	57,243	**50**	53	57	8.50	9.50
2002	**37,774**	39,754	44,554	**38**	40	45	10.50	11.50
2001	**27,003**	28,263	32,863	**27**	28	33	10.50	11.50
2000	**18,542**	19,282	23,482	**19**	19	24	11.50	12.50
1999	**6,094**	6,368	8,368	**6**	6	8	10.30	11.30
1998	**1,863**	1,953	2,853	**2**	2	3	10.75	11.75
1997	**130**	136	2,136			2	9.50	10.50
1996			370				8.50	9.50
Total ESOP Preferred Stock	**465,006**	325,463	388,894	**$ 465**	$ 325	$ 389		
Unearned ESOP shares (2)				**$ (498)**	$ (348)	$ (416)		

(1) Liquidation preference $1,000.

(2)

In accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position 93-6, *Employers Accounting for Employee Stock Ownership Plans*, we recorded a corresponding charge to unearned ESOP shares in connection with the issuance of the ESOP Preferred Stock. The unearned ESOP shares are reduced as shares of the ESOP Preferred Stock are committed to be released.

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10. COMMON STOCK PLANS

We offer several stock-based employee compensation plans, which are described below. Effective January 1, 2006, we adopted FAS 123(R), *Share-Based Payment*, using the modified prospective transition method. FAS 123(R) requires that we measure the cost of employee services received in exchange for an award of equity instruments, such as stock options or restricted share rights (RSRs), based on the fair value of the award on the grant date. The cost is normally recognized in our income statement over the vesting period of the award; awards with graded vesting are expensed on a straight-line method. Awards to retirement-eligible employees are subject to immediate expensing upon grant. Total stock option compensation expense was $108 million in the first nine months of 2006, with a related recognized tax benefit of $41 million. Stock option expense is based on the fair value of the awards at the date of grant and includes expense for awards granted in 2006 and expense for the unvested portion of awards granted prior to January 1, 2006. Prior to January 1, 2006, we did not record any compensation expense for stock options.

EMPLOYEE STOCK PLANS

Long-Term Incentive Compensation Plans Our stock incentive plans provide for awards of incentive and nonqualified stock options, stock appreciation rights, restricted shares, RSRs, performance awards and stock awards without restrictions. Options must have an exercise price at or above fair market value (as defined in the plan) of the stock at the date of grant (except for substitute or replacement options granted in connection with mergers or other acquisitions) and a term of no more than 10 years. Options granted in 2003 and prior generally become exercisable over three years from the date of grant. Options granted in 2004 and the beginning of 2005 generally were fully vested upon grant. Options granted in 2006 generally become exercisable over three years from the date of grant. Except as otherwise permitted under the plan, if employment is ended for reasons other than retirement, permanent disability or death, the option period is reduced or the options are canceled.

Options granted prior to 2004 may include the right to acquire a reload stock option. If an option contains the reload feature and if a participant pays all or part of the exercise price of the option with shares of stock purchased in the market or held by the participant for at least six months, upon exercise of the option, the participant is granted a new option to purchase, at the fair market value of the stock as of the date of the reload, the number of shares of stock equal to the sum of the number of shares used in payment of the exercise price and a number of shares with respect to related statutory minimum withholding taxes. Reload grants are fully vested upon grant and are expensed immediately under FAS 123(R) beginning in 2006.

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

The compensation expense for RSRs equals the quoted market price of the related stock at the date of grant and is accrued over the vesting period. Total compensation expense for RSRs was not significant in the first nine months of 2006 and 2005.

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For various acquisitions and mergers, we converted employee and director stock options of acquired or merged companies into stock options to purchase our common stock based on the terms of the original stock option plan and the agreed-upon exchange ratio.

Broad-Based Plans In 1996, we adopted the *PartnerShares*® Stock Option Plan, a broad-based employee stock option plan. It covers full- and part-time employees who generally were not included in the long-term incentive compensation plans described above. At September 30, 2006, there were 9,125,030 shares available for grant. The exercise date of options granted to date under the *PartnerShares* Plan is the earlier of (1) five years after the date of grant or (2) when the quoted market price of the stock reaches a predetermined price. These options generally expire 10 years after the date of grant. No options have been granted under the *PartnerShares* Plans since 2002. Because the exercise price of each *PartnerShares* grant has been equal to or higher than the quoted market price of our common stock at the date of grant, we did not recognize any compensation expense in 2005 and prior years. In 2006, under FAS 123(R), we began to recognize expense related to these grants, based on the remaining vesting period.

DIRECTOR PLANS

We provide a stock award to non-employee directors as part of their annual retainer under our director plans. We also provide annual grants of options to purchase common stock to each non-employee director elected or re-elected at the annual meeting of stockholders. The options can be exercised after six months and through the tenth anniversary of the grant date.

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The table below summarizes stock option activity and related information for the first nine months of 2006.

	Number	Weighted-average exercise price	Weighted-average remaining contractual term (in yrs.)	Aggregate intrinsic value (in millions)
Long-Term Incentive Compensation Plans				
Options outstanding as of December 31, 2005	221,182,224	$ 24.82		
First nine months of 2006:				
Granted	43,933,400	32.55		
Canceled or forfeited	(861,988)	30.88		
Exercised	(34,744,922)	22.80		
Options outstanding as of September 30, 2006	229,508,714	26.59	6.1	$ 2,202
As of September 30, 2006:				
Options exercisable and expected to be exercisable (1)	227,906,580	26.55	6.1	2,196
Options exercisable	191,130,236	25.50	5.4	2,042
Broad-Based Plans				
Options outstanding as of December 31, 2005	48,985,522	$ 22.75		
First nine months of 2006:				
Canceled or forfeited	(1,785,224)	24.79		
Exercised	(7,848,848)	20.31		
Options outstanding as of September 30, 2006	39,351,450	23.15	4.3	$ 513
As of September 30, 2006:				
Options exercisable and expected to be exercisable (1)	39,191,022	23.14	4.3	511
Options exercisable	21,166,000	21.38	3.3	313
Director Plans				
Options outstanding as of December 31, 2005	779,028	$ 24.33		
First nine months of 2006:				
Granted	91,219	32.69		
Exercised	(55,440)	15.43		

Options outstanding as of September 30, 2006	814,807	25.88	5.8	$	8
As of September 30, 2006:					
Options exercisable and expected to be exercisable (1)	814,807	25.88	5.8		8
Options exercisable	724,748	25.03	5.3		8

(1) Adjusted for estimated forfeitures.

As of September 30, 2006, there was $105 million of unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 2.3 years.

The total intrinsic value of options exercised during the first nine months of 2006 and 2005 was $485 million and $213 million, respectively.

Cash received from the exercise of options for the first nine months of 2006 and 2005 was $893 million and $418 million, respectively. The actual tax benefit recognized in stockholders

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equity for the tax deductions from the exercise of options totaled $179 million and $80 million for the first nine months of 2006 and 2005, respectively.

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

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

Prior to the adoption of FAS 123(R), we also used a Black-Scholes valuation model to estimate the fair value of options granted for the pro forma disclosures of net income and earnings per common share that were required by FAS 123.

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

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

	Nine months ended Sept. 30,	
	2006	2005
Per share fair value of options granted:		
Long-Term Incentive Compensation Plans	**$ 4.06**	$ 3.77
Director Plans	**4.66**	3.13
Expected volatility	**16.2%**	16.3%
Expected dividends	**3.4**	3.4
Expected term (in years)	**4.4**	4.4
Risk-free interest rate	**4.4%**	4.0%

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A summary of the status of our RSRs at September 30, 2006, and changes during the first nine months of 2006 is in the following table:

	Number	Weighted-average grant-date fair value
Nonvested at January 1, 2006	212,366	$26.92
Granted	15,200	32.93
Vested	(91,800)	24.75
Nonvested at September 30, 2006	135,766	29.05

The weighted-average grant-date fair value of RSRs granted during the first nine months of 2005 was $30.74. At September 30, 2006, there was $2 million of total unrecognized compensation cost related to nonvested RSRs. The cost is expected to be recognized over a weighted-average period of 3.1 years. The total fair value of RSRs that vested during the first nine months of 2006 and 2005 was $3 million and $4 million, respectively.

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11. EMPLOYEE BENEFITS

We sponsor noncontributory qualified defined benefit retirement plans including the Cash Balance Plan. The Cash Balance Plan is an active plan that covers eligible employees (except employees of certain subsidiaries).

We expect that we will not be required to make a minimum contribution in 2006 for the Cash Balance Plan. We are currently assessing how much to contribute, if any, to the Cash Balance Plan this year. Our decision depends on several factors, including the actual investment performance of plan assets. We cannot at this time reliably estimate the amount that we will contribute in 2006 to the Cash Balance Plan.

The net periodic benefit cost for the third quarter and first nine months of 2006 and 2005 was:

	Pension benefits			Pension benefits		
(in millions)	**Qualified**	**Non-qualified**	**Other benefits**	Qualified	Non-qualified	Other benefits
Quarter ended September 30,			**2006**			2005
Service cost	**$ 62**	**$ 4**	**$ 4**	$ 51	$ 6	$ 5
Interest cost	**56**	**4**	**10**	55	3	11
Expected return on plan assets	**(105)**		**(8)**	(98)		(6)
Recognized net actuarial loss (1)	**14**	**2**	**1**	17	1	2
Amortization of prior service cost			**(1)**	(1)	(1)	
Net periodic benefit cost	**$ 27**	**$ 10**	**$ 6**	$ 24	$ 9	$ 12
Nine months ended September 30,						
Service cost	**$ 186**	**$ 12**	**$ 12**	$ 155	$ 16	$ 15
Interest cost	**168**	**12**	**30**	165	10	33
Expected return on plan assets	**(315)**		**(24)**	(294)		(19)
Recognized net actuarial loss (1)	**42**	**6**	**4**	51	3	7
Amortization of prior service cost			**(3)**	(3)	(2)	(1)
Special termination benefits	**2**					
Curtailment gain			**(9)**			
Net periodic benefit cost	**$ 83**	**$ 30**	**$ 10**	$ 74	$ 27	$ 35

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

12. EARNINGS PER COMMON SHARE

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

(in millions, except per share amounts)	Quarter ended Sept. 30, **2006**	2005	Nine months ended Sept. 30, **2006**	2005
Net income (numerator)	**$ 2,194**	$ 1,975	**$ 6,301**	$ 5,741
EARNINGS PER COMMON SHARE				
Average common shares outstanding (denominator)	**3,371.9**	3,373.5	**3,364.6**	3,379.8
Per share	**$ 0.65**	$ 0.59	**$ 1.87**	$ 1.70
DILUTED EARNINGS PER COMMON SHARE				
Average common shares outstanding	**3,371.9**	3,373.5	**3,364.6**	3,379.8
Add: Stock options	**44.0**	36.5	**40.8**	38.3
Restricted share rights	**0.1**	0.6	**0.1**	0.6
Diluted average common shares outstanding (denominator)	**3,416.0**	3,410.6	**3,405.5**	3,418.7
Per share	**$ 0.64**	$ 0.58	**$ 1.85**	$ 1.68

In third quarter 2006 and 2005, options to purchase 4.4 million and 8.8 million shares, respectively, were outstanding but not included in the calculation of diluted earnings per common share because the exercise price was higher than the market price, and therefore they were antidilutive.

13. OPERATING SEGMENTS

We have three lines of business for management reporting: Community Banking, Wholesale Banking and Wells Fargo Financial. The results for these lines of business are based on our management accounting process, which assigns balance sheet and income statement items to each responsible operating segment. This process is dynamic and, unlike financial accounting, there is no comprehensive, authoritative guidance for management accounting equivalent to generally accepted accounting principles. The management accounting process measures the performance of the operating segments based on our management structure and is not necessarily comparable with similar information for other financial services companies. We define our operating segments by product type and customer segments. If the management structure and/or the allocation process changes, allocations, transfers and assignments may change. To reflect the realignment of our insurance business into Wholesale Banking in first quarter 2006, results for prior periods have been revised.

The Community Banking Group offers a complete line of diversified financial products and services to consumers and small businesses with annual sales generally up to $20 million in which the owner generally is the financial decision maker. Community Banking also offers investment management and other services to retail customers and high net worth individuals, securities brokerage through affiliates and venture capital financing. These products and services include the *Wells Fargo Advantage Funds*SM, a family of mutual funds, as well as personal trust and agency assets. Loan products include lines of credit, equity lines and loans, equipment and transportation (recreational vehicle and marine) loans, education loans, origination and purchase of residential mortgage loans and servicing of mortgage loans and credit cards. Other credit products and financial services available to small businesses and their owners include receivables and inventory financing, equipment leases, real estate financing, Small Business Administration financing, venture capital financing, cash management, payroll services, retirement plans, Health Savings Accounts and credit and debit card processing. Consumer and business deposit products include checking accounts, savings deposits, market rate accounts, Individual Retirement Accounts (IRAs), time deposits and debit cards.

Community Banking serves customers through a wide range of channels, which include traditional banking stores, in-store banking centers, business centers and ATMs. Also, *Phone Bank*SM centers and the National Business Banking Center provide 24-hour telephone service. Online banking services include single sign-on to online banking, bill pay and brokerage, as well as online banking for small business.

The Wholesale Banking Group serves businesses across the United States with annual sales generally in excess of $10 million. Wholesale Banking provides a complete line of commercial, corporate and real estate banking products and services. These include traditional commercial loans and lines of credit, letters of credit, asset-based lending, equipment leasing, mezzanine financing, high-yield debt, international trade facilities, foreign exchange services, treasury management, investment management, institutional fixed income and equity sales, interest rate, commodity and equity risk management, online/electronic products such as the *Commercial Electronic Office*® (*CEO*®) portal, insurance and investment banking services. Wholesale Banking manages and administers institutional investments, employee benefit trusts and mutual funds, including the *Wells Fargo Advantage Funds*. Wholesale Banking includes the majority ownership interest in the Wells Fargo HSBC Trade Bank, which provides trade financing, letters of credit and collection services and is sometimes supported by the Export-Import Bank of the United States (a public agency of the United States offering export finance support for American-made products). Wholesale Banking also supports the commercial real estate market with products and services such as construction loans for commercial and residential development, land acquisition and development loans, secured and unsecured lines of credit, interim financing arrangements for completed structures, rehabilitation loans, affordable housing loans and letters of credit, permanent loans for securitization, commercial real estate loan servicing and real estate and mortgage brokerage services.

Wells Fargo Financial includes consumer finance and auto finance operations. Consumer finance operations make direct consumer and real estate loans to individuals and purchase sales finance contracts from retail merchants from offices throughout the United States and in Canada, Latin America, the Caribbean and the Pacific Rim. Automobile finance operations specialize in purchasing sales finance contracts directly from automobile dealers and making loans secured by automobiles in the United States, Canada and Puerto Rico. Wells Fargo Financial also provides credit cards and lease and other commercial financing.

The Consolidated Company total of average assets includes unallocated goodwill balances held at the enterprise level.

(income/expense in millions, average balances in billions)	Community Banking		Wholesale Banking		Wells Fargo Financial		Consolidated Company	
Quarter ended September 30,	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Net interest income (1)	**$ 3,292**	$ 3,209	**$ 751**	$ 598	**$ 1,004**	$ 869	**$ 5,047**	$ 4,676
Provision for credit losses	**236**	226			**377**	415	**613**	641
Noninterest income	**2,492**	2,619	**1,033**	893	**362**	315	**3,887**	3,827
Noninterest expense	**3,392**	3,350	**999**	895	**690**	644	**5,081**	4,889
Income before income tax expense	**2,156**	2,252	**785**	596	**299**	125	**3,240**	2,973
Income tax expense	**683**	759	**258**	193	**105**	46	**1,046**	998
Net income	**$ 1,473**	$ 1,493	**$ 527**	$ 403	**$ 194**	$ 79	**$ 2,194**	$ 1,975
Average loans	**$ 172.5**	$ 184.4	**$ 72.3**	$ 63.3	**$ 59.2**	$ 47.9	**$ 304.0**	$ 295.6
Average assets (2)	**326.7**	298.8	**97.5**	90.1	**64.7**	53.5	**494.7**	448.2
Average core deposits	**231.2**	223.5	**29.1**	23.6	**0.1**	0.1	**260.4**	247.2
Nine months ended September 30,								
Net interest income (1)	**$ 9,869**	$ 9,421	**$ 2,137**	$ 1,755	**$ 2,895**	$ 2,489	**$ 14,901**	$ 13,665
Provision (reversal of provision) for credit losses	**612**	610	**(9)**	(6)	**875**	1,076	**1,478**	1,680
Noninterest income	**7,033**	6,986	**3,214**	2,849	**1,130**	957	**11,377**	10,792
Noninterest expense	**10,264**	9,636	**3,009**	2,611	**2,058**	1,888	**15,331**	14,135
Income before income tax expense	**6,026**	6,161	**2,351**	1,999	**1,092**	482	**9,469**	8,642

Income tax expense	**2,007**	2,075	**773**	655	**388**	171	**3,168**	2,901
Net income	**$ 4,019**	$ 4,086	**$ 1,578**	$ 1,344	**$ 704**	$ 311	**$ 6,301**	$ 5,741
Average loans	**$ 178.8**	$ 186.0	**$ 70.1**	$ 61.3	**$ 56.2**	$ 45.6	**$ 305.1**	$ 292.9
Average assets (2)	**322.9**	292.7	**96.9**	88.1	**61.6**	51.5	**487.2**	438.1
Average core deposits	**230.0**	214.9	**27.3**	24.3	**0.1**		**257.4**	239.2

(1) Net interest income is the difference between interest earned on assets and the cost of liabilities to fund those assets. Interest earned includes actual interest earned on segment assets and, if the segment has excess liabilities, interest credits for providing funding to other segments. The cost of liabilities includes interest expense on segment liabilities and, if the segment does not have enough liabilities to fund its assets, a funding charge based on the cost of excess liabilities from another segment. In general, Community Banking has excess liabilities and receives

interest credits for the funding it provides to other segments.

(2) The Consolidated Company balance includes unallocated goodwill held at the enterprise level of $5.8 billion for all periods presented.

14. VARIABLE INTEREST ENTITIES

We are a variable interest holder in certain special-purpose entities that are consolidated because we absorb a majority of each entity s expected losses, receive a majority of each entity s expected returns or both. We do not hold a majority voting interest in these entities. Our consolidated variable interest entities, substantially all of which were formed to invest in securities and to securitize real estate investment trust securities, had approximately $3.2 billion and $2.5 billion in total assets at September 30, 2006, and December 31, 2005, respectively. The primary activities of these entities consist of acquiring and disposing of, and investing and reinvesting in securities, and issuing beneficial interests secured by those securities to investors. The creditors of a majority of these consolidated entities have no recourse against us.

We also hold variable interests greater than 20% but less than 50% in certain special-purpose entities formed to provide affordable housing and to securitize corporate debt that had approximately $2.8 billion and $2.9 billion in total assets at September 30, 2006, and December 31, 2005, respectively. We are not required to consolidate these entities. Our maximum exposure to loss as a result of our involvement with these unconsolidated variable interest entities was approximately $820 million and $870 million at September 30, 2006, and December 31, 2005, respectively, predominantly representing investments in entities formed to invest in affordable housing. However, we expect to recover our investment over time, primarily through realization of federal low-income housing tax credits.

15. MORTGAGE BANKING ACTIVITIES

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

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

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

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

(in millions)	Quarter ended Sept. 30, 2006	Nine months ended Sept. 30, 2006
Fair value, beginning of period	$ 15,650	$ 12,547
Purchases	2,907	3,637
Servicing from securitizations or asset transfers	965	3,264
Changes in fair value:		
Due to changes in valuation model inputs or assumptions (1)	(1,147)	(75)
Other changes in fair value (2)	(663)	(1,661)
Fair value, end of period	$ 17,712	$ 17,712

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

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

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The changes in amortized MSRs were:

(in millions)	Quarter ended Sept. 30, 2006	2005	Nine months ended Sept. 30, 2006	2005
Balance, beginning of period	**$ 175**	$ 10,096	**$ 122**	$ 9,466
Purchases (1)	**161**	783	**225**	1,771
Servicing from securitizations or asset transfers (1)	**2**	850	**2**	1,764
Amortization	**(10)**	(542)	**(21)**	(1,505)
Other (includes changes due to hedging)		766		457
Balance, end of period	**$ 328**	$ 11,953	**$ 328**	$ 11,953
Valuation allowance:				
Balance, beginning of period	**$**	$ 1,598	**$**	$ 1,565
Reversal of provision for MSRs in excess of fair value		(356)		(323)
Balance, end of period	**$**	$ 1,242	**$**	$ 1,242
Amortized MSRs, net	**$ 328**	$ 10,711	**$ 328**	$ 10,711
Fair value of amortized MSRs:				
Beginning of period	**$ 252**	$ 8,517	**$ 146**	$ 7,913
End of period	**440**	10,845	**440**	10,845

(1) Based on September 30, 2006, assumptions, the weighted-average amortization period for MSRs added during the third quarter and first nine months of 2006 was approximately 18.0 years and 16.2 years, respectively.

The components of our managed servicing portfolio were:

(in billions)	September 30, 2006	2005
Loans serviced for others (1)	**$ 1,235**	$ 815
Owned loans serviced (2)	**90**	115
Total owned servicing	**1,325**	930
Sub-servicing	**20**	29
Total managed servicing portfolio	**$ 1,345**	$ 959
Ratio of MSRs to related loans serviced for others	**1.46%**	1.31%

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

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The components of mortgage banking noninterest income were:

(in millions)	Quarter ended Sept. 30, 2006	Quarter ended Sept. 30, 2005	Nine months ended Sept. 30, 2006	Nine months ended Sept. 30, 2005
Servicing income, net:				
Servicing fees (1)	**$ 947**	$ 619	**$ 2,514**	$ 1,782
Changes in fair value of residential MSRs:				
Due to changes in valuation model inputs or assumptions (2)	**(1,147)**		**(75)**	
Other changes in fair value (3)	**(663)**		**(1,661)**	--
Amortization	**(10)**	(542)	**(21)**	(1,505)
Reversal of provision for MSRs in excess of fair value		356		323
Net derivative gains (losses):				
Fair value accounting hedges (4)		(60)		130
Economic hedges (5)	**1,061**		**(178)**	
Total servicing income, net	**188**	373	**579**	730
Net gains on mortgage loan origination/sales activities	**179**	273	**811**	816
All other	**117**	97	**244**	248
Total mortgage banking noninterest income	**$ 484**	$ 743	**$ 1,634**	$ 1,794
Market-related valuation changes to MSRs, net of hedge results (2) + (5)	**$ (86)**		**$ (253)**	

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

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

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

(4) Results related to MSRs fair value hedging activities under FAS 133, *Accounting for Derivative Instruments and Hedging Activities* (as amended), consist of gains and losses excluded from the evaluation of hedge effectiveness and the ineffective portion of the change in the value of these derivatives. Gains and losses excluded from the evaluation of hedge effectiveness are those caused by market conditions (volatility) and the spread between spot and forward rates priced into the derivative contracts (the passage of time). See Note 19 Fair Value Hedges for additional discussion and detail.

(5) Represents results from free-standing derivatives (economic hedges) used to hedge the risk of changes in fair value of MSRs. See Note 19 Free-Standing Derivatives for additional discussion and detail.

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16. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Following are the condensed consolidating financial statements of the Parent and Wells Fargo Financial Inc. and its wholly-owned subsidiaries (WFFI). The Wells Fargo Financial business segment for management reporting (see Note 13) consists of WFFI and other affiliated consumer finance entities managed by WFFI that are included within other consolidating subsidiaries in the following tables.

Condensed Consolidating Statement of Income

	Quarter ended September 30, 2006				
(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Dividends from subsidiaries:					
Bank	$ 637	$	$	$ (637)	$
Nonbank	45			(45)	
Interest income from loans		1,336	5,231	(12)	6,555
Interest income from subsidiaries	862			(862)	
Other interest income	27	26	1,794	(3)	1,844
Total interest income	1,571	1,362	7,025	(1,559)	8,399
Deposits			1,997		1,997
Short-term borrowings	139	96	288	(252)	271
Long-term debt	834	457	180	(387)	1,084
Total interest expense	973	553	2,465	(639)	3,352
NET INTEREST INCOME	598	809	4,560	(920)	5,047
Provision for credit losses		362	251		613
Net interest income after provision for credit losses	598	447	4,309	(920)	4,434
NONINTEREST INCOME					
Fee income nonaffiliates		76	2,268		2,344
Other	85	48	1,417	(7)	1,543
Total noninterest income	85	124	3,685	(7)	3,887
NONINTEREST EXPENSE					
Salaries and benefits	5	280	2,652		2,937
Other	13	217	2,159	(245)	2,144
Total noninterest expense	18	497	4,811	(245)	5,081

INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	665	74	3,183	(682)	3,240
Income tax expense (benefit)	(54)	27	1,073		1,046
Equity in undistributed income of subsidiaries	1,475			(1,475)	
NET INCOME	$ 2,194	$ 47	$ 2,110	$ (2,157)	$ 2,194

Condensed Consolidating Statement of Income

					Quarter ended September 30, 2005
(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Dividends from subsidiaries:					
Bank	$ 900	$	$	$ (900)	$
Nonbank	566			(566)	
Interest income from loans		1,154	4,270	(8)	5,416
Interest income from subsidiaries	598			(598)	
Other interest income	25	21	1,183		1,229
Total interest income	2,089	1,175	5,453	(2,072)	6,645
Deposits			1,000		1,000
Short-term borrowings	60	62	228	(161)	189
Long-term debt	554	350	161	(285)	780
Total interest expense	614	412	1,389	(446)	1,969
NET INTEREST INCOME	1,475	763	4,064	(1,626)	4,676
Provision for credit losses		486	155		641
Net interest income after provision for credit losses	1,475	277	3,909	(1,626)	4,035
NONINTEREST INCOME					
Fee income nonaffiliates		61	2,104		2,165
Other	62	90	1,539	(29)	1,662
Total noninterest income	62	151	3,643	(29)	3,827
NONINTEREST EXPENSE					
Salaries and benefits	43	249	2,422		2,714
Other	31	227	2,105	(188)	2,175
Total noninterest expense	74	476	4,527	(188)	4,889
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND	1,463	(48)	3,025	(1,467)	2,973

EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES					
Income tax expense (benefit)	(50)	(18)	1,066		998
Equity in undistributed income of subsidiaries	462			(462)	
NET INCOME	$ 1,975	$ (30)	$ 1,959	$ (1,929)	$ 1,975

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Condensed Consolidating Statement of Income

	Nine months ended September 30, 2006				
(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Dividends from subsidiaries:					
Bank	$ 1,472	$	$	$ (1,472)	$
Nonbank	218			(218)	
Interest income from loans		3,933	15,007	(30)	18,910
Interest income from subsidiaries	2,430			(2,430)	
Other interest income	79	76	4,946	(3)	5,098
Total interest income	4,199	4,009	19,953	(4,153)	24,008
Deposits			5,273		5,273
Short-term borrowings	349	274	888	(681)	830
Long-term debt	2,333	1,310	473	(1,112)	3,004
Total interest expense	2,682	1,584	6,634	(1,793)	9,107
NET INTEREST INCOME	1,517	2,425	13,319	(2,360)	14,901
Provision for credit losses		689	789		1,478
Net interest income after provision for credit losses	1,517	1,736	12,530	(2,360)	13,423
NONINTEREST INCOME					
Fee income nonaffiliates		206	6,564		6,770
Other	58	171	4,413	(35)	4,607
Total noninterest income	58	377	10,977	(35)	11,377
NONINTEREST EXPENSE					
Salaries and benefits	57	817	7,947		8,821
Other	(4)	653	6,566	(705)	6,510
Total noninterest expense	53	1,470	14,513	(705)	15,331
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND	1,522	643	8,994	(1,690)	9,469

EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES					
Income tax expense (benefit)	(114)	228	3,054		3,168
Equity in undistributed income of subsidiaries	4,665			(4,665)	
NET INCOME	$ 6,301	$ 415	$ 5,940	$ (6,355)	$ 6,301

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Condensed Consolidating Statement of Income

	Nine months ended September 30, 2005				
(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Dividends from subsidiaries:					
Bank	$ 3,824	$	$	$ (3,824)	$
Nonbank	751			(751)	
Interest income from loans		3,221	12,146	(8)	15,359
Interest income from subsidiaries	1,553			(1,553)	
Other interest income	78	79	3,202		3,359
Total interest income	6,206	3,300	15,348	(6,136)	18,718
Deposits			2,517		2,517
Short-term borrowings	171	135	623	(427)	502
Long-term debt	1,380	990	446	(782)	2,034
Total interest expense	1,551	1,125	3,586	(1,209)	5,053
NET INTEREST INCOME	4,655	2,175	11,762	(4,927)	13,665
Provision for credit losses		1,123	557		1,680
Net interest income after provision for credit losses	4,655	1,052	11,205	(4,927)	11,985
NONINTEREST INCOME					
Fee income nonaffiliates		169	6,016		6,185
Other	133	203	4,366	(95)	4,607
Total noninterest income	133	372	10,382	(95)	10,792
NONINTEREST EXPENSE					
Salaries and benefits	55	731	6,965		7,751
Other	36	571	6,223	(446)	6,384
Total noninterest expense	91	1,302	13,188	(446)	14,135
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND	4,697	122	8,399	(4,576)	8,642

EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES					
Income tax expense (benefit)	(52)	40	2,913		2,901
Equity in undistributed income of subsidiaries	992			(992)	
NET INCOME	$ 5,741	$ 82	$ 5,486	$ (5,568)	$ 5,741

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Condensed Consolidating Balance Sheet

					September 30, 2006
(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
ASSETS					
Cash and cash equivalents due from:					
Subsidiary banks	$ 11,879	$ 232	$	$ (12,111)	$
Nonaffiliates	77	195	16,398		16,670
Securities available for sale	986	1,798	49,857	(6)	52,635
Mortgages and loans held for sale		29	40,501		40,530
Loans		47,174	261,213	(896)	307,491
Loans to subsidiaries:					
Bank	3,400			(3,400)	
Nonbank	46,369	63		(46,432)	
Allowance for loan losses		(1,147)	(2,652)		(3,799)
Net loans	49,769	46,090	258,561	(50,728)	303,692
Investments in subsidiaries:					
Bank	41,335			(41,335)	
Nonbank	5,168			(5,168)	
Other assets	5,817	1,456	64,148	(1,507)	69,914
Total assets	$ 115,031	$ 49,800	$ 429,465	$ (110,855)	$ 483,441
LIABILITIES AND STOCKHOLDERS EQUITY					
Deposits	$	$	$ 326,430	$ (12,111)	$ 314,319
Short-term borrowings	18	7,909	19,072	(13,199)	13,800
Accrued expenses and other liabilities	3,359	1,018	24,038	(2,046)	26,369
Long-term debt	61,817	37,944	16,447	(32,117)	84,091
Indebtedness to subsidiaries	4,975			(4,975)	
Total liabilities	70,169	46,871	385,987	(64,448)	438,579
Stockholders equity	44,862	2,929	43,478	(46,407)	44,862
Total liabilities and stockholders equity	$ 115,031	$ 49,800	$ 429,465	$ (110,855)	$ 483,441

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Condensed Consolidating Balance Sheet

					September 30, 2005
(in millions)	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
ASSETS					
Cash and cash equivalents due from:					
Subsidiary banks	$ 10,888	$ 263	$ 28	$ (11,179)	$
Nonaffiliates	235	343	19,214		19,792
Securities available for sale	1,239	1,771	31,475	(5)	34,480
Mortgages and loans held for sale		25	46,723		46,748
Loans	1	41,507	255,570	(889)	296,189
Loans to subsidiaries:					
Bank	2,300			(2,300)	
Nonbank	43,556	949		(44,505)	
Allowance for loan losses		(1,200)	(2,686)		(3,886)
Net loans	45,857	41,256	252,884	(47,694)	292,303
Investments in subsidiaries:					
Bank	36,364			(36,364)	
Nonbank	4,140			(4,140)	
Other assets	6,343	1,149	54,729	(2,050)	60,171
Total assets	$ 105,066	$ 44,807	$ 405,053	$ (101,432)	$ 453,494
LIABILITIES AND STOCKHOLDERS EQUITY					
Deposits	$	$	$ 300,207	$ (11,178)	$ 289,029
Short-term borrowings	82	8,567	29,004	(14,410)	23,243
Accrued expenses and other liabilities	4,056	1,262	20,289	(2,812)	22,795
Long-term debt	57,236	32,501	17,627	(28,772)	78,592
Indebtedness to subsidiaries	3,857			(3,857)	
Total liabilities	65,231	42,330	367,127	(61,029)	413,659
Stockholders equity	39,835	2,477	37,926	(40,403)	39,835
Total liabilities and stockholders equity	$ 105,066	$ 44,807	$ 405,053	$ (101,432)	$ 453,494

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Condensed Consolidating Statement of Cash Flows

	Nine months ended September 30, 2006			
(in millions)	Parent	WFFI	Other consolidating subsidiaries/ eliminations	Consolidated Company
Cash flows from operating activities:				
Net cash provided by operating activities	$ 2,235	$ 714	$ 15,351	$ 18,300
Cash flows from investing activities:				
Securities available for sale:				
Sales proceeds	188	443	43,265	43,896
Prepayments and maturities	4	172	5,581	5,757
Purchases	(265)	(646)	(60,436)	(61,347)
Net cash paid for acquisitions			(526)	(526)
Increase in banking subsidiaries loan originations, net of collections		(1,448)	(25,055)	(26,503)
Proceeds from sales (including participations) of loans by banking subsidiaries		50	35,587	35,637
Purchases (including participations) of loans by banking subsidiaries		(202)	(3,934)	(4,136)
Principal collected on nonbank entities loans		15,092	3,038	18,130
Loans originated by nonbank entities		(16,638)	(3,318)	(19,956)
Net repayments from (advances to) nonbank entities	(54)		54	
Capital notes and term loans made to subsidiaries	(4,705)		4,705	
Principal collected on notes/loans made to subsidiaries	3,025		(3,025)	
Net decrease (increase) in investment in subsidiaries	(192)		192	
Other, net		814	(4,098)	(3,284)
Net cash used by investing activities	(1,999)	(2,363)	(7,970)	(12,332)
Cash flows from financing activities:				
Net decrease in deposits			(376)	(376)
Net increase (decrease) in short-term borrowings	875	(1,097)	(9,917)	(10,139)
Proceeds from issuance of long-term debt	9,640	5,255	92	14,987
Long-term debt repayment	(6,926)	(2,576)	(1,130)	(10,632)
Proceeds from issuance of common stock	1,419			1,419
Common stock repurchased	(1,566)			(1,566)
Cash dividends paid on common stock	(2,695)			(2,695)
	179			179

Excess tax benefits related to stock option payments				
Other, net		20	29	49
Net cash provided (used) by financing activities	926	1,602	(11,302)	(8,774)
Net change in cash and due from banks	1,162	(47)	(3,921)	(2,806)
Cash and due from banks at beginning of period	10,794	474	4,129	15,397
Cash and due from banks at end of period	$ 11,956	$ 427	$ 208	$ 12,591

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Condensed Consolidating Statement of Cash Flows

	Nine months ended September 30, 2005			
(in millions)	Parent	WFFI	Other consolidating subsidiaries/ eliminations	Consolidated Company
Cash flows from operating activities:				
Net cash provided (used) by operating activities	$ 4,966	$ 799	$ (11,529)	$ (5,764)
Cash flows from investing activities:				
Securities available for sale:				
Sales proceeds	219	170	6,954	7,343
Prepayments and maturities	85	208	5,002	5,295
Purchases	(177)	(333)	(10,068)	(10,578)
Net cash acquired from acquisitions			54	54
Increase in banking subsidiaries loan originations, net of collections		(573)	(25,294)	(25,867)
Proceeds from sales (including participations) of loans by banking subsidiaries		165	34,976	35,141
Purchases (including participations) of loans by banking subsidiaries			(5,611)	(5,611)
Principal collected on nonbank entities loans		14,584	2,095	16,679
Loans originated by nonbank entities		(21,652)	(2,851)	(24,503)
Net repayments from (advances to) nonbank entities	(3,538)		3,538	
Capital notes and term loans made to subsidiaries	(7,351)		7,351	
Principal collected on notes/loans made to subsidiaries	2,101		(2,101)	
Net decrease (increase) in investment in subsidiaries	161		(161)	
Other, net		(969)	(5,986)	(6,955)
Net cash provided (used) by investing activities	(8,500)	(8,400)	7,898	(9,002)
Cash flows from financing activities:				
Net increase in deposits			13,540	13,540
Net increase (decrease) in short-term borrowings	927	2,905	(2,602)	1,230
Proceeds from issuance of long-term debt	15,551	8,069	(1,335)	22,285
Long-term debt repayment	(7,551)	(3,249)	(6,670)	(17,470)
Proceeds from issuance of common stock	859			859
Common stock repurchased	(2,343)			(2,343)
Cash dividends paid on common stock	(2,505)			(2,505)
Other, net			198	198

Net cash provided by financing activities	4,938	7,725	3,131	15,794
Net change in cash and due from banks	1,404	124	(500)	1,028
Cash and due from banks at beginning of period	9,719	482	2,702	12,903
Cash and due from banks at end of period	$ 11,123	$ 606	$ 2,202	$ 13,931

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17. GUARANTEES

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

We issue standby letters of credit, which include performance and financial guarantees, for customers in connection with contracts between the customers and third parties. Standby letters of credit assure that the third parties will receive specified funds if customers fail to meet their contractual obligations. We will be required to make payment if a customer defaults. Standby letters of credit were $11.4 billion at September 30, 2006, and $10.9 billion at December 31, 2005, including financial guarantees of $6.8 billion and $6.4 billion, respectively, that we had issued or purchased participations in. Standby letters of credit are net of participations sold to other institutions of $2.7 billion at September 30, 2006, and $2.1 billion at December 31, 2005. We consider the credit risk in standby letters of credit in determining the allowance for credit losses. Deferred fees for these standby letters of credit were not significant to our financial statements. We also had commitments for commercial and similar letters of credit of $931 million at September 30, 2006, and $761 million at December 31, 2005.

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

We write options, floors and caps. Periodic settlements occur on floors and caps based on market conditions. The fair value of the written options liability in our balance sheet was $460 million at September 30, 2006, and $563 million at December 31, 2005. The aggregate written floors and caps liability was $143 million and $169 million, respectively. Our ultimate obligation under written options, floors and caps is based on future market conditions and is only quantifiable at settlement. The notional value related to written options was $47.1 billion at September 30, 2006, and $45.5 billion at December 31, 2005, and the aggregate notional value related to written floors and caps was $12.2 billion and $24.3 billion, respectively. We offset substantially all options written to customers with purchased options and other derivatives.

We also enter into credit default swaps under which we buy loss protection from or sell loss protection to a counterparty in the event of default of a reference obligation. The carrying amount of the contracts sold was a liability of $5 million at September 30, 2006, and $6 million at December 31, 2005. The maximum amount we would be required to pay under the swaps in which we sold protection, assuming all reference obligations default at a total loss, without recoveries, was $2.8 billion and $2.7 billion based on notional value at September 30, 2006, and December 31, 2005, respectively. We purchased credit default swaps of comparable notional amounts to mitigate the exposure of the written credit default swaps at September 30, 2006, and December 31, 2005. These purchased credit default swaps had terms (i.e., used the same reference obligation and maturity) that would offset our exposure from the written default swap contracts in which we are providing protection to a counterparty.

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In connection with certain brokerage, asset management and insurance agency acquisitions we have made, the terms of the acquisition agreements provide for deferred payments or additional consideration based on certain performance targets. At September 30, 2006, and December 31, 2005, the amount of contingent consideration we expected to pay was not significant to our financial statements.

We have entered into various contingent performance guarantees through credit risk participation arrangements with remaining terms up to 23 years. We will be required to make payments under these guarantees if a customer defaults on its obligation to perform under certain credit agreements with third parties. The extent of our obligations under these guarantees depends entirely on future events and was contractually limited to an aggregate liability of approximately $100 million at September 30, 2006, and $110 million at December 31, 2005.

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18. REGULATORY AND AGENCY CAPITAL REQUIREMENTS

The Company and each of its subsidiary banks are subject to various regulatory capital adequacy requirements administered by the Federal Reserve Board (FRB) and the Office of the Comptroller of the Currency, respectively. We do not consolidate our wholly-owned trusts (the Trusts) formed solely to issue trust preferred securities. The amount of trust preferred securities issued by the Trusts that was includable in Tier 1 capital in accordance with FRB risk-based capital guidelines was $4.2 billion at September 30, 2006. The junior subordinated debentures held by the Trusts were included in the Company s long-term debt.

	Actual		For capital adequacy purposes				To be well capitalized under the FDICIA prompt corrective action provisions			
(in billions)	Amount	Ratio		Amount		Ratio		Amount		Ratio
As of September 30, 2006:										
Total capital (to risk-weighted assets)										
Wells Fargo & Company	$ 50.2	12.34%	≥	$ 32.5	≥	8.00%				
Wells Fargo Bank, N.A.	39.7	12.04	≥	26.4	≥	8.00	≥	$ 33.0	≥	10.00%
Tier 1 capital (to risk-weighted assets)										
Wells Fargo & Company	$ 35.6	8.74%	≥	$ 16.3	≥	4.00%				
Wells Fargo Bank, N.A.	27.8	8.43	≥	13.2	≥	4.00	≥	$ 19.8	≥	6.00%
Tier 1 capital (to average assets) (Leverage ratio)										
Wells Fargo & Company	$ 35.6	7.41%	≥	$ 19.2	≥	4.00%(1)				
Wells Fargo Bank, N.A.	27.8	6.92	≥	16.1	≥	4.00(1)	≥	$ 20.1	≥	5.00%

(1) The leverage ratio consists of Tier 1 capital divided by quarterly average total assets, excluding

goodwill and certain other items. The minimum leverage ratio guideline is 3% for banking organizations that do not anticipate significant growth and that have well-diversified risk, excellent asset quality, high liquidity, good earnings, effective management and monitoring of market risk and, in general, are considered top-rated, strong banking organizations.

As an approved seller/servicer, Wells Fargo Bank, N.A., through its mortgage banking division, is required to maintain minimum levels of shareholders equity, as specified by various agencies, including the United States Department of Housing and Urban Development, Government National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. At September 30, 2006, Wells Fargo Bank, N.A. met these requirements.

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19. DERIVATIVES

Fair Value Hedges

Prior to January 1, 2006, we used derivatives as fair value hedges to manage the risk of changes in the fair value of residential MSRs and other interests held. These derivatives included interest rate swaps, swaptions, Treasury futures and options, Eurodollar futures and options, and forward contracts. Derivative gains or losses caused by market conditions (volatility) and the spread between spot and forward rates priced into the derivative contracts (the passage of time) were excluded from the evaluation of hedge effectiveness, but were reflected in earnings. Upon adoption of FAS 156, derivatives used to hedge our residential MSRs are no longer accounted for as fair value hedges under FAS 133, but as economic hedges. Net derivative gains and losses related to our residential mortgage servicing activities are included in Servicing income, net in Note 15.

We use derivatives, such as Treasury and LIBOR futures and swaptions, to hedge changes in fair value due to changes in interest rates of our commercial real estate mortgages and franchise loans held for sale. The ineffective portion of these fair value hedges is recorded as part of mortgage banking noninterest income in the income statement. We also enter into interest rate swaps, designated as fair value hedges, to convert certain of our fixed-rate long-term debt and certificates of deposit to floating rates. In addition, we enter into cross-currency swaps and cross-currency interest rate swaps to hedge our exposure to foreign currency risk and interest rate risk associated with the issuance of non-U.S. dollar denominated debt. The ineffective portion of these fair value hedges is recorded as part of interest expense in the income statement. For commercial real estate, long-term debt and foreign currency hedges, all parts of each derivative s gain or loss due to the hedged risk are included in the assessment of hedge effectiveness.

We enter into equity collars to lock in share prices between specified levels for certain equity securities. As permitted, we include the intrinsic value only (excluding time value) when assessing hedge effectiveness. The net derivative gain or loss related to the equity collars is recorded in Other noninterest income in the income statement.

At September 30, 2006, all designated fair value hedges continued to qualify as fair value hedges.

Cash Flow Hedges

We hedge floating-rate senior debt against future interest rate increases by using interest rate swaps to convert floating-rate senior debt to fixed rates and by using interest rate caps and floors to limit variability of rates. We also use derivatives, such as Treasury futures, forwards and options, Eurodollar futures, and forward contracts, to hedge forecasted sales of mortgage loans. Gains and losses on derivatives that are reclassified from cumulative other comprehensive income to current period earnings, are included in the line item in which the hedged item s effect in earnings is recorded. All parts of gain or loss on these derivatives are included in the assessment of hedge effectiveness. As of September 30, 2006, all designated cash flow hedges continued to qualify as cash flow hedges.

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We expect that $24 million of deferred net losses on derivatives in other comprehensive income at September 30, 2006, will be reclassified as earnings during the next twelve months, compared with $77 million of deferred net gains at September 30, 2005. We are hedging our exposure to the variability of future cash flows for all forecasted transactions for a maximum of 10 years for hedges of floating-rate senior debt and one year for hedges of forecasted sales of mortgage loans.

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

	Quarter ended Sept. 30,		Nine months ended Sept. 30,	
(in millions)	**2006**	2005	**2006**	2005
Gains (losses) from fair value hedges (1) from:				
Change in value of derivatives excluded from the assessment of hedge effectiveness	**$**	$ (51)	**$ (8)**	$ 390
Ineffective portion of change in value of derivatives	**3**	(5)	**14**	(253)
Gains (losses) from ineffective portion of change in the value of cash flow hedges	**(7)**	25	**48**	17

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

Free-Standing Derivatives

We use free-standing derivatives (economic hedges) to hedge the risk of changes in the fair value of residential MSRs and other interests held, with the resulting gain or loss reflected in income. These derivatives include swaps, swaptions, Treasury futures and options, Eurodollar futures and options, and forward contracts, in addition to securities available for sale. Net derivative gains of $1,061 million and losses of $178 million for the third quarter and first nine months of 2006, respectively, from economic hedges related to our mortgage servicing activities are included on the income statement in Mortgage banking. The aggregate fair value of these derivatives used as economic hedges was a net asset of $905 million at September 30, 2006, and $32 million at December 31, 2005, and is included on the balance sheet in Other assets. Changes in fair value of securities available for sale (unrealized gains and losses) are not included in servicing income, but are reported in cumulative other comprehensive income (net of tax) or, upon sale, are reported in net gains (losses) on debt securities available for sale.

Interest rate lock commitments for residential mortgage loans that we intend to sell are considered free-standing derivatives. Our interest rate exposure on these derivative loan commitments is hedged with free-standing derivatives (economic hedges) such as Treasury futures, forwards and options, Eurodollar futures, and forward contracts. The commitments and free-standing derivatives are carried at fair value with changes in fair value recorded as a part of mortgage banking noninterest income in the income statement. We record a zero fair value for a derivative loan commitment at inception consistent with Emerging Issues Task Force Issue No. 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*, and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 105, *Application of Accounting*

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Principles to Loan Commitments. Changes subsequent to inception are based on changes in fair value of the underlying loan resulting from the exercise of the commitment and changes in the probability that the loan will not fund within the terms of the commitment, which is affected primarily by changes in interest rates and passage of time (referred to as a fall-out factor). The aggregate fair value of derivative loan commitments on the consolidated balance sheet was a net asset of $46 million at September 30, 2006, and a net liability of $54 million at December 31, 2005, and is included in the caption Interest rate contracts under Customer Accommodations and Trading in the following table.

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

Derivative Financial Instruments Summary Information

The total credit risk amount and estimated net fair value for derivatives at September 30, 2006, and December 31, 2005, were:

	September 30, 2006		December 31, 2005	
(in millions)	**Credit risk amount (2)**	**Estimated net fair value**	Credit risk amount (2)	Estimated net fair value
ASSET/LIABILITY MANAGEMENT HEDGES (1)				
Interest rate contracts	**$ 1,580**	**$ 734**	$ 726	$ 218
Equity contracts	**1**	**(12)**	3	
Foreign exchange contracts	**497**	**437**	153	93
CUSTOMER ACCOMMODATIONS AND TRADING				
Interest rate contracts	**1,499**	**223**	1,395	47
Commodity contracts	**450**	**7**	801	38
Equity contracts	**207**	**(27)**	258	(12)
Foreign exchange contracts	**261**	**12**	315	24
Credit contracts	**34**	**(14)**	23	(33)

(1) Includes fair value and cash flow hedges accounted for under FAS 133 and free-standing derivatives (economic hedges) used to hedge the risk of changes in the

fair value of residential MSRs and other interests held.

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

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PART II OTHER INFORMATION

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

The following table shows Company repurchases of its common stock for each calendar month in the quarter ended September 30, 2006.

Calendar month	Total number of shares repurchased(1)	Weighted-average price paid per share	Total number of shares repurchased as part of publicly announced authorizations(1)	Maximum number of shares that may yet be repurchased under the authorizations
July	3,907,996	$ 35.01	3,907,996	79,743,298
August	4,131,126	35.79	4,131,126	75,612,172
September	2,728,002	35.66	2,728,002	72,884,170
Total	10,767,124		10,767,124	

(1) All shares were repurchased under two authorizations each covering up to 50 million shares of common stock approved by the Board of Directors and publicly announced by the Company on November 15, 2005, and June 27, 2006. Unless modified or revoked by the Board, these authorizations do not expire.

Item 6. Exhibits

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

3(a)	Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed September 28, 2006
(b)	By-Laws, incorporated by reference to Exhibit 3 to the Company s Current Report on Form 8-K filed January 30, 2006
4(a)	See Exhibits 3(a) and 3(b)
(b)	The Company agrees to furnish upon request to the Commission a copy of each instrument defining the rights of holders of senior and subordinated debt of the Company
10(a)	Amendments to Long-Term Incentive Compensation Plan, effective August 4, 2006, filed herewith
(b)	Amendment to Deferred Compensation Plan, effective September 26, 2006, filed herewith
(c)	Amendment to PartnerShares Stock Option Plan, effective August 4, 2006, filed herewith
(d)	Amendment to Directors Stock Compensation and Deferral Plan, effective August 4, 2006, filed herewith

10(e) Amendment to Supplemental 401(k) Plan, effective August 4, 2006, filed herewith

12 Computation of Ratios of Earnings to Fixed Charges, filed herewith

	Quarter ended Sept. 30,		Nine months ended Sept. 30,	
	2006	2005	**2006**	2005
Ratio of earnings to fixed charges:				
Including interest on deposits	**1.95**	2.47	**2.02**	2.66
Excluding interest on deposits	**3.30**	3.92	**3.37**	4.22

31(a) Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith

(b) Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith

32(a) Certification of Periodic Financial Report by Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. § 1350, furnished herewith

(b) Certification of Periodic Financial Report by Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. § 1350, furnished herewith

SIGNATURE

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

Dated: November 2, 2006

WELLS FARGO & COMPANY

By: /s/ RICHARD D. LEVY

Richard D. Levy
Senior Vice President and Controller
(Principal Accounting Officer)