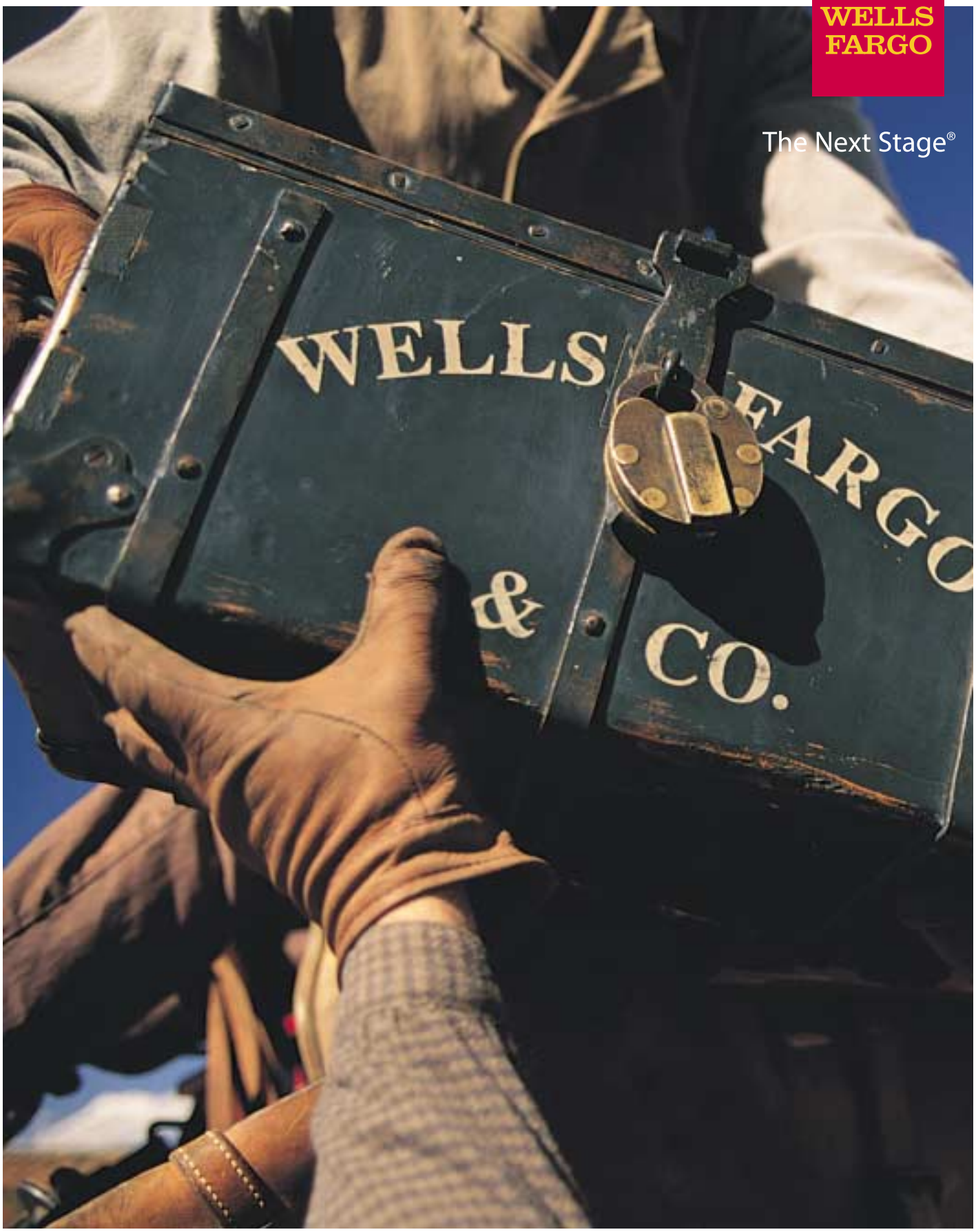
WELLS FARGO

The Next Stage®



Wells Fargo & Company Annual Report 2002

One Strong Box.

2 **One Strong Box**
More of our customers—like these 10—are benefiting from the price-value, security, and convenience of entrusting their financial assets to the "one strong box" of Wells Fargo.

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In a year filled with uncertainty and bad news, Wells Fargo reported record earnings and lower credit losses. How did we do it?

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We combine human, financial and social capital (connecting expertise and relationships) to improve the quality of life for all segments of our communities.

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To satisfy all our customers' financial needs it takes partnering across more than 70 Wells Fargo businesses. Here's a look at one of North America's most diversified financial services companies.

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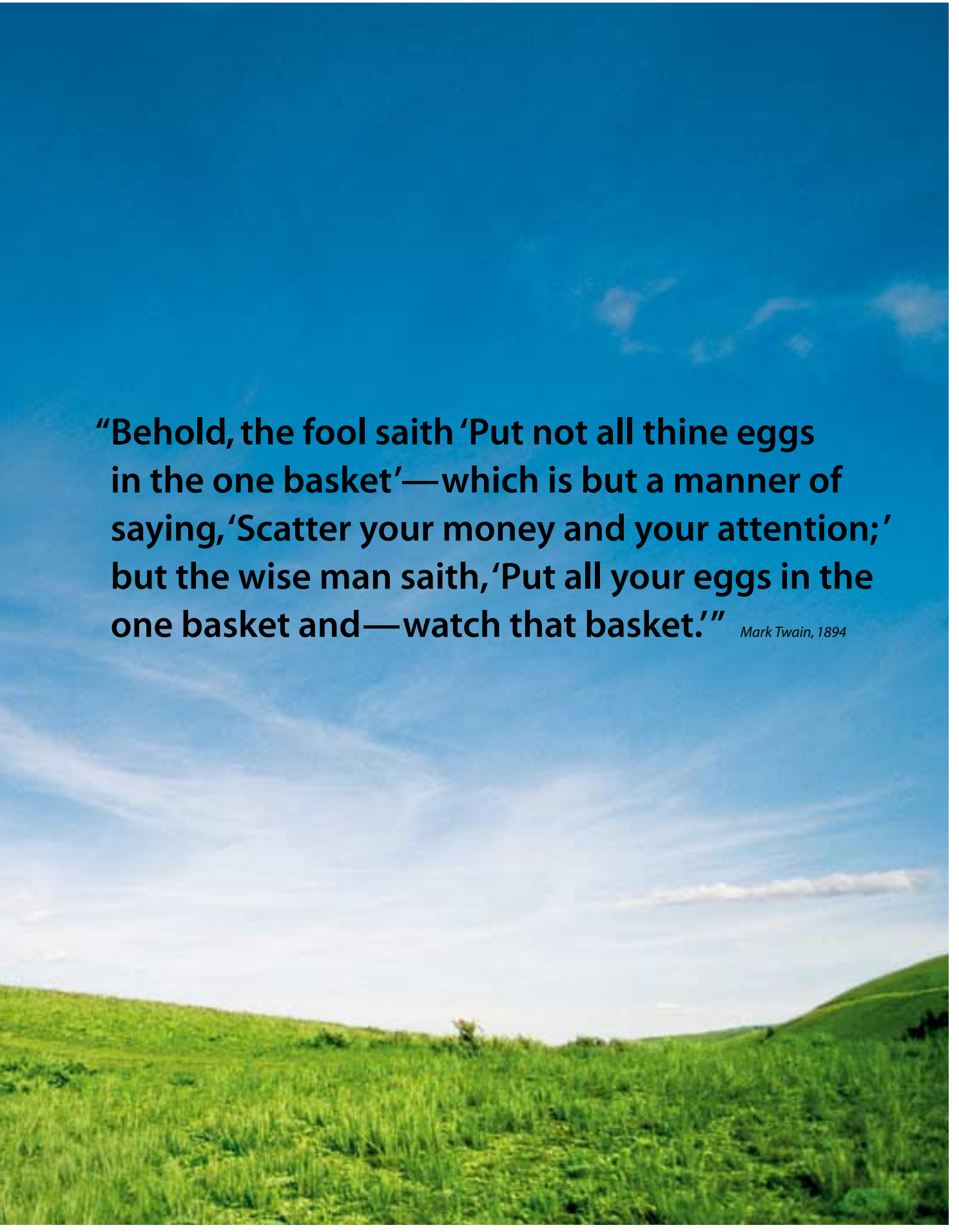
Wells Fargo & Company (NYSE:WFC) is a diversified financial services company—providing banking, insurance, investments, mortgage and consumer finance from more than 5,600 stores, the industry's leading internet site (wellsfargo.com) and other distribution channels across North America.

We help build wealth, process payments, grow businesses, and provide mortgages for more than 20 million customers.

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

Assets: $349 billion
Rank in assets among U.S. peers: 4th
Market value of stock: $82 billion
Rank by value of stock among U.S. peers: 3rd
Rank by value of stock among global peers: 4th
Team members: 134,000
***Fortune* 500 rank:** 64th

FORWARD-LOOKING STATEMENTS In this report we make forward-looking statements about our company's financial condition, results of operations, plans, objectives and future performance and business. When we use the words "estimate," "expect," "intend," "plan," "project," "target," "can," "could," "may," "should," "will," "would" or similar expressions, we are making forward-looking statements. These statements involve risks and uncertainties. A number of factors—many beyond our control—could cause results to differ from those in our forward-looking statements. These factors include: • changes in geopolitical, business and economic conditions, including changes in interest rates • competition from other financial services companies • fiscal and monetary policies • customers choosing not to use banks for transactions • legislation, including the Gramm-Leach-Bliley Act • critical accounting policies • the integration of merged and acquired companies • future mergers and acquisitions. We discuss in more detail on pages 55-58 these and other factors that could cause results to differ from those in our forward-looking statements. There are other factors not described in this report that could cause results to differ. © 2003 Wells Fargo & Company. All rights reserved.



"Behold, the fool saith 'Put not all thine eggs in the one basket'—which is but a manner of saying, 'Scatter your money and your attention;' but the wise man saith, 'Put all your eggs in the one basket and—watch that basket.'" *Mark Twain, 1894*

Wayne and Millie Martin
Owners, Vision Ford
Alamogordo, New Mexico

Customers since 1997

- Business Checking
- Commercial Real Estate Loan
- Direct Deposit, other Treasury products
- Floor Plan Financing (Auto Finance)
- Indirect Lending (Auto Finance)
- Merchant Services
- Mortgage Loan
- Online Banking
- Online Bill Pay
- Personal ATM & Check Card
- Personal Installment Loan
- Personal Line of Credit
- Visa® Gold Credit Card
- Wells Fargo Membership® Banking
- Wells Fargo Portfolio Management Account℠

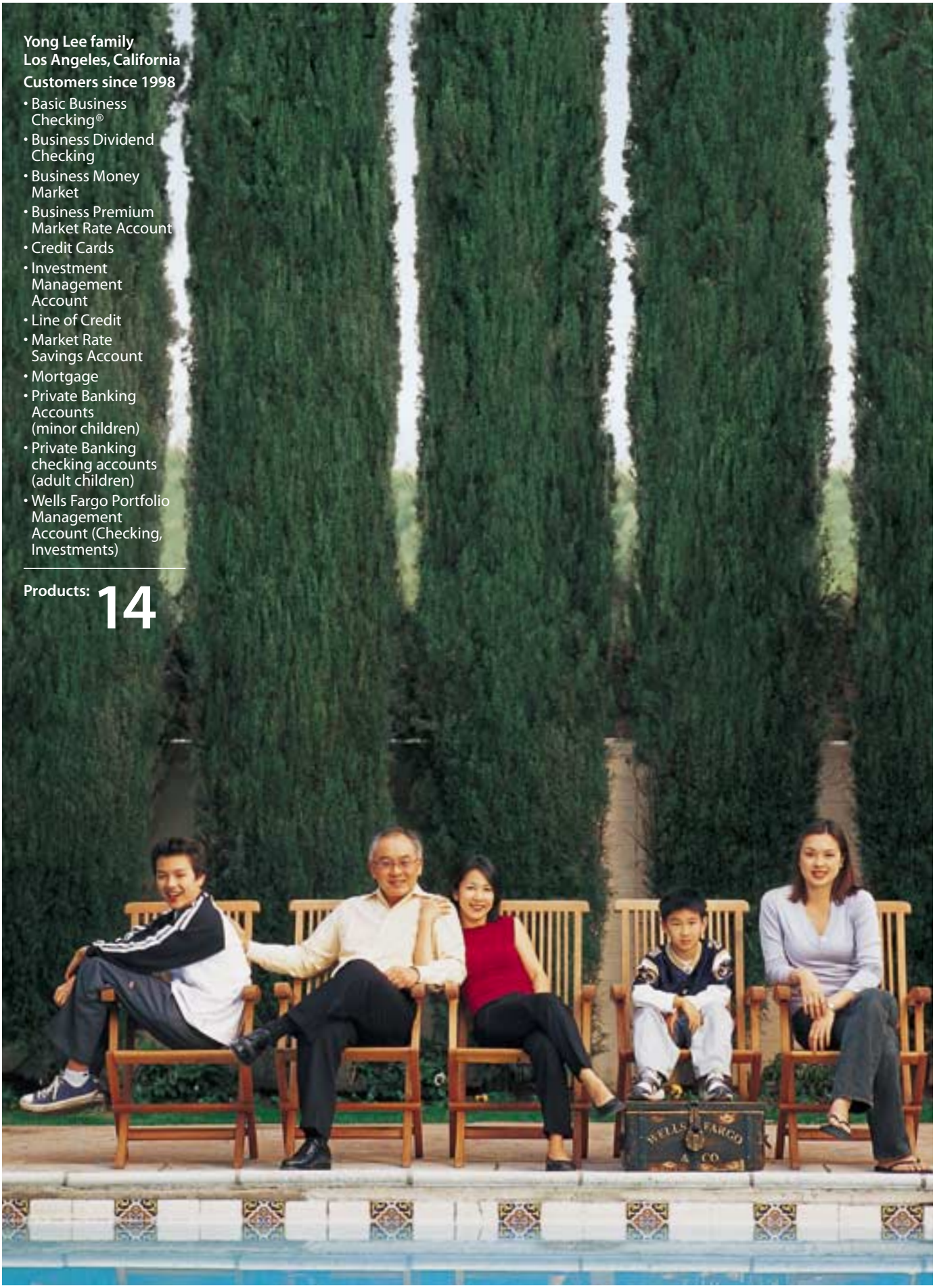
Products: 15

Yong Lee family
Los Angeles, California

Customers since 1998

- Basic Business Checking®
- Business Dividend Checking
- Business Money Market
- Business Premium Market Rate Account
- Credit Cards
- Investment Management Account
- Line of Credit
- Market Rate Savings Account
- Mortgage
- Private Banking Accounts (minor children)
- Private Banking checking accounts (adult children)
- Wells Fargo Portfolio Management Account (Checking, Investments)

Products: 14

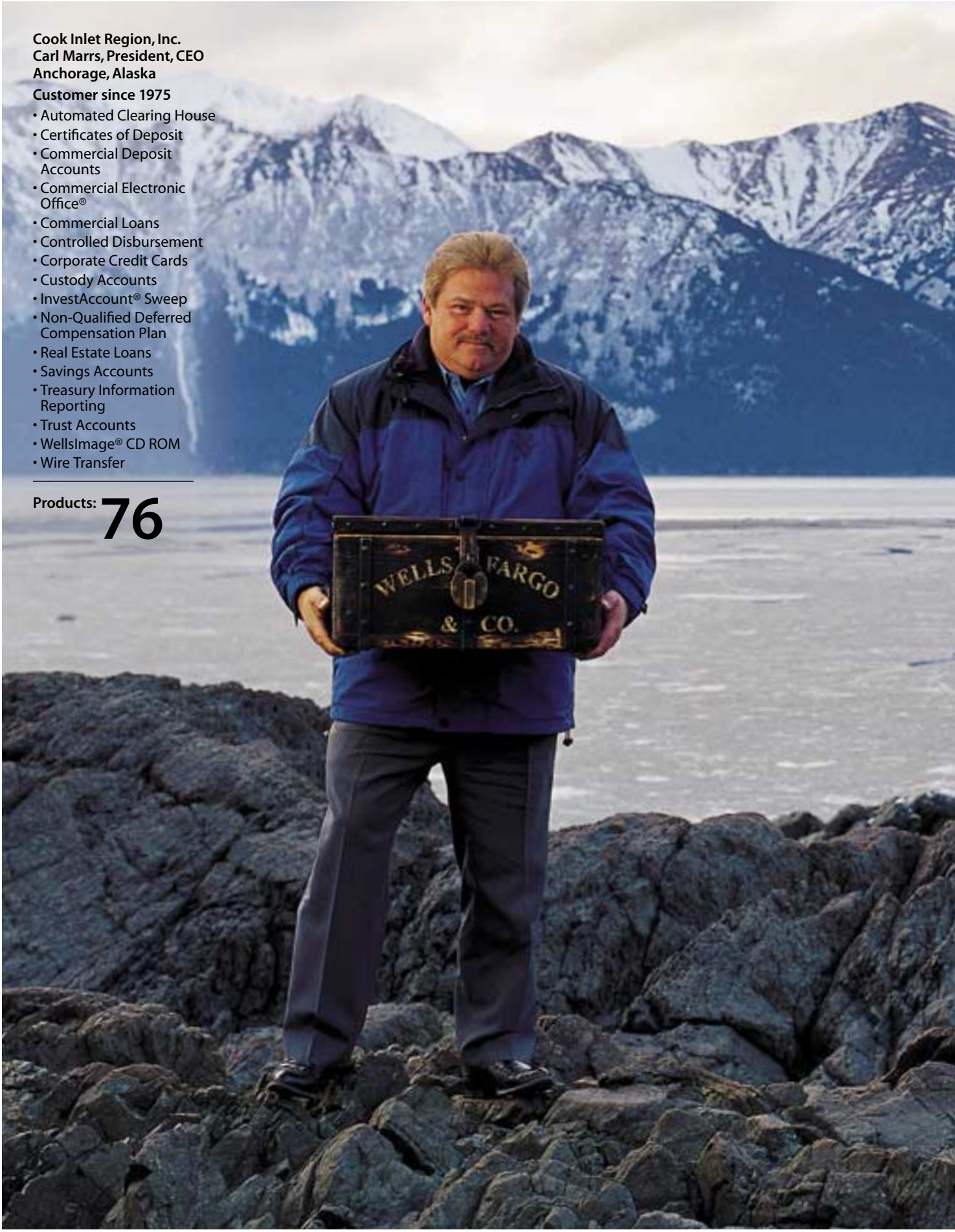


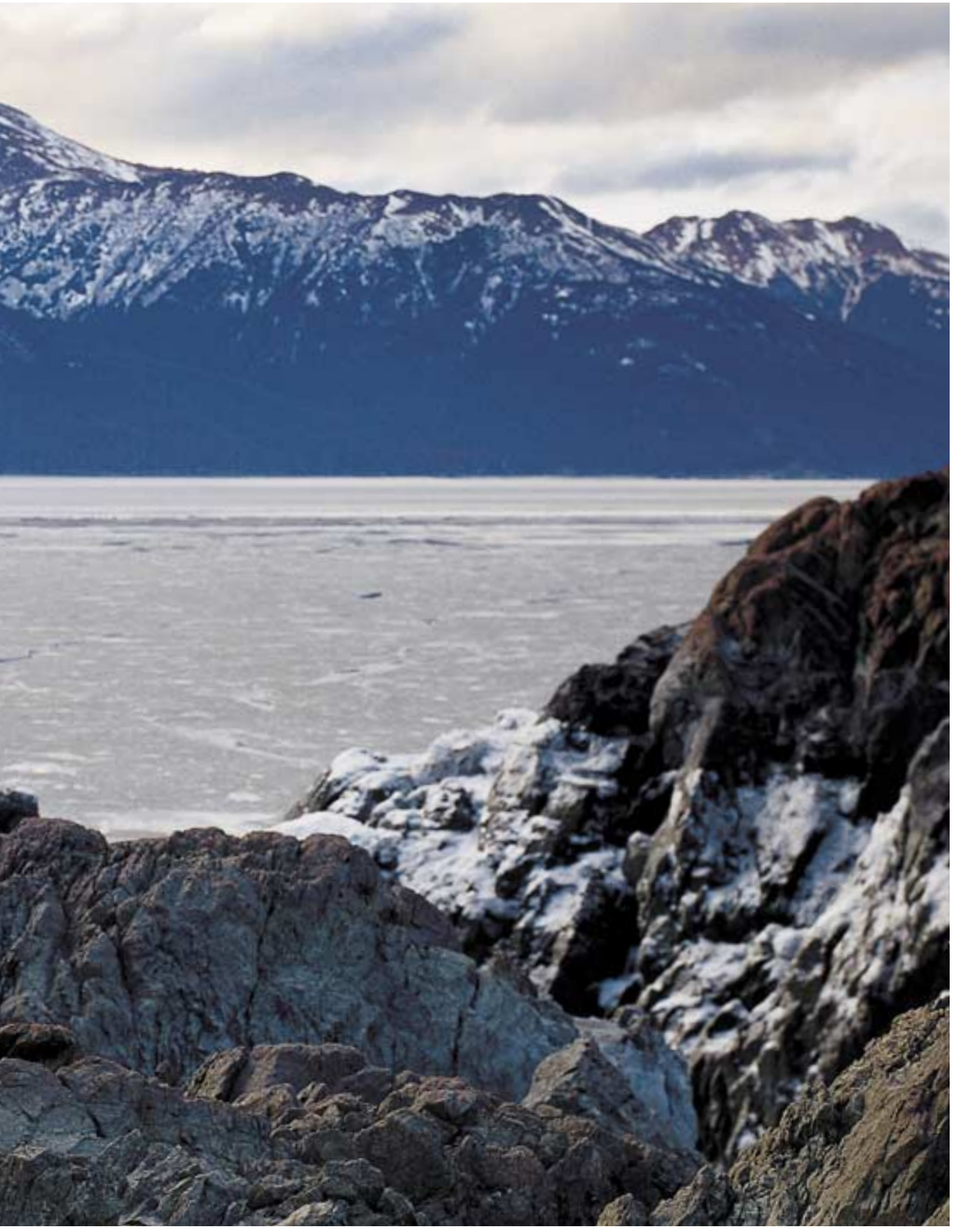
Cook Inlet Region, Inc.
Carl Marrs, President, CEO
Anchorage, Alaska

Customer since 1975

- Automated Clearing House
- Certificates of Deposit
- Commercial Deposit Accounts
- Commercial Electronic Office®
- Commercial Loans
- Controlled Disbursement
- Corporate Credit Cards
- Custody Accounts
- InvestAccount® Sweep
- Non-Qualified Deferred Compensation Plan
- Real Estate Loans
- Savings Accounts
- Treasury Information Reporting
- Trust Accounts
- WellsImage® CD ROM
- Wire Transfer

Products: 76





Robert W. Thompson,
Owner, CTL Thompson, Inc.
Denver, Colorado

Customer since 1971

- Automated Clearing House
- Cash Concentration
- Commercial Deposit Accounts
- Commercial Loan
- Corporate Cards
- Home Mortgage
- Market Rate Savings
- Personal Checking
- Personal Line of Credit
- Wells Fargo Membership Banking

Products: 55

Leoncio and Sulema Jimenez
Owners, Leo's Foods, Inc.
Fort Worth, Texas

Customers since 1989

- Business Card
- Business Checking Accounts
- Cash Vault
- Credit Card
- Commercial Loans
- Commercial Real Estate
- Construction and USDA Loan
- Home Mortgage
- IRA
- Letter of Credit
- Personal Checking Account
- Savings
- Wells Fargo Portfolio Management Account
- Wire Transfer

Products: 20

Dearden's stores
Raquel Bensimon, CEO
Los Angeles, California

Customer since 2002

- Account Reconcilement with Positive Pay
- Automated Clearing House
- Cash Vault
- Check Image Retrieval
- Commercial Deposit Accounts
- Commercial Electronic Office
- Controlled Disbursement
- Financial Risk Management
- Revolving Line of Credit
- Treasury Information Reporting
- Wells Fargo Membership Banking
- Wire Transfer

Products: 15

Greg and Jim Moes
Owners, MoDak Dairy, Inc.
Goodwin, South Dakota

Customers since 1973

- Business Card
- Business Checking
- Business Internet
- Business Online
- Cash Card
- Commercial Loan
- Consumer Loans
- Credit Card
- Equipment Leasing
- Insurance
- Investments
- Lines of Credit
- Online Banking
- Online Bill Manager
- Personal Checking Accounts
- Savings Accounts

Products: 35

Michael Buich
Owner, Tadich Grill
San Francisco, California

Customer since 1983

- Bill Pay
- Business Checking
- Business Credit Card
- Business Online Banking
- Business Premium Market Rate Account
- Credit Card
- Gold ATM & Check Card
- Home Equity Line of Credit
- Market Rate Savings
- Mortgage
- Personal Online Banking
- Wells Fargo Advantage Plus℠ Checking
- Wells Fargo Portfolio Management Account (Checking, Investments)

Products: 14

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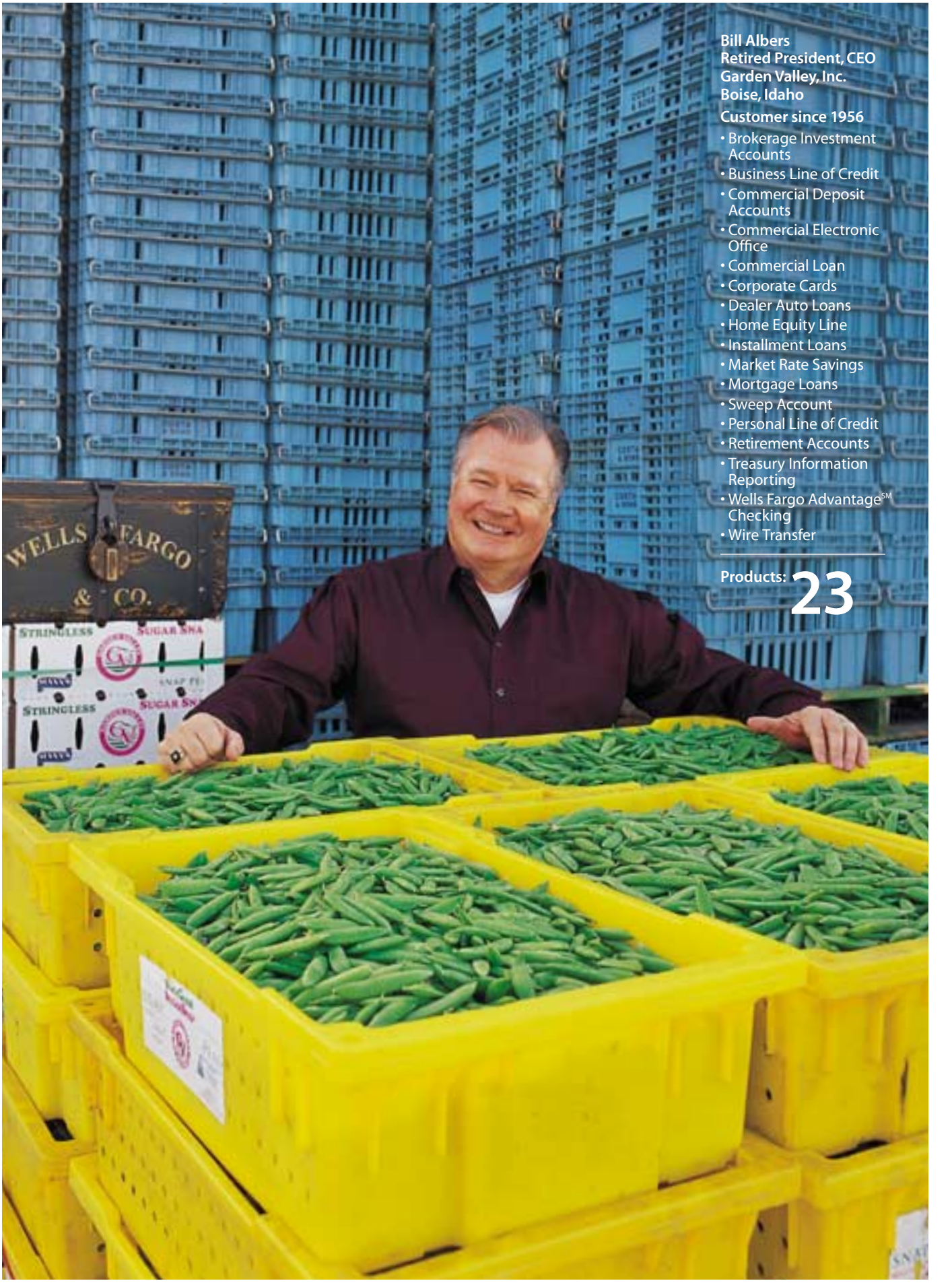
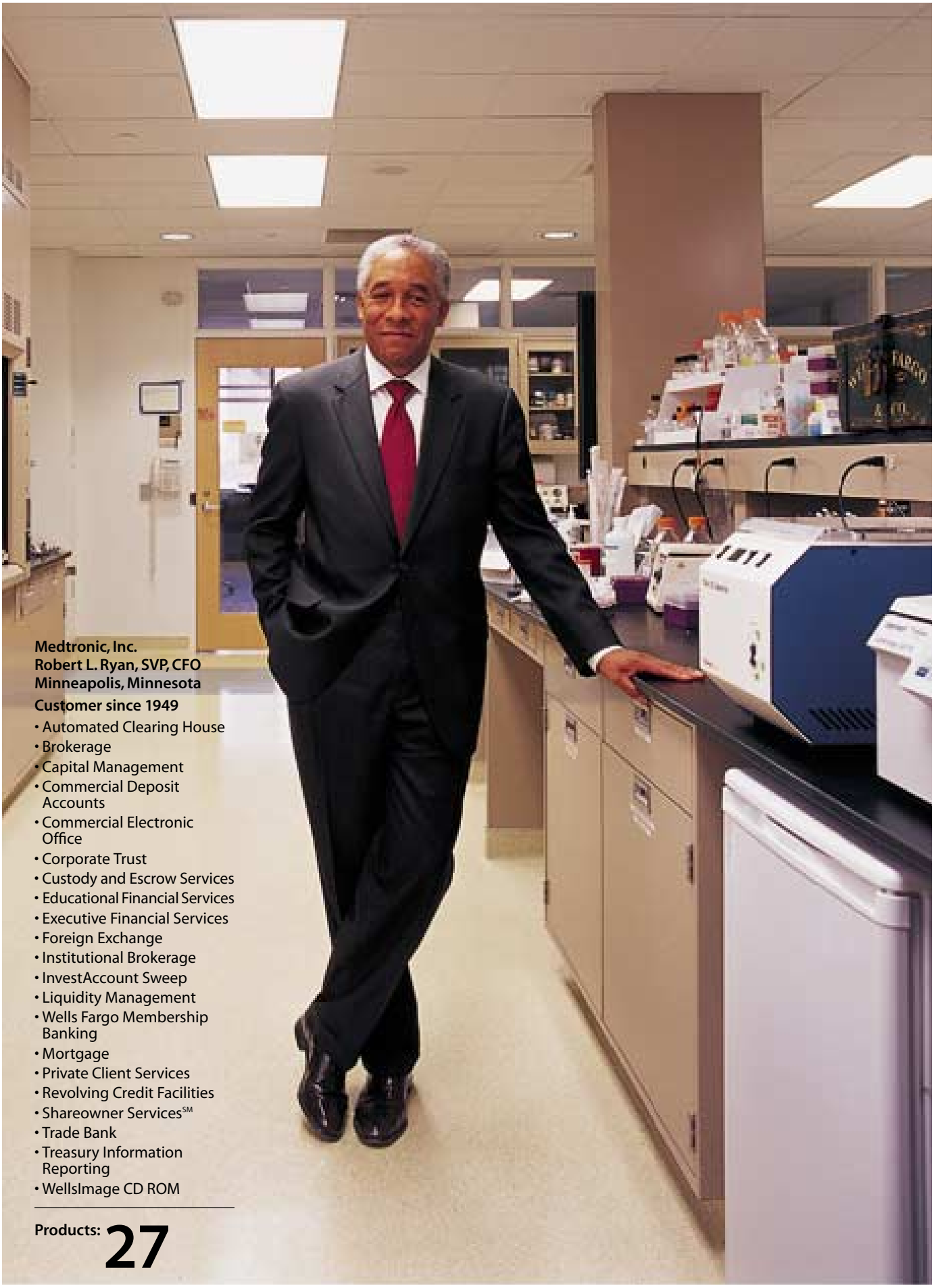


Bill Albers
Retired President, CEO
Garden Valley, Inc.
Boise, Idaho

Customer since 1956

- Brokerage Investment Accounts
- Business Line of Credit
- Commercial Deposit Accounts
- Commercial Electronic Office
- Commercial Loan
- Corporate Cards
- Dealer Auto Loans
- Home Equity Line
- Installment Loans
- Market Rate Savings
- Mortgage Loans
- Sweep Account
- Personal Line of Credit
- Retirement Accounts
- Treasury Information Reporting
- Wells Fargo Advantage℠ Checking
- Wire Transfer

Products: 23



Medtronic, Inc.
Robert L. Ryan, SVP, CFO
Minneapolis, Minnesota

Customer since 1949

- Automated Clearing House
- Brokerage
- Capital Management
- Commercial Deposit Accounts
- Commercial Electronic Office
- Corporate Trust
- Custody and Escrow Services
- Educational Financial Services
- Executive Financial Services
- Foreign Exchange
- Institutional Brokerage
- InvestAccount Sweep
- Liquidity Management
- Wells Fargo Membership Banking
- Mortgage
- Private Client Services
- Revolving Credit Facilities
- Shareowner Services℠
- Trade Bank
- Treasury Information Reporting
- WellsImage CD ROM

Products: 27

FARGO

One Strong Box.

How is it that Wells Fargo achieved record profits and record revenue growth while other companies struggled? In uncertain times, individuals and companies pay more attention to the institutions with which they entrust their assets. Safety. Security. Dependability. Price. Value. Sound advice. Convenience. They're more important than ever before. *It's all about trust.*

To Our Owners What a year! It was filled with uncertainty and bad news—dominated by the global war on terrorism, a sluggish economy, a volatile stock market and concerns over corporate governance. And yet, Wells Fargo achieved record earnings. Even in such challenging times, your Wells Fargo team achieved its long-term goal of double-digit increases in earnings and revenue, while credit losses and non-performing loans actually declined. I know of no other large financial institution that accomplished such results. This performance was among the very best, not only in the financial services industry, but among *all* industries. Equally important, we're committed as passionately as ever to our vision, our values and our time-tested business model. We have not wavered, we will not waver, from our vision of satisfying all our customers' financial needs, giving them sound financial advice, great service, and helping them succeed financially. Our product is service. Our value-added is financial advice. Our competitive advantage is our people…all 134,000 of them who continue to achieve industry-leading results regardless of economic conditions.

On a comparable basis*, our earnings per share for 2002 were a record $3.32, up 12 percent. Net income was a record $5.7 billion, up 11 percent. Return on equity was 19.6 percent, return on assets 1.77 percent. Our 13 percent growth in revenue, excluding market-sensitive income** and acquisitions, compared with the same period last year, was the best among large financial institutions. Total revenue (unadjusted) increased 22 percent for the year.

Gathered (left) with CEO and Chairman Dick Kovacevich, these 12 Wells Fargo team members symbolize the caring, commitment, energy, skill and diversity of our entire 134,000 member team across North America. To match names and faces, see inside back cover.

* *Excludes transitional accounting charge for goodwill impairment of $276 million recorded in first quarter 2002, $1.16 billion impairment and other special charges recorded in second quarter 2001 and goodwill amortization for full year 2001.*

** *Includes net venture capital gains, limited partnership income and net investment securities gains.*

Equally important—in a year when many of our peers took special charges for losses—our non-performing loans and net charge-offs were down six percent and three percent year-to-year, respectively. This is a tribute to our team's credit discipline and to the diversity of our revenue sources, loan portfolio and geography, which helps us weather economic cycles. The marketplace recognized our performance. Compared with the top 50 U.S. companies in all industries, Wells Fargo was one of only a handful whose share price ended 2002 higher than the start of the year (up almost eight percent). Our total return, including dividends, was over 10 percent. In the market value of our stock, Wells Fargo was third largest among its U.S. peers, fourth largest among its peers worldwide and 27th largest among all public companies in all industries worldwide.

One Strong Box How is it that Wells Fargo achieved record profits and record revenue growth while other companies struggled? In uncertain times, individuals and companies pay more attention to the institutions with which they entrust their assets. Safety. Security. Dependability. Price. Value. Sound advice. Convenience. They're more important than ever before. ***It's all about trust.*** As you can see on page one, Mark Twain knew all about this. He was a century ahead of his time in knowing the best way to grow and protect one's financial assets. In that one sentence, he foresaw the business model of Wells Fargo. He predicted the convergence of the financial services industry.

Today, more and more Americans see Twain was right. It didn't make much sense in his time, it makes even less sense today, to scatter one's financial assets among a half a dozen or more service providers. Technology and government deregulation enable tens of millions of Americans, with proper vigilance, to save more time and money than ever before by bringing their financial services

business to one trusted provider. That's why the theme of our report to you this year is **"One Strong Box."** The strong box that protected the valuables of Wells Fargo customers 151 years ago is still a powerful symbol today. It stands for security, longevity and peace of mind. Who better to entrust with your assets than a company that's been around 151 years!

In a recent survey, 70 percent of those questioned said they would find it appealing if they could place most of their financial products with one institution. Yet most Americans say one thing and do another! They scatter their assets among many providers. They pass up opportunities to take advantage of volume discounts. They waste time keeping track of where their money is. They drown in monthly account statements. Even at Wells Fargo—where we've been achieving cross-sell success and preaching the virtues of consolidating financial assets for more than 15 years—our customers still give 75 percent of their financial business to our competitors.

We believe there are three reasons for this disconnect:

First, inertia. It's easier for customers to do nothing. It takes effort to move eggs from many baskets. It takes phone calls. It takes paperwork. Most customers think it's a hassle—but it doesn't have to be.

Second, many financial providers make it difficult for their customers to bring them more of their business. They don't take the time to analyze and understand their customers' financial needs (we call it "needs-based selling"). They don't ask them the right questions. They don't listen to the answers. They don't do the work *for* them.

Third, many financial providers do not clearly communicate a compelling "price value" offer that persuades their customers to give them more of their business. This is not about transactions, it's about relationships that can mean real savings and long-term value.

We're pleased to say more of our customers ***are*** bringing us more of their business. That's the core of our vision—to satisfy all our customers' financial needs and help them succeed financially. It applies regardless of economic cycles, interest rates or world events. The more business customers bring us, the more time and money they save, the more loyal they are to Wells Fargo, the more interested they are in bringing us more of their business. This

If earning more business from current customers—and giving them financial advice and great service— were easy, all our competitors would be doing it. Then it would be a commodity. Instead, it's our value-added.

results in market-share growth that generates double-digit revenue growth, double-digit profit growth and a higher stock price. No secrets. No short cuts. No magic. The bad news is it's hard to do. The good news is it's hard to do! If earning more business from current customers—and giving them financial advice and great service—were easy, all our competitors would be doing it. Then it would be a commodity. Instead, it's our value-added.

Beginning on page two, we're proud to showcase — from among our 20 million customers—ten who've chosen to entrust their financial services business to the "one strong box" of Wells Fargo. We thank them, and all our customers, for the trust they've placed in us. We pledge we'll continue to give them such great service, such sound financial advice, that they'll want to give us even more of their business — and rave about us to their families, friends and business associates.

To give you a sense for how much these ten customers trust the "one strong box" of Wells Fargo, here's some perspective. The average financial services provider has about ***two*** products per customer. Four years ago, at the time of the Norwest-Wells Fargo merger, we had about ***three*** products per customer. Today, we average more than ***four***. About a third of our banking customers have ***five*** products with us. Our goal is ***eight***—a total that 12 percent of our banking households already have with us. The average U.S. household buys about ***15*** financial products. Beginning on page two, you can see it's not unusual for some of our customers to have 20, 30 and more than 50 products with us for their individual and business needs. Now, that's one strong box!

Progress on our 10 Strategic Initiatives To achieve our vision—to earn all our customers' business—we've been benchmarking ourselves the past six years against ten strategic initiatives. Here's a progress report on how we're doing:

Our Performance

What a year! Double-digit revenue growth. Double-digit earnings per share growth. Double-digit deposit growth. Double-digit loan growth. Declines in non-performing loans and net charge-offs.

($ in millions, except per share amounts)	2002	2001	% Change 2002/2001
FOR THE YEAR			
Before effect of change in accounting principle [1] and excluding goodwill amortization			
Net income	**$ 5,710**	$ 3,994	**43%**
Earnings per common share	**3.35**	2.33	**44**
Diluted earnings per common share	**3.32**	2.30	**44**
Profitability ratios			
Net income to average total assets (ROA)	**1.77%**	1.40%	**26**
Net income applicable to common stock to average common stockholders' equity (ROE)	**19.60**	14.94	**31**
Efficiency ratio [2]	**56.8**	60.9	**(7)**
After effect of change in accounting principle			
Net income	**$ 5,434**	$ 3,423	**59**
Earnings per common share	**3.19**	1.99	**60**
Diluted earnings per common share	**3.16**	1.97	**60**
Profitability ratios			
ROA	**1.69%**	1.20%	**41**
ROE	**18.66**	12.79	**46**
Efficiency ratio [2]	**56.8**	64.0	**(11)**
Dividends declared per common share	**$ 1.10**	$ 1.00	**10**
Average common shares outstanding	**1,701.1**	1,709.5	**—**
Diluted average common shares outstanding	**1,718.0**	1,726.9	**(1)**
Total revenue	**$ 24,496**	$ 20,150	**22**
Average loans	**$179,281**	$163,124	**10**
Average assets	**321,791**	285,421	**13**
Average core deposits	**184,133**	167,946	**10**
Net interest margin	**5.57%**	5.36%	**4**
AT YEAR END			
Securities available for sale	**$ 27,947**	$ 40,308	**(31)**
Loans	**196,634**	172,499	**14**
Allowance for loan losses	**3,862**	3,761	**3**
Goodwill	**9,753**	9,527	**2**
Assets	**349,259**	307,569	**14**
Core deposits	**198,234**	182,295	**9**
Common stockholders' equity	**30,297**	27,150	**12**
Stockholders' equity	**30,358**	27,214	**12**
Tier 1 capital	**21,512**	18,247	**18**
Total capital	**31,998**	27,253	**17**
Capital ratios			
Common stockholders' equity to assets	**8.67%**	8.83%	**(2)**
Stockholders' equity to assets	**8.69**	8.85	**(2)**
Risk-based capital			
Tier 1 capital	**7.60**	6.99	**9**
Total capital	**11.31**	10.45	**8**
Tier 1 leverage	**6.58**	6.25	**5**
Book value per common share	**$ 17.97**	$ 16.01	**12**
Team members (active, full-time equivalent)	**127,500**	119,700	**7**

(1) Change in accounting principle relates to transitional goodwill impairment charge recorded in first quarter 2002 related to the adoption of FAS 142.
(2) The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and noninterest income).

More sales do not always lead to better service but better service almost always leads to more sales. "When a personal banker helps a customer in one of our stores, or when a customer gets help from one of our telephone bankers or does a transaction on wellsfargo.com we want them to say, 'Wow! I didn't know I could get service like that.' We're only as good as our first impression and our last contact."

1. Investments, Trust, Brokerage and Insurance These segments—where most of our customers have most of their assets—now account for about 16 percent of our profits. We need to get to at least 25 percent. To accelerate our pace and earn more of our customers' business, we're adding more private bankers, licensing more bankers to sell mutual funds and reaching more customers beyond our stores through our network of independent financial advisors (H.D. Vest, First Allied). We've also reorganized our Private Client Services business so it's more integrated with our community banks, commercial banking offices, and mortgage and home equity businesses. This will enable us to satisfy more of the financial needs of all our investing customers—from the first-time mutual fund buyer to our most affluent families with complex wealth management needs.

2. Going for "Gr-eight"! We want to increase to eight the number of products our average banking household and business customer has with us. One important way we do this is offering customers products not one at a time but packages of products that save them time and money, such as:

Wells Fargo Packs℠: checking, credit card, a home equity line or loan, market rate savings account, and online banking. This package of products can save customers annually up to ***$300***.

Wells Fargo Portfolio Management Account: a financial management account including checking, savings, brokerage, trust, and loans that combines all a customer's Wells Fargo accounts into one monthly statement. This account can save customers annually more than ***$500***.

Home Asset Management℠ Account: combines a mortgage, a flexible home equity line of credit and a credit card into one account to manage cash flow, gain potential tax advantages, plan for major expenses, and invest.

Homebuyers' Package: offers our new mortgage customers a package of banking products including a free, interest-bearing checking account, no-annual-fee *Wells Fargo*® ATM & Check card, a home equity loan or line with no closing costs, three free months of online billpay, 15 percent discount on the first brokerage trade,

credit cards, and overdraft checking protection. This package can save customers annually up to ***$340***.

Business Service Packages: combine checking accounts, deposit and credit services, payroll and merchant services at a lower price than if a small business customer were to buy those same products separately.

3. Doing it Right for the Customer We want to be advocates for our customers and put them at the center of everything we do. We want to give them outstanding service each and every time, so they'll give us more of their business, honor us with repeat purchases and rave about us to their family, friends and business associates. Selling to customers is key to our vision. We're all salespeople and proud of it. We all believe "*Service Starts with Me.*℠" Our measurement and reward system, however, must balance selling to customers and keeping more customers. Keeping customers is even more important than selling to customers. The marketplace rewards us for what we keep. You, our stockholders, get rewarded for what we keep.

In an average year, we lose almost one of every five of our retail customers! We don't want them to just come up to the front door, spend some time on the porch and then go out the back door. We want them to visit with us in the kitchen so we can have a conversation, understand their financial needs, and help them succeed financially. Our goal is to cut in half the number of our customers who leave us every year. To do that we have to "Wow!" them. We all know what that feels like. We're all customers!

All of us hear stories about customers who pick a certain line at the supermarket because they know the person who bags the groceries connects with them—smiles, greets regular customers by name, asks how their families are doing. When a personal banker helps a customer in one of our stores, or when a customer gets

Earning more of our customers' business *Financial products per customer*

3.2 Norwest-Wells Fargo merger (average banking households) 1998

4.2 Wells Fargo average banking household 2002

8 Our goal

Average U.S. household **15**

2 Where most of our competitors are

5 One third of our banking households 2002

4.9 Wells Fargo average commercial/corporate banking customer 2002

help from one of our telephone bankers or does a transaction on wellsfargo.com we want them to say, "Wow! That was great. I can't wait to tell someone." When a Wells Fargo team member serves a customer, we want that customer to say "Wow! I didn't know I could get service like that. Those Wells Fargo folks made a difference. They solved a problem or helped me understand how I can achieve my goals. I learned something new about my financial health." We're only as good as our first impression and our last contact. This is all about culture and attitude.

4. 100 Percent Bank and Mortgage/Home Equity Cross-Sell We want all our mortgage and home-equity customers in our banking states to bank with us. We want our banking customers who need a mortgage or home-equity loan or line to get it through Wells Fargo. Sixteen percent of our customers who are home owners have a mortgage with us, up from 14 percent three years ago. Among our banking customers who own homes, 14 percent have a home equity loan or line with us, more than double three years ago. Wells Fargo—which originated an industry record $333 billion for the year—is #1 in the U.S. in mortgage originations, and in mortgages to people of color, to low-to-moderate income borrowers and in low-to-moderate income census tracts. We're also #1 in the U.S. in home-equity lending.

5. Wells Fargo Cards in Every Wallet We must make sure every one of our bank customers has a credit card and debit card with us. Today, about one in every four of our bank customers has a credit card with us. About three in every four of our bank customers have a debit card with us.

6. When, Where and How We want to integrate all our delivery channels — stores, ATMs, *Phone Bank* service, online banking, direct mail, interactive video — to match with when, where and how our customers want to be served. Customers don't think of distribution channels. They think of a distribution community. They use online banking or the *Phone Bank* service for checking account balances. They use a banking store to visit with a financial consultant. They use ATMs to get cash. Each channel has to have all the latest information. They're all connected.

We also want to serve as many customers as possible in all our channels through their preferred language. In 2002, we added Chinese-language screens at more than 2,600 of our ATMs (nearly half our network). Customers already can use Wells Fargo's *webATM*® machines in English or Spanish. Online, wellsfargo.com —now also in Spanish for consumers—ranked #1 in the U.S. as the top internet banking site for attracting, activating and retaining customers, #1 as the top consumer website, and #1 as the top site for small businesses among our peers. We now have 3.5 million active online customers (up 27 percent from year-end 2001). More than one million of them use online billpay or presentment. Our online brokerage accounts rose 24 percent in 2002, active online small business customers rose 47 percent, and more than half our middle-market and large corporate customers now use our *Commercial Electronic Office* business portal for their financial transactions. Our *Phone Bank* teams not only serve customers, they ask about their needs and sell them products and services that can save time and money. In one quarter alone in 2002, our *Phone Bank* teams generated almost a half a million referrals and more than 238,000 product sales. Almost one-third of the revenue we're generating through our foreign exchange online service comes from business customers buying our foreign exchange services for the first time.

7. Information-Based Marketing We must use technology to analyze and meet our customers' needs while respecting and protecting the privacy of personal information. We want to offer the right product to the right customer at the right time at every point of customer contact to save them time and money. For example, we identify selected Wells Fargo banking customers who don't have a mortgage with us and offer to refinance their mortgage with no closing costs—saving them up to $600.

8. Be Our Customers' Payments Processor We must be sure Wells Fargo adds real value that enables us to be the intermediary—electronic or paper—whenever and wherever our customers buy services. Last year, our internet payments business—person-to-person and business-to-consumer – grew transaction volume 91 percent and revenue 84 percent. For example, we enable suppliers of a national retailer to receive payment information electronically rather than by paper, saving the retailer money and generating revenue for Wells Fargo.

9. Outstanding Customers We must keep all our "high-value" customers and attract more of them by earning more business from households that can become "high-value" customers. As the oldest and largest trust bank in the western United States, we've been

managing the assets of wealthy families for 151 years. Today, we have more opportunities than ever before to earn more business from all customers, including the wealthy, by offering them more insurance and investment products to satisfy their financial needs. As annuities and mutual funds become standard products for our customers, who better to help them than Wells Fargo?

10. People as a Competitive Advantage We must continue to develop, reward and recognize all our team members, and build an inclusive workplace and a more diverse organization. This may surprise you. Our most important constituency is not our customers. It's our own team members. Team member engagement is linked to customer loyalty. Customers often say they'd choose a small local bank that has fewer products, not much distribution, but great service over one of the so-called "big banks" that has great products, great distribution, but lousy service. Why can't there be a third choice? We want to be a company that has great products, great distribution, *and* great service—and that's driven by caring, energized, committed team members who care more about each other, more about their customers and more about their communities than our competitors do. Diversity is key to this initiative. To become a more diverse company—and reflect the growing diversity of our markets—our executive managers are holding themselves and each other accountable. We want people from diverse backgrounds in all levels of management. We're building long-term relationships with diverse communities.

"Know Me, Recognize Me, Save Me Time, Save Me Money" The most valuable asset inside our "one strong box" is information. Our customers trust us to protect it and to use it to offer them products and services that can save them time and money. We do not give or sell information to any third party, including telemarketers, for their independent use.

Three years ago, an historic Federal law took effect—the Gramm-Leach-Bliley Act. It broke down arbitrary, structural barriers that prevented one-stop shopping for financial services. As a result, banking, securities and insurance firms can join together in one company for the first time. The central promise of this law is that it will save customers time and money. The foundation for keeping this promise is the ability to use technology to store, analyze and share information about customers efficiently inside one enterprise. That foundation now is under attack in some state legislatures. It's important that you, our owners, understand what is at stake for customers and the threat these efforts pose to our ability to save them time and money.

Our customers see Wells Fargo as one brand, not a bunch of separate businesses. They come to us because they expect our businesses to work together to help them with all their financial needs. They tell us time and again that they want us to know them, recognize them, save them time and money. To do this, we need to share information about them among our businesses. Imagine a customer walking into a home improvement store and the sales clerk having to ask the customer's permission every time they want to walk down a different aisle of the store. Nonsense!

Our business model is based on the same principle: allowing customers to move freely around our "store." It's based on advising them of the products best for their needs as they move through their financial life cycle—from borrowers to homeowners to savers to investors to business owners to retirees. Our business is based on trust. Using information about customers appropriately is absolutely essential to keep that trust. The debate over "privacy" and use of information requires an intelligent balancing of costs, benefits and practicality. We believe the best way to achieve that balance and practicality is not a patchwork of different ***local*** ordinances and laws in thousands of cities and states. That would be a mess! — expensive and confusing for customers who live and work in our highly mobile society and demand access to their money and information about their accounts wherever they are 24/7. Rather, what's needed is a ***national*** solution. Using customer information among businesses in one corporate family should be allowed under one national law, subject to giving customers an "opt-out" choice for some marketing practices. The goal of sharing customer information inside Wells Fargo is to protect the reasonable and real expectations of our customers about how information about them is used and to give them choices that will save them time and money.

Corporate Governance: Everyone's Responsibility! There's another important area that involves earning the trust of all our stakeholders: corporate governance. The serious lapses that came to light in corporate America in 2002—shabby ethics, serious conflicts of interest, outright fraud and theft—will cast a long shadow of doubt for many years. These transgressions caused the collapse of some employee 401(k) plans. Small investors and retirees suffered

Our customers see Wells Fargo as one brand, not a bunch of separate businesses. They come to us because they expect our businesses to work together to help them with all their financial needs.

life-changing financial losses. Some investors concluded that the scandals were cases of individual greed, not systemic business corruption, but there remain millions of other investors—many still holding on to their portfolios for dear life—who have lost faith in corporate America. Without trust, the economic benefit of capitalism is at risk. Without trust, there can be no confidence in the promises and commitments companies make about their products and services. Without trust, the cost of capital in the United States will rise.

At Wells Fargo, honesty, trust and integrity are not just the responsibility of our senior management and our board of directors. We ***all*** share that responsibility. All 134,000 of us. Corporations don't have a conscience. People do. Corporate ethics is the sum total of the thousands of ethical decisions all of us make every day. If you *really* want to find out how strong a company's ethics are, watch how its people act. Examine the ethical decisions they make every day. That's the true measure of effective corporate governance. This is even more important in the financial services industry because everything we do—and I mean everything—is built on trust. Our customers trust all of us to protect their money. They trust our *tellers* to make transactions accurately and promptly. They trust our *bankers* to recommend the right products and services for their needs. They trust our *financial consultants* to give them the right financial advice. They trust our *mortgage salespeople* to manage their application process completely, accurately and as quickly as possible. They trust our *commercial bankers* to provide effective cash management. They trust all of us to keep private information about them confidential. They trust our "one strong box." Honesty, trust and integrity often are the only things that distinguish us from our competitors in the minds of our customers. Even the value of our stock is built on the intangible faith and trust of our investors in our future.

It's impossible to earn trust if one is trustworthy in some things and not trustworthy in other things. *We have to be trustworthy in all things all the time*. The word "integrity" and the word "integration" come from the same root: *entire*. This implies a wholeness, a complete, undivided, unbroken consistency of approach and execution. To have integrity one must be consistently honest and trustworthy in everything one does. When you have integrity, people know you will do what you know is right. And that happens to align with how we define "culture" at Wells Fargo.

It's knowing what you have to do without someone telling you to do it. That's why integrity is not a commodity. It's the most rare and precious of personal attributes. It is the core of a person's—and a company's—reputation.

The Real Value of Stock Options Stock options continue to be a topic of debate. Some proponents of expensing options believe that valuing stock options and recording this value as an expense to the corporation will curb stock option abuses and support the concept of expensing stock options for this reason. Stock option abuses, however, are not an accounting issue but a corporate governance issue. Stock option accounting should fairly present the economic effect of stock options on the company and its stockholders. Stock option abuses should be addressed by holding directors accountable for executive compensation.

Stock options are non-cash compensation that align the interests of the company's management and team members with its owners. They've been a very valuable tool to start-up companies, especially U.S. technology companies, allowing them to attract talent and create innovative products that are the envy of the world. They've helped entrepreneurs and product innovators thrive — while preserving valuable cash. They've helped create millions of jobs in the U.S., producing world class products and services, a primary source of exports.

At Wells Fargo, we believe options should be broad based. Essentially all 134,000 of our team members receive options, even part-timers. In the past eight years, we've made *five* company-wide stock option grants — a total of 1,350 option shares for virtually every full-time team member who was with us during those eight years.

Corporations don't have a conscience. People do. Corporate ethics is the sum total of the thousands of ethical decisions all of us make every day. This is even more important in the financial services industry because everything we do is built on trust.

We also believe stock options for management should not exceed an annual grant of 1.5 percent of shares outstanding. In fact, Wells Fargo's annual grants to management over the past five years have averaged about one percent. Managers should share the risks of stock ownership with other stockholders. Our policy is that managers hold, until they leave the company, Wells Fargo stock equal to or exceeding 50 percent of all after-tax profit shares acquired through option exercises.

Accounting for Options We believe the financial impact of options should be accounted for promptly and accurately. I realize some companies have decided to expense options through net "income" – even though options do not involve a cash payment from the company. Also, there's no general agreement on how to value options. The most widely-used method of valuing them was designed for options that are of short duration, that are freely transferable and that are not subject to vesting periods. The design for models such as this do not apply to employee stock options and would, I believe, result in overstating the value of stock options.

Accounting entries should fairly present the economic reality of the transactions they record. A stock option is the obligation of a company to issue stock in the future at a specified price. In the case of Wells Fargo employee stock options, the specified price is always the market price of Wells Fargo stock on the date the option is granted. When the option is exercised, the team member pays the specified price to Wells Fargo and receives stock in return. If the exercise price is paid in cash, Wells Fargo *receives* the amount of the exercise price, a cash inflow, and its capital *increases* by the amount it receives. If the exercise price is paid in stock, capital is unchanged. A transaction that increases or does not change capital is not an expense. With an expense, a company generally *pays* for something, an outflow, and its capital *decreases* by the amount of the payment. To record a transaction that increases or does not change the capital of a company as an expense stands economic reality on its head.

This is not to say there is no economic effect from stock options. There is. Stock options give employees the value of potential future increases in stock price. For this reason, they are a valuable tool to compensate and retain team members. But the economic effect of option grants is not an expense, an outflow or other "using up" of the company's assets. The economic effect of an option grant, instead, is a possible reduction of the company's earnings allocated to stock owned by existing stockholders. For example, if a company has 1,000 shares of stock outstanding and earns $1,000, the company's earnings per share are one dollar. If the company issues ten more shares upon the exercise of stock options and then earns the same $1,000, the company's earnings per share would be ninety-nine cents. This is not an expense, an outflow, to the corporation. It's simply allocating the company's earnings over more shares.

The economic effect of issuing more stock is not to reduce the size of the company's earnings pie. Rather, it increases the number of slices into which the pie is cut. I believe the net income of Wells Fargo should reflect the revenue less the company's bona fide expenses, not the effect that issuing new shares may have on the earnings per share of stock owned by existing stockholders. Stockholders should, however, be informed of the possible economic effect that stock options may have on the portion of the company's earnings attributable to the stock they own. The company informs stockholders of this effect by reporting basic earnings per share and diluted earnings per share in its quarterly and annual financial statements.

The quarterly diluted earnings per share number shows what earnings per share would have been if all vested and unvested "in the money" options had been exercised and shares had been issued. The difference between basic earnings per share and diluted earnings per share shows the potential dilutive effect of stock option grants on shares owned by existing stockholders. I believe that this diluted earnings per share information fairly states the possible economic effect of stock option grants. Also, Wells Fargo discloses the estimated value of vested stock option grants in a note to its annual financial statements.

Cause for Optimism Despite economic conditions and all the challenges in the world today, there's cause for optimism. U.S.

economic performance leads the world. Productivity continues to increase. Efficiency gains from the 1990s continue to benefit the global economy. Interest rates remain near record lows. The Federal Reserve cut interest rates 11 times since January 2001. The benefits of those cuts continue to filter through the economy. Record mortgage re-financings in 2002 were the equivalent of about a $135 billion tax cut for America's homeowners. At the start of 2003 the Dow Jones average was almost 2,000 points higher than when Federal Reserve Chairman Alan Greenspan first used the words "irrational exuberance" in late 1996.

Wells Fargo remains optimistic about the growth opportunities ahead for us in financial services, a $2.5 trillion industry—the largest, most fragmented, most dynamic industry in the world—seven times larger than banking. Our opportunities for market share gains in all segments of this huge industry—banking, insurance, investments, mortgage, to name just a few—are enormous. If we continue to put our customers first, ask them the right questions, listen carefully to their answers and offer them sound financial advice and the best products to help them achieve their financial goals, then I have no doubt we can satisfy all their financial needs, earn more of their business, grow market share and generate industry-leading growth in profits, revenues and stock market value.

The "Next Stage®" We thank our team members—all 134,000 of them—for their energy, their caring, their professionalism, their passion for customer service. Another great year by a truly great team! We thank our customers, for entrusting more of their business with the "one strong box" of Wells Fargo. We thank our communities—thousands of them across North America—for the privilege of helping make them better places to live and work. And we thank you, our owners, for your confidence in Wells Fargo as we begin our 151st year.

For our team members, customers, communities and stockholders—the "Next Stage" of financial success is just down the road. It's going to be a great ride.

Richard M. Kovacevich, Chairman and CEO

Our Special Thanks

Three members of our Board of Directors—whose wise counsel propelled our company toward achieving its vision—retire from our Board this April:

Michael R. Bowlin, retired chairman and CEO of Atlantic Richfield Company, Los Angeles, joined the Board of the former Wells Fargo in 1996 after the acquisition of First Interstate, and served on the executive, finance and human resources committees.

David A. Christensen, retired president and CEO of Raven Industries, Sioux Falls, South Dakota, joined the Board of Directors of Norwest Corporation in 1977 and this year completes service of more than 25 years, one of the longest Board tenures in the history of Norwest or Wells Fargo. He served 16 years as head of the credit committee and most recently on the governance and nominating and the human resources committees.

Spencer F. Eccles, chairman of our Intermountain Banking Region and former chairman and CEO of First Security of Salt Lake City, Utah, joined the Board in 2000, after the Wells Fargo–First Security merger. He served on the credit and finance committees and helped bring the Winter Olympics to Salt Lake City.

Also during 2002, we mourned the loss of former Board member **Chang-lin Tien** who died in October. As a young man, Dr. Tien was a refugee twice, first from the Japanese, then from the Chinese communists. As Chancellor of the University of California at Berkeley, he was the first Asian-American to head a major American research university, raised nearly $1 billion for the University, and increased financial support for research by 35 percent. During his 11 years of service, he provided invaluable counsel on international marketing strategies, especially in Asia, and represented the company's ownership interest on the board of the Shanghai Commercial Bank of Hong Kong. We extend our deepest sympathy to his family.

A Strong Community Partner

From the strawberry fields of central California—where we help Hmong farmers become self-sufficient—to the forests of northern Arizona, recovering from one of the worst fires in that state's history—Wells Fargo combines human, financial and social capital to help make all segments of our communities better places to live and work.

"This renews their belief in the American dream of someday owning the land they farm and building a home on it."

Farmer Heu Long Shiong, Wells Fargo's Tim Rios and Ben Vue of the Valley Small Business Development Corporation.

Our success is tied directly to strong, prosperous communities—especially those segments of our communities that do not yet fully enjoy the benefits of our dynamic economy. But what makes a community strong? It takes capital—human, financial and social—provided by local companies such as Wells Fargo and caring, creative team members. In 2002, Wells Fargo contributed *$82 million* to more than 12,000 non-profits across the United States, an average of $1.57 million a week.

This year in California's Central Valley, Heu Long Shiong (page 24) will harvest more than 100 tons of strawberries from his nine acres near Fresno. He and 70 other Hmong farmers will bring strawberries, eggplant, green beans and other vegetables to market—thanks in part to Wells Fargo. The Company's $500,000 investment and a $100,000 Wells Fargo grant to the Valley Small Business Development Corporation (VSBDC), made it possible for Heu and others to get zero interest loans to cover the cost of planting and harvesting their small plots. "Without Wells Fargo's support, the farmers would have a very difficult time making a living and keeping food on their tables," said VSBDC's Ben Vue. "This renews their belief in the American dream of someday owning the land they farm and building a home on it."

One hundred miles northeast of Phoenix, Arizona, fires swept through 470,000 acres of forest in the summer of 2002, destroying hundreds of homes and businesses and forcing the evacuation of thousands of residents. In small towns near the fires, Wells Fargo kept its banking stores open and ATMs full as long as safety permitted, started an emergency loan program ($250,000 for individuals and $100,000 for businesses), provided a $25,000 grant to the White Mountain Apache Tribe (which lost many of its logging and tourism businesses), and contributed $10,000 to the American Red Cross Disaster Relief Fund. "Even as the fires raged, our team members from across the state came to help their colleagues who were evacuated from their homes, and their customers, some of whom lost everything," said Mike Kinnison (page 25), community banking president for Central Arizona. "It's in times like these that we show how much we care for each other, for our customers and our communities. That's what makes Wells Fargo special."

Here's just a sample of the 12,000 non-profits we contributed to in 2002:

Community Development

- **Alaska** $10,000 to Southeast Alaska Guidance Association for their Young Alaskans Building Affordable Housing program. High school drop-outs train with master builders and carpenters to learn the trade and build affordable homes for low-income families. Participating youth come away with a skill that provides livable wages and a sense of accomplishment and self-sufficiency.
- **San Diego, California** $100,000 grant and $500,000 investment to launch Dueno De Mi Casa, Dueno Mi Comunidad — Owner of My Home, Owner of My Community. This new home ownership initiative helps low-to-moderate income families buy and rehabilitate homes in San Diego's Hispanic neighborhoods and is expected to add 15 to 20 new homes in its first year.
- **Phoenix, Arizona** $250,000 investment to Phoenix Local Initiatives Support Corporation for a down payment and closing-cost assistance fund for low-to-moderate income families buying homes. Wells Fargo also helped establish Casa Nueva Apartments, a multi-family rental development of affordable apartments for low-to-moderate income families and the homeless in Phoenix.

- **Los Angeles County, California** Ten years of Wells Fargo financial support to FAME Renaissance, an economic initiative of the First African Methodist Episcopal Church designed to create job and business opportunities in low income neighborhoods. Wells Fargo Home Mortgage consultants are housed in FAME Renaissance's Business Enterprise building, and plans are in place to open a community banking store nearby.
- **Idaho** $31,000 in grants to Idaho Nevada Community Development Financial Institution (CDFI) and $500,000 investment in its loan fund to support small businesses and affordable housing lending. CDFI approved eight loans in 2002 creating or supporting more than 45 jobs.
- **Des Moines, Iowa** Wells Fargo commissioned a mural (suggested by Des Moines' mayor) to promote art in the city. Fifteen local artists painted four murals on the plywood surrounding Wells Fargo construction sites. When the buildings were completed in November, the murals were donated to St. Augustine Elementary School.

Education

- **Arizona** Wells Fargo honored with the Arizona Education Foundation's President's Award and Mayor's Commission on Excellence in Education Leadership Award for providing $800,000 in three years for Arizona schools. Wells Fargo Teacher Partner Program grants expanded classroom libraries, created home reading programs and provided essential learning technologies.
- **Santa Clara County, California** $100,000 to Santa Clara County Office of Education to establish Wells Fargo Mathematics Teacher Institute. Thirty middle school math teachers who teach in under-performing schools attended the Institute to learn new ways to motivate students and help them succeed in the classroom.
- **Clark County, Nevada** $250,000 over two years to Clark County Reads literacy campaign to provide schools with thousands of new books. Goal: increase number of books in school libraries from current 11 books per student to above the state minimum requirement of 20 books per student.
- **Oregon** More than 95,000 students in Oregon participated in a free Summer Reading Program thanks to Wells Fargo and other sponsors. High school students volunteer in the "Read to Me" program to share the joy of books with those who can't yet read.
- **Orange County, California** Wells Fargo team members partnered with the Orange County Asian and Pacific Islander Community Alliance to offer a financial literacy workshop at the organization's youth summer camp. Young campers discussed interviewing skills, career planning, personal money management and retirement planning.
- **Acordia** (world's sixth largest insurance brokerage) $40,000 to provide winners of the 2002 Acordia Scholarship Program with money for tuition and room-and-board at the college of their choice. Scholarships are awarded to children of Acordia team members who excel academically and give back to the community through service and leadership.
- **International Falls, Minnesota** $30,000 to Rainy River Community College to establish an International Learning Link with Confederation College in Fort Frances, Ontario. Tighter border crossing restrictions prevented some Canadian students from attending Rainy River, but now they can attend classes remotely.
- **Las Vegas and Reno, Nevada** Wells Fargo Banking Education Centers in Las Vegas and Reno conduct Spanish-language seminars to teach customers basic banking skills from balancing a check book to understanding credit. Goal: Help customers feel more comfortable in a bank so they can succeed financially.

"It's in times like these that we show how much we care for each other, for our customers and our communities. That's what makes Wells Fargo special."

Mike Kinnison (Community Banking President, central Arizona) and team members Elaine Lujan, Dennis Holt, Veronica Brogni, and Keri Mitchell.

- **San Joaquin Valley, California** $1 million scholarship fund established by the Wells Fargo Foundation for San Joaquin Valley students entering the University of California in Merced. Scholarships based on academic merit and financial need; special consideration to students whose parents did not attend college.

Human Services

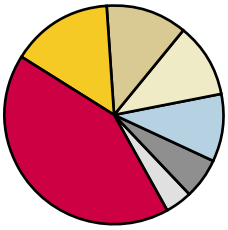
- **Portland, Oregon** Once a month Wells Fargo team members (part of Oregon/SW Washington PRIDE resource group) prepare dinner for late-stage AIDS patients at Our House of Portland AIDS hospice.
- **Colorado** $30,000 to provide disabled individuals living in independent-living centers throughout Colorado access to online banking and financial education programs including *Banking On Our Future*℠. Wells Fargo team members held training sessions to teach residents how to use the technology and bank online.
- **Marshalltown, Iowa** $50,000 Wells Fargo grant resulted in a $2 million federal grant for lead-based paint removal from homes in Marshalltown to make living conditions safer for families. The initial grant bought a safe house for families to live in while their homes are repaired.
- **Austin, Texas** Wells Fargo team members volunteered at the Lance Armstrong Foundation's Ride for the Roses. Team members provided all banking services, from verifying donations, making deposits and conducting credit-card transactions, for this annual event that raises money to help people with cancer.
- **Minneapolis/St. Paul, Minnesota** $30,000 to Casa de Esperanza to create two community gathering places in the Twin Cities for Hispanic women and men seeking information about employment, education and housing opportunities and domestic-violence prevention and intervention.
- **Sacramento, California** Wells Fargo and the Sacramento Kings recognize one youth each week of the professional basketball season who demonstrates leadership and a positive attitude. Winners receive two tickets to a Kings game and an invitation to a pre-game, on-court ceremony with NBA players.
- **San Francisco Bay area** $125,000 in emergency holiday grants to five organizations that serve those in need during the holidays. In a time when donations are down and need is at a record high, children had gifts to open, and food banks were well stocked.
- **Colima, Mexico** $100,000 grant to American Red Cross to help victims and families of January 2003 earthquake that killed at least 29 people and left hundreds homeless.

Wells Fargo 2002 Contributions

- Education 32%
- Human Services 28%
- Community Development 23%
- Arts and Culture 11%
- Civic 6%

Inside the Strong Box: Checking • Savings • Commercial Lending • Debit Card • Wells Fargo Ready Reserve® • Direct Deposit • Automatic Payment • Lines of Credit • Installment Loans • Home Equity Loans • Letters of Credit • Public Finance • Foreign Exchange • Electronic Data Interchange • Automated Clearing House • Venture Capital • Securitization • Correspondent Banking • Corporate Trust • Interstate Banking • Conventional Mortgages • Jumbo Mortgages • VA/FHA Mortgages • Servicing • Title Insurance • Construction Loans • Wholesale Mortgages • Correspondent Mortgages • Appraisals • Mortgage "Warehouse" Lending • Asset-Based Lending• Credit Cards • Equipment Finance • **The Businesses of Wells Fargo** • Syndications • Structured Finance • Commercial Finance • Debtor in Possession • Mezzanine Lending • Factoring • Mutual Funds • Retirement Plans • Stocks • Bonds • IRAs • Investment Management Services • Annuities • Health Insurance • Life Insurance • Property Insurance • Accident Insurance • Car Insurance • Crop Insurance • Home Insurance • Credit Life Insurance • Closed-end Loans • Revolving Loans • Sales Finance • Real Estate Loans • Car Loans • Insurance Financing • Data Processing • Internet Banking • Electronic Bill Pay • Wells Fargo Portfolio Management Account • Home Asset Management Account • Small Business Packages • Commercial Electronic Office • Checking • Savings • Commercial Lending • Debit Card • Wells Fargo Ready Reserve® • Direct Deposit • Automatic Payment • Lines of Credit • Installment Loans • **Diversified Financial Services** • Home Equity Loans • Letters of Credit • Public Finance • Foreign Exchange • Electronic Data Interchange • Automated Clearing House • Venture Capital • Securitization • Correspondent Banking • Corporate Trust • Interstate Banking • Conventional Mortgages • Jumbo Mortgages • VA/FHA Mortgages • Servicing • Title Insurance • Construction Loans • Wholesale Mortgages • Correspondent Mortgages • Appraisals • Mortgages

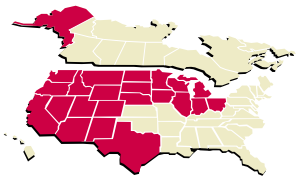
Our Businesses at a Glance



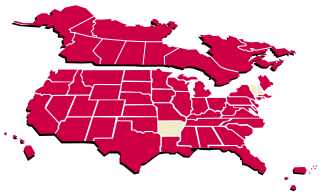
Wells Fargo competes in virtually every segment of the financial services industry and we're market leaders in most of them. Here's how one of North America's most diverse financial services companies fits together.

- Community Banking 40%
- Investments & Insurance 15%
- Home Mortgage/Home Equity ...13%
- Specialized Lending 12%
- Wholesale Banking 10%
- Consumer Finance 6%
- Commercial Real Estate 4%

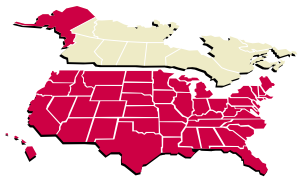
Based on historical averages and near future year expectations



Wells Fargo Banks The USA's most extensive banking franchise, from Van Wert, Ohio to Bethel, Alaska, includes 12 of the nation's 20 fastest growing states.



Wells Fargo Financial The store network of Wells Fargo Financial (consumer finance) stretches from Saipan in the Pacific through Canada, across the USA, and into the Caribbean.



Wells Fargo Home Mortgage Through its stores and its presence in our banking stores, Wells Fargo Home Mortgage is the USA's largest originator of home mortgages and has the most extensive franchise.

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* "Executive officers" designated according to Securities and Exchange Commission rules

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Retired Chairman
SUPERVALU INC.
Eden Prairie, Minn.
(Food distribution, retailing)

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

Community Banking	MARKETS	SIZE	CUSTOMERS	TEAM MEMBERS	PERFORMANCE
Regional Banking	Ariz., Ak., Calif., Colo., Id., Iowa, Ill., Ind., Mich., Minn., Mont., N.D., Neb., Nev., N.M., Ohio, Ore., S.D., Texas, Utah, Wash., Wisc., Wy.	$170 billion[1]	10 million	42,500	Same store sales up 16%, loan balances up 15%
Private Client Services	USA	$148 billion client assets	930,000	6,060	Net income up 27%
Diversified Product Group	USA/Canada	$28 billion loans outstanding, 2,256 SBA loans	1.4 million	6,800	USA's #1 small business lender, #2 debit card issuer, #4 SBA lender
Norwest Equity Partners (nep.com)	USA	$1.8 billion capital under mgt.	65 active investments	29	Among oldest, most successful U.S. venture capital firms
Norwest Venture Partners (norwestvp.com)		$1.8 billion capital under mgt.	75 active investments	25	
Home & Consumer					
Wells Fargo Home Mortgage	USA	$333 billion in originations $488 billion servicing	4.4 million	25, 664	#1 USA in originations, #2 servicing
Home Equity	USA	$38 billion portfolio	956,000 households	3,736	#1 USA market share, #1 internet home equity equity lender
Wells Fargo Financial	USA, Canada, Caribbean	$16.8 billion[2]	4.7 million	12,412	Earnings up 9%, Loans up 20%
Wholesale Banking	USA				Net income up 9%, 4.9 products per customer, e-commerce payment processing sales volume up 145%
Commercial Banking	Ariz., Calif., Colo., Id., Ill., Iowa., Minn., Mo., Neb., Nev., N.M., Ore., Utah, Texas, Wash., Wisc.	$27.5 billion[1]	12,200	2,884	Double-digit growth in non-interest income
Corporate Banking	USA	$3.1 billion[1]	1,300	377	Double-digit growth in non-interest income, Shareowner Services rated #1 in customer satisfaction
International Services	Global	$1.9 billion[1]	11,000[3]	671	50+% growth in foreign exchange online use and revenue
Insurance	USA	$6.5 billion premiums	468,000[3]	5,777	Largest U.S. bank-affiliated insurance broker
Capital Markets	USA	$18.5 billion[1]	30,000	1,153	Record earnings
Institutional Investments	USA	$139.7 billion[1]	1.1 million 401(k) participants	2,712	Acquired Montgomery Asset Management and SIFE business lines
Asset-Based Lending	USA	$7.5 billion[1]	1,500	998	Double-digit net income growth
Commercial Real Estate	USA	$8.7 billion[1]	400	287	Premier U.S. real estate lender
Eastdil	USA	$12.6 billion (transactions)	300	89	#1 U.S. real estate investment bank
Channels					
Internet	Global	6 million unique visitors monthly	3.6+ million active users	1,471	Among 10 top online banking brokerage (Gomez Advisors)
ATMs	23 states	6,335	466 million transactions		Introduced Chinese language ATMs
Phone Bank Centers	23 states	12 call centers	22 million calls monthly	6,335	
Stores	23 states	5,600			

[1] assets [2] receivables [3] business customers

Senior Business Officers

Community Banking

Group Head

John G. Stumpf

Leslie L. Altick, Consumer Deposits

Robert W. Byrne, Diverse Growth Segments

Michael R. James, Diversified Products

Avid Modjtabai, Consumer, Business, Investment Internet Services

Clyde W. Ostler, Private Client Services

Carrie L. Tolstedt, Regional Banking

Regional Banking

Group Head

Carrie L. Tolstedt

Regional Presidents

Terry D. Baloun, Montana, North Dakota, South Dakota

Kirk E. Dean, North Dakota

Joy N. Ott, Montana

Jon A. Campbell, Minnesota, Illinois, Indiana, Michigan, Wisconsin, Ohio

J. Lanier Little, Illinois, Michigan, Wisconsin

Carl A. Miller, Jr., Indiana, Ohio

Marilyn A. Dahl, Metro Minnesota

Norbert. J. Harrington, Greater Minnesota

Chip Carlisle, Texas Major Markets

William R. Goertz, Greater Texas, New Mexico

Larry D. Willard, New Mexico

Thomas W. Honig, Colorado, Utah, Wyoming

Robert A. Hatch, Utah

H. Lynn Horak, Nebraska, Iowa

J. Scott Johnson, Iowa

Judith A. Owen, Nebraska

Timothy J. Coughlon, Alaska, Idaho, Oregon, Washington

Richard Strutz, Alaska

Pat McMurray, Idaho

Alan V. Johnson, Oregon

James O. Prunty, Washington

Laura A. Schulte, California, Nevada, Border Banking

Colleen M. Anderson, California Business Banking

Kirk V. Clausen, Nevada

Robert D. Worth, Bay Area

Pamela M. Conboy, Northern California

William J. Dewhurst, Central California

Nathan E. Christian, Southern California, Border Banking

Shelley Freeman, Los Angeles County

Kim M. Young, Orange County

Gerrit van Huisstede, Arizona

Robert Chlebowski, Group Services, Distribution Strategies

John H. Freeman, Sales, Service Development

Cynthia J. Gray, Marketing

Private Client Services

Group Head

Clyde W. Ostler

Regional Managing Directors

Joe W. Defur, Washington, Oregon, Idaho, Alaska

Anne D. Copeland, Northern California, Central California, Nevada

Jane F. Magpiong, Bay Area

Richard D. Byrd, Los Angeles County

James Cimino, Southern California, Orange County

David J. Kasper, Colorado, Utah, Wyoming

Russell A. Labrasca, Texas, New Mexico

Timothy N. Traudt, Minnesota, Wisconsin, Illinois, Indiana, Ohio, Michigan

David J. Pittman, Chicago, Iowa, Nebraska

Gregory Bronstein, Brokerage Support

Charles W. Daggs III, National Sales Manager

Lance P. Fox, Trust and Private Banking Support

Timothy J. Leach, Chief Investment Officer

Financial Consultant Advisory Group

Dennis J. Mooradian

Adam Antoniades, FAS Holdings, Inc.

Roger C. Ochs, H.D. Vest, Inc.

Diversified Products Group

Group Head

Michael R. James

Michael W. Azevedo, Business Support Services

Marc L. Bernstein, Business Direct Lending

Louis M. Cosso, Auto Finance

Jerry E. Gray, SBA Lending

Robert L. Brown, Payroll

Rebecca Macieira-Kaufmann, Small Business Marketing

Kevin Moss, Consumer Risk Management

Kevin A. Rhein, Wells Fargo Card Services

Jon A. Veenis, Education Finance Services

Donald W. Weber, Merchant Services

Home and Consumer Finance

Group Head

Mark C. Oman

Wells Fargo Home Mortgage, Inc.

Peter J. Wissinger, President, CEO

Geoffrey H. Dreyer, Risk Management

Cara K. Heiden, National Consumer Lending Sales

Michael Lepore, Institutional Lending, Loan Services, Post Closing

Consumer Credit Group

Doreen Woo Ho, President

John W. Barton, Community Banking

Neil Dellacava, Servicing

Robert J. Frame, Delivery and Fulfillment

Scott Gable, Personal Lines and Loans

Jeffrey L. Moering, Risk Management

Sylvia L. Reynolds, Marketing

Kathleen L. Vaughan, Online and Indirect

Colin D. Walsh, Equity Direct and Partnership Services

Wells Fargo Financial, Inc.

Daniel W. Porter, Chairman, CEO

Thomas P. Shippee, President, COO

Greg Janesko, Commercial Business Group

John Keilholz, Wells Fargo Financial Bank, Inc.

David R. Kvamme, U.S. Consumer

Jaime Marti, Caribbean Consumer

Michael McCoy, Marketing and Private Label

Oriol Segarra, Caribbean Consumer

John W. Sondereker, U.S. Auto, Caribbean Operations

John E. Van Leeuwen, Canadian Operations

Corporate Trust Services

Brian Bartlett

Wholesale Banking

Group Head

David A. Hoyt

Commercial and U.S. Corporate Banking

Paul M. Watson

Jose R. Becquer, Treasury Management Sales

JoAnn N. Bertges, Nevada/Central California

Iris S. Chan, Northern California/ Correspondent Banking

Robert A. Chereck, Texas

Pamela A. Clifford, Wholesale Customer Strategies

Stephen M. Ellis, Wholesale Services Group

Albert F. (Rick) Ehrke, Southern California

Richard P. Ferris, Corporate Banking, Shareowner Services

Alicia K. Harrison, Southwest

Mark D. Howell, Intermountain

Michael J. Loughlin, Senior Credit Officer, Commercial/Corporate

Perry G. Pelos, Midwest

John V. Rindlaub, Pacific Northwest

Sanjiv Sanghvi, Wholesale Marketing, Treasury Management Product Management

J. Gregory Seibly, Greater Los Angeles

Gerald B. Stenson, Minnesota

Capital Markets

Timothy J. Sloan

J. Edward Blakey, Commercial Mortgage Group

Saturnino S. Fanlo, Securities Investment Group

Margot N. Golding, Wholesale University

Michael Hernandez, Wells Fargo Securities

John Hullar, Wells Fargo Securities

Mark L. Myers, Real Estate Merchant Banking. Homebuilder Finance

J. Michael Johnson, Structured, Leveraged, Communications & Mezzanine Finance, Distribution

James R. Renner, Wells Fargo Equipment Finance, Inc.

Peter J. Roos, Senior Credit Officer

Real Estate

A. Larry Chapman

Shirley O. Griffin, Loan Administration

Christopher J. Jordan, Mid-Atlantic/ New England

Robin W. Michel, Northern California/ Northwest

James H. Muir, Eastern U.S./Midwest

Stephen P. Prinz, Central U.S./Texas

Charles H. Fedalen, Jr., Southern California/ Southwest

Thomas J. Davis, Senior Credit Officer, Real Estate

International and Insurance Services

David J. Zuercher

Peter P. Connolly, Foreign Exchange/ International Financial Services

Tracey B. Warson, Risk Management Sales

Timothy King, Wells Fargo Insurance, Inc.

Michael E. Connealy, Rural Community Insurance Services

David J. Weber, Wells Fargo HSBC Trade Bank, N.A.

Kevin W. Conboy, Acordia, Inc.

Asset-Based Lending

John F. Nickoll, Foothill Group, Inc.

Peter E. Schwab, Chairman, CEO, Foothill Capital Corporation

Henry K. Jordan, President

Thomas Pizzo, Century Business Credit

Martin J. McKinley, Wells Fargo Business Credit, Inc.

Eastdil Realty Company, LLC

Benjamin V. Lambert, Chairman, CEO

Roy H. March, President

Institutional Investment Services

Michael J. Niedermeyer

Robert W. Bissell, Wells Capital Management, Inc.

Michael J. Hogan, Wells Fargo Funds LLC

P. Jay Kiedrowski, Institutional Trust Group

John S. McCune, Institutional Brokerage

Laurie B. Nordquist, Institutional Trust

James W. Paulsen, Wells Capital Management, Inc.

Carol L. Warner, Trust Operations

Norwest Equity Partners

John E. Lindahl, Managing Partner

Norwest Venture Partners

Promod Haque, Managing Partner

Wells Fargo Services Company

Group Head

C. Webb Edwards

Terry L. Allen, Distributed Infrastructure-Network

Michael P. Caughlin, Customer Service Delivery

Mitchell A. Christensen, Traditional Payments

Kevin B. Dabney, CIO, Retail Banking

Scott A. Dillon, Payment Strategies

Kathy J. DeWit, Electronic Payments

Joseph A. Erwin, Wholesale Services

Wayne A. Mekjian, CIO, Home & Consumer Finance

Ashok Moorthy, CIO, Wholesale Banking

Victor K. Nichols, Technology Infrastructure

Michael D. Noble, Retail and Payment Services

Dale A. Pearce, Contract Management & Procurement

Diana L. Starcher, Phone Bank

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This Annual Report, including the Financial Review and the Financial Statements and the related Notes, contains forward-looking statements about the Company. Broadly speaking, forward-looking statements include forecasts of future financial results and condition, expectations for future operations and business, and any assumptions underlying those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual outcomes and results might differ significantly from forecasts and expectations. Please refer to "Factors that May Affect Future Results" for a discussion of some of the factors that may cause results to differ.

Overview

Wells Fargo & Company is a $349 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, commercial businesses and financial institutions in all 50 states of the U.S. and in other countries. It ranked fourth in assets and third in market capitalization among U.S. bank holding companies at December 31, 2002. In this Annual Report, Wells Fargo & Company and Subsidiaries (consolidated) is referred to as the Company and Wells Fargo & Company alone is referred to as the Parent.

Certain amounts in the Financial Review for prior years have been reclassified to conform with the current financial statement presentation.

Net income for 2002, before the effect of the accounting change related to FAS 142, was $5.71 billion, or $3.32 per share, compared with $3.99 billion, or $2.30 per share (excluding goodwill amortization), for 2001. On the same basis, return on average assets (ROA) was 1.77% and return on average common equity (ROE) was 19.60% in 2002, compared with 1.40% and 14.94%, respectively, (excluding goodwill amortization) for 2001.

The Company completed its initial goodwill impairment assessment under Financial Accounting Standards Board (FASB) Statement No. 142 (FAS 142), *Goodwill and Other Intangible Assets*, and recorded a transitional impairment charge of $276 million (after tax) in first quarter 2002. At December 31, 2002, the Company had $9.75 billion of goodwill, $5.50 billion of which related to the 1996 purchase of First Interstate Bancorp.

Net income in 2002, after the effect of the accounting change related to FAS 142, was $5.43 billion compared with $3.42 billion in 2001. Earnings per common share were $3.16 in 2002, compared with $1.97 in 2001. ROA was 1.69% and ROE was 18.66% in 2002, compared with 1.20% and 12.79%, respectively, in 2001. Net income and earnings per share in 2001 included the second quarter 2001 impairment of public and private equity securities and other special charges of $1.16 billion (after tax), or $.67 per share. Excluding these second quarter 2001 charges and goodwill amortization, 2001 net income was $5.15 billion and earnings per share were $2.97. On the same basis for 2001, ROA was 1.80% and ROE was 19.28%.

Net interest income on a taxable-equivalent basis was $14.96 billion in 2002, compared with $12.54 billion a year ago. The Company's net interest margin was 5.57% for 2002, compared with 5.36% in 2001.

Noninterest income was $9.64 billion in 2002, compared with $7.69 billion in 2001. Noninterest income in 2001 included approximately $1.72 billion (before tax) of other-than-temporary impairment in the valuation of publicly-traded securities and private equity investments recorded in the second quarter of 2001.

Revenue, the sum of net interest income and noninterest income, adjusted for the $1.72 billion (before tax) of non-cash impairment in 2001, increased 12% to $24.50 billion in 2002 from $21.87 billion in 2001.

Noninterest expense totaled $13.91 billion in 2002, compared with $12.89 billion in 2001, an increase of 8%. The increase was primarily due to an increase in mortgage and home equity loan volume.

During 2002, net charge-offs were $1.73 billion, or .96% of average total loans, compared with $1.78 billion, or 1.09%, during 2001. The provision for loan losses in 2002 and 2001 approximated net charge-offs. The allowance for loan losses was $3.86 billion, or 1.96% of total loans, at December 31, 2002, compared with $3.76 billion, or 2.18%, at December 31, 2001.

At December 31, 2002, total nonaccrual loans were $1.49 billion, or .8% of total loans, compared with $1.64 billion, or 1.0%, at December 31, 2001. Foreclosed assets were $201 million at December 31, 2002, compared with $171 million at December 31, 2001.

The ratio of common stockholders' equity to total assets was 8.67% at December 31, 2002, compared with 8.83% at December 31, 2001. The Company's total risk-based capital (RBC) ratio at December 31, 2002 was 11.31% and its Tier 1 RBC ratio was 7.60%, exceeding the minimum regulatory guidelines of 8% and 4%, respectively, for bank holding companies. The Company's RBC ratios at December 31, 2001 were 10.45% and 6.99%, respectively. The Company's Tier 1 leverage ratios were 6.58% and 6.25% at December 31, 2002 and 2001, respectively, exceeding the minimum regulatory guideline of 3% for bank holding companies.

Table 1: Ratios and Per Common Share Data

($ in millions, except per share amounts)	Year ended December 31, 2002	2001	2000
Before effect of change in account principle [1] and excluding goodwill amortization			
PROFITABILITY RATIOS			
Net income to average total assets (ROA)	**1.77%**	1.40%	1.81%
Net income applicable to common stock to average common stockholders' equity (ROE)	**19.60**	14.94	18.53
Net income to average stockholders' equity	**19.58**	14.87	18.40
EFFICIENCY RATIO [2]	**56.8%**	60.9%	57.3%
After effect of change in accounting principle			
PROFITABILITY RATIOS			
ROA	**1.69%**	1.20%	1.61%
ROE	**18.66**	12.79	16.31
Net income to average stockholders' equity	**18.64**	12.75	16.20
EFFICIENCY RATIO [2]	**56.8%**	64.0%	60.0%
CAPITAL RATIOS			
At year end:			
Common stockholders' equity to assets	**8.67%**	8.83%	9.63%
Stockholders' equity to assets	**8.69**	8.85	9.72
Risk-based capital [3]			
Tier 1 capital	**7.60**	6.99	7.29
Total capital	**11.31**	10.45	10.43
Tier 1 leverage [3]	**6.58**	6.25	6.49
Average balances:			
Common stockholders' equity to assets	**9.04**	9.33	9.83
Stockholders' equity to assets	**9.06**	9.41	9.93
PER COMMON SHARE DATA			
Dividend payout [4]	**34.46%**	50.25%	38.14%
Book value	**$17.97**	$16.01	$15.29
Market prices [5]:			
High	**$54.84**	$54.81	$56.38
Low	**38.10**	38.25	31.00
Year end	**46.87**	43.47	55.69

(1) Change in accounting principle relates to transitional goodwill impairment charge recorded in first quarter 2002 related to the adoption of FAS 142.
(2) The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and noninterest income).
(3) See Note 25 (Regulatory and Agency Requirements) to Financial Statements for additional information.
(4) Dividends declared per common share as a percentage of earnings per common share.
(5) Based on daily prices reported on the New York Stock Exchange Composite Transaction Reporting System.

Recent Accounting Standards

In June 2001, the FASB issued Statement No. 143 (FAS 143), *Accounting for Asset Retirement Obligations*, which addresses the recognition and measurement of obligations associated with the retirement of tangible long-lived assets. FAS 143 is effective January 1, 2003, with early adoption permitted. The Company adopted FAS 143 effective January 1, 2003 and the adoption of the statement will not have a material effect on the Company's financial statements.

In June 2002, the FASB issued Statement No. 146 (FAS 146), *Accounting for Costs Associated with Exit or Disposal Activities*, which addresses financial accounting and reporting for costs associated with exit or disposal activities. Under FAS 146, such costs will be recognized when the liability is incurred, rather than at the date of commitment to an exit plan. FAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application permitted. The Company adopted FAS 146 on January 1, 2003 and the adoption of the statement will not have a material effect on the Company's financial statements.

In October 2002, the FASB issued Statement No. 147 (FAS 147), *Acquisitions of Certain Financial Institutions*, which amends Statement No. 72 (FAS 72), *Accounting for Certain Acquisitions of Banking or Thrift Institutions,* and no longer requires the separate recognition and subsequent amortization of goodwill that was originally required by FAS 72. FAS 147 also amends Statement No. 144 (FAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*, to include in its scope long-term customer-relationship intangible assets (such as core deposit intangibles). Effective October 1, 2002, the Company adopted FAS 147, and the adoption did not have a material effect on the Company's financial statements.

In November of 2002, the FASB issued Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This Interpretation describes the disclosures to be made by a guarantor in interim and annual financial statements about obligations under certain guarantees the guarantor has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 will not have a material effect on the Company's financial statements. The Company adopted the disclosure provisions of FIN 45 effective December 31, 2002.

In December 2002, the FASB issued Statement No. 148 (FAS 148), *Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment to FASB Statement 123*. FAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, FAS 148 amends the disclosure requirements of FASB Statement No. 123 (FAS 123), *Accounting for Stock-Based Compensation*, to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company adopted the disclosure provisions of FAS 148 effective December 31, 2002.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a

controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The recognition and measurement provisions of this Interpretation are effective for newly created variable interest entities formed after January 31, 2003, and for existing variable interest entities, on the first interim or annual reporting period beginning after June 15, 2003. The Company adopted the disclosure provisions of FIN 46 effective December 31, 2002. The Company adopted the provisions of FIN 46 for newly formed variable interest entities effective January 31, 2003, which will not have a material effect on the Company's financial statements. The Company will adopt the provisions of FIN 46 for existing variable interest entities on July 1, 2003. The Company believes that it is reasonably possible that it could be a significant or majority variable interest holder in certain special-purpose entities formed to securitize high-yield corporate debt, commercial mortgage-backed and real estate investment trust securities. The total amount of assets in these entities at December 31, 2002 approximated $1.2 billion.

Table 2: Six-Year Summary of Selected Financial Data

(in millions, except per share amounts)	**2002**	2001	2000	1999	1998	1997	**% Change 2002/ 2001**	**Five-year compound growth rate**
INCOME STATEMENT								
Net interest income	**$ 14,855**	$ 12,460	$ 10,865	$ 10,116	$ 9,673	$ 9,258	**19%**	**10%**
Provision for loan losses	**1,733**	1,780	1,329	1,104	1,617	1,203	**(3)**	**8**
Noninterest income	**9,641**	7,690	8,843	7,975	6,920	6,046	**25**	**10**
Noninterest expense	**13,909**	12,891	11,830	10,637	11,311	9,580	**8**	**8**
Before effect of change in accounting principle								
Net income	**$ 5,710**	$ 3,423	$ 4,026	$ 4,012	$ 2,191	$ 2,712	**67**	**16**
Earnings per common share	**3.35**	1.99	2.36	2.32	1.28	1.57	**68**	**16**
Diluted earnings per common share	**3.32**	1.97	2.33	2.29	1.26	1.55	**69**	**16**
After effect of change in accounting principle								
Net income	**$ 5,434**	$ 3,423	$ 4,026	$ 4,012	$ 2,191	$ 2,712	**59**	**15**
Earnings per common share	**3.19**	1.99	2.36	2.32	1.28	1.57	**60**	**15**
Diluted earnings per common share	**3.16**	1.97	2.33	2.29	1.26	1.55	**60**	**15**
Dividends declared per common share	**1.10**	1.00	.90	.785	.70	.615	**10**	**12**
BALANCE SHEET								
(at year end)								
Securities available for sale	**$ 27,947**	$ 40,308	$ 38,655	$ 43,911	$ 36,660	$ 32,151	**(31)**	**(3)**
Loans	**196,634**	172,499	161,124	133,004	119,662	116,435	**14**	**11**
Allowance for loan losses	**3,862**	3,761	3,719	3,344	3,307	3,220	**3**	**4**
Goodwill	**9,753**	9,527	9,303	8,046	7,889	8,237	**2**	**3**
Assets	**349,259**	307,569	272,426	241,053	224,135	203,819	**14**	**11**
Core deposits	**198,234**	182,295	156,710	138,247	144,179	133,051	**9**	**8**
Long-term debt	**47,320**	36,095	32,046	26,866	22,662	18,820	**31**	**20**
Guaranteed preferred beneficial interests in Company's subordinated debentures	**2,885**	2,435	935	935	935	1,449	**18**	**15**
Common stockholders' equity	**30,297**	27,150	26,221	23,600	21,869	20,700	**12**	**8**
Stockholders' equity	**30,358**	27,214	26,488	23,871	22,332	21,164	**12**	**7**

Critical Accounting Policies

The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. The Company has identified three policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowance for loan losses, the valuation of mortgage servicing rights and pension accounting. The Company, in consultation with the Audit and Examination Committee, has reviewed and approved these critical accounting policies (further described in Note 1 (Summary of Significant Accounting Policies) to Financial Statements).

Allowance for Loan Losses

The Company's allowance for loan losses represents management's estimate of probable losses inherent in the loan portfolio at the balance sheet date. Allocation of the allowance is made for analytical purposes only, and the entire allowance is available to absorb probable and estimable credit losses inherent in the portfolio including unfunded commitments. Additions to the allowance may result from recording provision for loan losses or loan recoveries, while charge-offs are deducted from the allowance.

PROCESS TO DETERMINE THE ADEQUACY OF THE ALLOWANCE FOR LOAN LOSSES

The Company has an established process to determine the adequacy of the allowance for loan losses that relies on a number of analytical tools and benchmarks to arrive at a range of probable outcomes. No single statistic or measurement, in itself, determines the adequacy of the allowance. For analytical purposes, the allowance consists of two components, allocated and unallocated.

To arrive at the allocated component of the allowance, the Company combines estimates of the allowances needed for loans analyzed individually and loans analyzed on a pooled basis. The determination of the allocated allowance for portfolios of commercial and real estate loans involves the use of a continuous and standardized loan grading process in combination with a review of larger individual higher-risk transactions. The Company grades loans and assigns a loss factor to each pool of loans based on the grades. The loss factors used for this analysis are derived in two ways. First, migration models are used to determine loss factors by tracking actual portfolio movements between loan grades over the loss emergence period of these portfolios. Second, in the case of graded loans without identified credit weaknesses, the loss factors are estimated using a combination of long-term average loss experience of the Company's own graded portfolios and external industry data. In addition, the Company analyzes non-performing loans over $1 million individually for impairment using a cash flow or collateral based methodology. Calculated impairment is included in the allocated allowance unless impairment has been recognized as a loss.

In the case of homogeneous portfolios, such as consumer loans and leases, residential mortgage loans, and some segments of small business loans, the determination of the allocated allowance is conducted at an aggregate, or pooled, level. For such portfolios, the risk assessment process includes the use of forecasting models to measure inherent loss in these portfolios. Such analyses are updated frequently to capture the recent behavioral characteristics of the subject portfolios, as well as any changes in the Company's loss mitigation or customer solicitation strategies, in order to reduce the differences between estimated and observed losses.

To mitigate imprecision and incorporate the range of probable outcomes inherent in estimates of expected credit losses, the allocated component of the allowance is supplemented by an unallocated component. The unallocated component also incorporates the Company's judgmental determination of risks inherent in portfolio composition, economic uncertainties and other subjective factors, including industry trends impacting specific portfolio segments that have not yet resulted in changes in individual loan grades. Therefore the ratio of the allocated to the unallocated components within the total allowance for loan losses may fluctuate from period to period. The allocated and unallocated components represent the total allowance for loan losses that would adequately cover losses inherent in the loan portfolio.

The determination of the level of the allowance and, correspondingly, the provision for loan losses, rests upon various judgments and assumptions, including: (1) general economic conditions, (2) loan portfolio composition, (3) prior loan loss experience, (4) management's evaluation of credit risk related to both individual borrowers and pools of loans, (5) periodic use of sensitivity analysis and expected loss simulation modeling and (6) observations derived from the Company's ongoing internal audit and examination processes and those of its regulators.

The assumptions below were used to estimate a range of the 2002 allowance outcomes and related changes in provision expense assuming either a reasonably possible deterioration in loan credit quality or a reasonably possible improvement in loan credit quality.

Assumptions for deterioration in loan credit quality:

- For the non-homogeneous wholesale components of the portfolio, a downward migration of certain loan grades to the next lower grade, resulting in a 70% increase in the balance of loans classified as special mention and substandard, as defined by the Office of the Comptroller of the Currency (OCC); and
- For the homogeneous portfolio (such as consumer loans and leases, residential mortgage loans, and some segments of small business lending), a 20 basis point increase in estimated loss rates over the historical level of losses.

Assumptions for improvement in loan credit quality:

- For the non-homogeneous wholesale components of the portfolio, a 25% decrease in the balance of loans classified as special mention and substandard, as defined by the OCC; and
- For the homogeneous portfolio (such as consumer loans and leases, residential mortgage loans, and some segments of small business lending), a 10 basis point decrease in estimated loss rates over the historical level of losses.

These assumptions would result in a potential of $500 million in additional expected losses to emerge in the portfolio under the deterioration in loan credit quality scenario and a potential of a $350 million reduction to expected losses to emerge in the portfolio under the improvement in loan credit quality scenario.

Changes in the estimate related to the allowance for loan losses can materially affect net income. This is only one example of reasonably possible sensitivity scenarios. The process of determining the allowance requires us to forecast losses on loans in the future which are highly uncertain and require a high degree of judgment; and is impacted by regional, national and global economic trends, and different assumptions regarding "reasonably possible" future economic conditions could have been used and would have had a material impact on the provision for loan losses and on the consolidated results of operations.

Mortgage Servicing Rights Valuation

The Company recognizes as assets the rights to service mortgage loans for others, known as mortgage servicing rights (MSRs), whether the servicing rights are acquired through purchases or retained upon sale or securitization of originated loans. Generally, purchased MSRs are capitalized at the cost to acquire the rights. Originated MSRs are capitalized based on the relative fair value of the servicing right and the mortgage loan on the date the mortgage loan is sold. Purchased and originated MSRs are carried at the lower of the capitalized amount, net of accumulated amortization and hedge accounting adjustments, or fair value. For MSRs designated as a hedged item in a fair value hedge under FASB Statement No. 133 (FAS 133), *Accounting for Derivative Instruments and Hedging Activities*, the carrying value of the MSRs is adjusted for changes in fair value resulting from the application of hedge accounting. If the MSRs' carrying value is adjusted for changes in fair value resulting from the application of hedge accounting, the adjustment becomes part of the carrying value, which is still subject to a fair value test in accordance with FASB Statement No. 140 (FAS 140), *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

MSRs are amortized in proportion to, and over the period of, estimated net servicing income. The amortization of the MSRs is analyzed periodically and is adjusted to reflect changes in prepayment speeds and discount rates.

To determine the fair value of MSRs, the Company uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Company incorporates assumptions that market participants would use in estimating future net servicing income, which include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, late fees and float income. The valuation of MSRs is discussed further in this section and in Notes 1 (Summary of Significant Accounting Policies), 21 (Securitizations) and 22 (Mortgage Banking Activities) to Financial Statements.

Each quarter, the Company evaluates the possible impairment of MSRs based on the difference between the carrying amount and current fair value of the MSRs, in accordance with FAS 140. For purposes of evaluating and measuring impairment, the Company stratifies its portfolio on the basis of certain risk characteristics, including loan type and note rate. If temporary impairment exists, a valuation allowance is established for any excess of amortized cost over the current fair value, by risk stratification tranche, through a charge to income. If the Company later determines that all or a portion of the temporary impairment no longer exists for a particular tranche, a reduction of the valuation allowance may be recorded as an increase to income.

The Company has a policy of reviewing MSRs for other-than-temporary impairment each quarter and recognizes a direct write-down when the recoverability of a recorded valuation allowance is determined to be remote. In determining whether other-than-temporary impairment has occurred, the Company considers both historical and projected trends in interest rates, pay-off activity and the potential for impairment recovery through interest rate increases. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSRs and the valuation allowance, precluding subsequent reversals.

To reduce the sensitivity of earnings to interest rate and market value fluctuations, the Company hedges the change in value of its MSRs with derivative financial instruments. To the extent that hedge instruments are highly effective, any reduction or increase in the value of the mortgage servicing asset is generally offset by gains or losses in the value of the derivative instrument. To the extent that the reduction or increase in the value of the MSRs is not offset, the Company immediately recognizes either a gain or loss for the amount of derivative ineffectiveness. The Company does not fully hedge MSRs because its origination volume is a "natural hedge", i.e., as interest rates decline, origination volume increases even though servicing values decrease. Conversely, as interest rates increase, origination volumes decline, but the value of servicing increases.

Servicing fees, net of amortization, impairment and gain or loss on the ineffective portion and the excluded portion of the derivative financial instruments are recorded as a component of mortgage banking noninterest income.

The Company uses a dynamic and sophisticated model to estimate the value of its servicing asset. Loan prepayment speed is a key assumption in the valuation model and represents the annual rate at which borrowers are forecasted to repay their mortgage loan principal. The discount rate is another key assumption in the valuation model and is equal to what the Company believes would be the required rate of return for an asset with similar risk. The discount rate considers the risk premium for uncertainties associated with servicing operations (e.g., possible changes in future servicing costs, ancillary income and earnings on escrow accounts). Both variables can and generally will change in quarterly and annual valuations as market conditions and projected interest rates change. All assumptions are reviewed quarterly by senior management.

At December 31, 2002, key economic assumptions and the sensitivity of the current fair value of MSRs to an immediate adverse change in those assumptions are presented in the table below.

Table 3: Fair Value of Mortgage Servicing Rights

($ in millions)	
Fair value of MSRs at December 31, 2002	$ 4,494
Expected weighted-average life (in years)	2.1
Prepayment speed assumption (annual CPR [1])	36.8%
Decrease in fair value from 10% adverse change	$ 255
Decrease in fair value from 25% adverse change	577
Discount rate assumption	10.6%
Decrease in fair value from 100 basis point adverse change	$ 78
Decrease in fair value from 200 basis point adverse change	153

(1) Constant prepayment rate

In recent years, there have been significant market driven fluctuations in loan prepayment speeds and the discount rate appropriate for MSRs. Also, loan prepayment speeds and the market discount rate could fluctuate rapidly and significantly in the future. Accordingly, estimating prepayment speeds within a range that market participants would use in determining the fair value of MSRs requires significant management judgment.

Pension Accounting

There are four key variables utilized in the calculation of the Company's annual pension cost: (1) size of the employee population, (2) actuarial assumptions, (3) expected long-term rate of return on plan assets, and (4) discount rate.

SIZE OF THE EMPLOYEE POPULATION

The amount of pension expense is directly related to the number of employees covered by the plan. The population of employees eligible for pension benefits has steadily increased over the last few years, causing a proportional growth in pension expense.

ACTUARIAL ASSUMPTIONS

In estimating the projected benefit obligation, actuaries must make assumptions about such factors as mortality rate, turnover rate, retirement rate, disability rate, and the rate of compensation increases. Because these factors do not tend to change over time, the range of actuarial assumptions is generally narrow. Consequently, pension plan expense is relatively insensitive to actuarial assumptions.

EXPECTED LONG-TERM RATE OF RETURN ON PLAN ASSETS

In accordance with FASB Statement No. 87, *Employers' Accounting for Pensions*, the Company calculates the expected return on plan assets each year based on the balance in the pension asset portfolio at the beginning of the plan year and the expected long-term rate of return on that portfolio. The expected long-term rate of return is designed to approximate the long-term rate of return actually earned on the plan assets over time and the expected long-term rate of return is generally held constant so that the pattern of income/expense recognition more closely matches the stable pattern of services provided by the Company's employees over the life of the pension obligation.

In determining the reasonableness of the expected rate of return, a variety of factors are considered including the actual return earned on plan assets, historical rates of return on the various asset classes of which the plan portfolio is comprised, independent projections of returns on various asset classes, and current/prospective capital market conditions and economic forecasts. The Company has used an expected rate of return of 9% on plan assets in each of the past six years. Over the last two decades, the plan assets have actually earned a rate of return higher than 9%, although the return in the last three years was lower. Differences in each year, if any, between expected and actual returns in excess of a 5% corridor are amortized in the net periodic pension calculation over five years. See Note 15 (Employee Benefits and Other Expenses) to Financial Statements for details on the Company's changes in pension benefit obligation and the fair value of plan assets.

Based on the pension asset and projected benefit obligation balances as of November 30, 2002, the Company's measurement date, if the Company were to assume a 1% increase/decrease in the expected long-term rate of return, holding the discount rate and other actuarial assumptions constant, pension expense would decrease/increase by approximately $27 million.

DISCOUNT RATE

The discount rate is the rate used to determine the present value of the Company's future benefit obligations. It is an assumption that reflects the rates available on long-term high-quality fixed-income debt instruments, reset annually on the measurement date of each year. The Company lowered its discount rate in 2002 to 7% from 7.5%, which was the rate used in 1999-2001.

If the Company were to assume a 1% increase/decrease in the discount rate, holding the expected long-term rate of return and other actuarial assumptions constant, pension expense would decrease/increase by approximately $65 million.

Earnings Performance

Net Interest Income

Net interest income is the difference between interest income (which includes yield-related loan fees) and interest expense. Net interest income on a taxable-equivalent basis was $14.96 billion in 2002, compared with $12.54 billion in 2001, an increase of 19%.

Net interest income on a taxable-equivalent basis expressed as a percentage of average total earning assets is referred to as the net interest margin, which represents the average net effective yield on earning assets. For 2002, the net interest margin was 5.57%, compared with 5.36% in 2001. In 2002, deposit and borrowing costs declined faster than declines in loans and debt securities yields due to the falling interest rate environment.

Earning assets increased $34.7 billion in 2002 from 2001 predominantly due to increases in average loans and mortgages held for sale. Loans averaged $179.3 billion in 2002, compared with $163.1 billion in 2001. The increase was predominantly due to growth in mortgage and home equity products. Average mortgages held for sale increased to $39.9 billion in 2002 from $23.7 billion in 2001. The increase was due to increased originations including refinancing activity. The increases were partially offset by a slowdown in commercial loan demand consistent with conditions in the current U.S. economy. Debt securities available for sale averaged $36.0 billion in 2002, compared with $36.7 billion in 2001.

An important contributor to the growth in net interest income and the net interest margin from 2001 was a 10% increase in average core deposits, the Company's low-cost source of funding. Average core deposits were $184.1 billion and $167.9 billion and funded 57.2% and 58.8% of the Company's average total assets in 2002 and 2001, respectively. While savings certificates of deposits declined on average from $29.9 billion to $24.3 billion, noninterest-bearing checking accounts and other core deposit categories increased on average from $138.1 billion in 2001 to $159.9 billion in 2002 reflecting a combination of growth in mortgage escrow deposits, resulting from higher origination volume, and growth in primary account relationships. Total average interest-bearing deposits increased to $133.8 billion in 2002 from $120.2 billion a year ago. For the same period, total average noninterest-bearing deposits increased to $63.6 billion from $55.3 billion.

Table 5 presents the individual components of net interest income and the net interest margin.

Noninterest Income

Table 4 shows the major components of noninterest income.

Table 4: Noninterest Income

(in millions)	Year ended December 31,			% Change	
	2002	2001	2000	**2002/ 2001**	2001/ 2000
Service charges on deposit accounts	**$2,179**	$1,876	$1,704	**16%**	10%
Trust and investment fees:					
Asset management and custody fees	**723**	731	735	**(1)**	(1)
Mutual fund and commission fees	**1,033**	958	876	**8**	9
All other	**25**	21	13	**19**	62
Total trust and investment fees	**1,781**	1,710	1,624	**4**	5
Credit card fees	**920**	796	721	**16**	10
Other fees:					
Cash network fees	**183**	202	187	**(9)**	8
Charges and fees on loans	**616**	445	347	**38**	28
All other	**585**	597	579	**(2)**	3
Total other fees	**1,384**	1,244	1,113	**11**	12
Mortgage banking:					
Origination and other closing fees	**1,048**	737	350	**42**	111
Servicing fees, net of amortization and provision for impairment	**(737)**	(260)	665	**183**	—
Net gains on securities available for sale	**—**	134	—	**(100)**	—
Net gains on sales of mortgage servicing rights	**—**	—	159	**—**	(100)
Net gains on mortgage loan origination/sales activities	**1,038**	705	38	**47**	—
All other	**364**	355	232	**3**	53
Total mortgage banking	**1,713**	1,671	1,444	**3**	16
Insurance	**997**	745	411	**34**	81
Net gains (losses) on debt securities available for sale	**293**	316	(739)	**(7)**	—
Net (losses) gains from equity investments	**(327)**	(1,538)	2,130	**(79)**	—
Net gains (losses) on sales of loans	**19**	35	(134)	**(46)**	—
Net gains on dispositions of operations	**10**	122	23	**(92)**	430
All other	**672**	713	546	**(6)**	31
Total	**$9,641**	$7,690	$8,843	**25%**	(13)%

Service charges on deposit accounts increased 16% due to continued growth in primary checking accounts and increased activity.

The increase in trust and investment fees for 2002 compared with 2001 was due to an increase in mutual fund and commission fees primarily due to the acquisition of H.D. Vest, a financial planning services company, in the third quarter of 2001. The Company managed mutual funds with $74 billion of assets at December 31, 2002, compared with $77 billion at December 31, 2001. The Company also administered corporate trust, personal trust, employee benefit trust and agency assets of approximately $432 billion and $440 billion at December 31, 2002 and 2001, respectively, and actively managed corporate trust, personal trust, employee benefit trust and agency assets of approximately $102 billion and $99 billion at December 31, 2002 and 2001, respectively.

Credit card fees increased 16%, compared with 2001, primarily due to an increase in credit card accounts, credit and debit card usage and merchant fees on debit and credit cards.

Mortgage banking noninterest income was $1,713 million in 2002 compared with $1,671 million in 2001. Net servicing fees were a loss of $737 million and $260 million in 2002 and 2001, respectively. In both 2002 and 2001, net servicing fees were impacted by increased valuation provision for impairment of MSRs and increased amortization. During 2002 and 2001, the mortgage industry experienced high levels of prepayment activity as a result of lower interest rates. At December 31, 2002, the Federal National Mortgage Association (FNMA) Current Coupon rate (i.e., the secondary market par mortgage yield for 30 year fixed-rate mortgages) was 5.01%, compared with 6.45% at December 31, 2001. Consequently, assumed prepayment speeds, an important element in determining the fair value of MSRs, increased dramatically resulting in a valuation provision for impairment for MSRs in excess of fair value of $2.1 billion in 2002 and $1.1 billion in 2001 and for other retained interests of $567 million in 2002 and $27 million in 2001. During 2002, the Company recognized a direct write-down of the mortgage servicing asset of $1,071 million. See "Critical Accounting Policies – Mortgage Servicing Rights Valuation" in this report for the Company's methodology for testing MSRs for impairment and for determining if such impairment is other-than-temporary. Key assumptions, including the sensitivity of those assumptions, used to determine the value of MSRs are disclosed in Notes 1 (Summary of Significant Accounting Policies) and 21 (Securitizations) to Financial Statements. Amortization of MSRs was $1,942 million in 2002 and $914 million in 2001. The increase in the valuation provision for impairment and amortization was substantially offset by gains representing the ineffective and the excluded portion of fair value hedges of MSRs and an increase in mortgage servicing fees resulting from growth of the servicing portfolio. Origination and other closing fees of $1,048 million and net gains on mortgage originations/sales activities of $1,038 million were higher in 2002 due to higher mortgage origination volume. Originations for 2002 grew to $333 billion from $202 billion in 2001.

Insurance income for 2002 increased from the prior year predominantly due to the second quarter 2001 acquisition of ACO Brokerage Holdings Corporation, the Acordia group of insurance agencies (a commercial insurance broker).

Net losses from equity investments for 2002 were $327 million, reflecting other-than-temporary impairment in the valuation of publicly-traded and private equity securities. Net losses from equity investments for the same period in 2001 included approximately $1.7 billion (before tax) of impairment write-downs recognized in the second quarter of 2001.

Table 5: Average Balances, Yields and Rates Paid (Taxable-Equivalent Basis) [1][2]

(in millions)	2002			2001		
	Average balance	**Yields/ rates**	**Interest income/ expense**	Average balance	Yields/ rates	Interest income/ expense
EARNING ASSETS						
Federal funds sold and securities purchased under resale agreements	**$ 2,652**	**1.67%**	**$ 44**	$ 2,583	3.69%	$ 95
Debt securities available for sale [3]:						
Securities of U.S. Treasury and federal agencies	**1,770**	**5.57**	**95**	2,158	6.55	137
Securities of U.S. states and political subdivisions	**2,106**	**8.33**	**167**	2,026	7.98	154
Mortgage-backed securities:						
Federal agencies	**26,718**	**7.23**	**1,856**	27,433	7.19	1,917
Private collateralized mortgage obligations	**2,341**	**7.18**	**163**	1,766	8.55	148
Total mortgage-backed securities	**29,059**	**7.22**	**2,019**	29,199	7.27	2,065
Other debt securities [4]	**3,029**	**7.74**	**232**	3,343	7.80	254
Total debt securities available for sale [4]	**35,964**	**7.25**	**2,513**	36,726	7.32	2,610
Mortgages held for sale [3]	**39,858**	**6.13**	**2,450**	23,677	6.72	1,595
Loans held for sale [3]	**5,380**	**4.69**	**252**	4,820	6.58	317
Loans:						
Commercial	**46,520**	**6.80**	**3,164**	48,648	8.01	3,896
Real estate 1-4 family first mortgage	**26,951**	**6.19**	**1,669**	19,715	7.18	1,416
Other real estate mortgage	**25,413**	**6.17**	**1,568**	24,194	7.99	1,934
Real estate construction	**7,925**	**5.69**	**451**	8,073	8.10	654
Consumer:						
Real estate 1-4 family junior lien mortgage	**30,939**	**7.43**	**2,299**	21,232	9.25	1,965
Credit card	**6,810**	**12.27**	**836**	6,270	13.36	838
Other revolving credit and monthly payment	**24,072**	**10.28**	**2,475**	23,459	11.40	2,674
Total consumer	**61,821**	**9.07**	**5,610**	50,961	10.75	5,477
Lease financing	**8,877**	**7.11**	**631**	9,930	7.67	761
Foreign	**1,774**	**18.90**	**335**	1,603	20.82	333
Total loans [5][6]	**179,281**	**7.49**	**13,428**	163,124	8.87	14,471
Other	**6,492**	**3.80**	**248**	4,000	4.77	191
Total earning assets	**$269.627**	**7.05**	**18,935**	$234.930	8.24	19,279
FUNDING SOURCES						
Deposits:						
Interest-bearing checking	**$ 2,494**	**.55**	**14**	$ 2,178	1.59	35
Market rate and other savings	**93,787**	**.95**	**893**	80,585	2.08	1,675
Savings certificates	**24,278**	**3.21**	**780**	29,850	5.13	1,530
Other time deposits	**8,191**	**1.86**	**153**	1,332	5.04	67
Deposits in foreign offices	**5,011**	**1.58**	**79**	6,209	3.96	246
Total interest-bearing deposits	**133,761**	**1.43**	**1,919**	120,154	2.96	3,553
Short-term borrowings	**33,278**	**1.61**	**536**	33,885	3.76	1,273
Long-term debt	**42,158**	**3.33**	**1,404**	34,501	5.29	1,826
Guaranteed preferred beneficial interests in Company's subordinated debentures	**2,780**	**4.23**	**118**	1,394	6.40	89
Total interest-bearing liabilities	**211,977**	**1.88**	**3,977**	189,934	3.55	6,741
Portion of noninterest-bearing funding sources	**57,650**	**—**	**—**	44,996	—	—
Total funding sources	**$269.627**	**1.48**	**3,977**	$234.930	2.88	6,741
Net interest margin and net interest income on a taxable-equivalent basis [7]		**5.57%**	**$14.958**		5.36%	$12.538
NONINTEREST-EARNING ASSETS						
Cash and due from banks	**$ 13,820**			$ 14,608		
Goodwill	**9,737**			9,514		
Other	**28,607**			26,369		
Total noninterest-earning assets	**$ 52.164**			$ 50.491		
NONINTEREST-BEARING FUNDING SOURCES						
Deposits	**$ 63,574**			$ 55,333		
Other liabilities	**17,079**			13,301		
Preferred stockholders' equity	**55**			210		
Common stockholders' equity	**29,106**			26,643		
Noninterest-bearing funding sources used to fund earning assets	**(57,650)**			(44,996)		
Net noninterest-bearing funding sources	**$ 52.164**			$ 50.491		
TOTAL ASSETS	**$321.791**			$285.421		

(1) The average prime rate of the Company was 4.68%, 6.91%, 9.24%, 8.00% and 8.35% for 2002, 2001, 2000, 1999 and 1998, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 1.80%, 3.78%, 6.52%, 5.42% and 5.56% for the same years, respectively.
(2) Interest rates and amounts include the effects of hedge and risk management activities associated with the respective asset and liability categories.
(3) Yields are based on amortized cost balances computed on a settlement date basis.

2000			1999			1998		
Average balance	Yields/ rates	Interest income/ expense	Average balance	Yields/ rates	Interest income/ expense	Average balance	Yields/ rates	Interest income/ expense
$ 2,370	6.01%	$ 143	$ 1,673	5.11%	$ 86	$ 1,770	5.57%	$ 99
3,322	6.16	210	6,124	5.51	348	5,916	6.02	353
2,080	7.74	162	2,119	8.12	168	1,855	8.39	148
26,054	7.22	1,903	23,542	6.77	1,599	20,079	6.99	1,376
2,379	7.61	187	3,945	6.77	270	3,072	6.72	205
28,433	7.25	2,090	27,487	6.77	1,869	23,151	6.95	1,581
5,049	7.93	261	3,519	7.49	209	1,570	7.94	105
38,884	7.24	2,723	39,249	6.69	2,594	32,492	6.90	2,187
10,725	7.85	849	13,559	6.96	951	14,712	6.85	1,008
4,915	8.50	418	5,154	7.31	377	4,876	7.71	376
45,352	9.40	4,263	38,932	8.66	3,370	35,805	8.85	3,169
16,356	7.95	1,300	13,315	7.78	1,036	13,870	7.92	1,098
22,509	8.99	2,023	18,822	8.74	1,645	17,539	9.40	1,648
6,934	10.02	695	5,260	9.56	503	4,270	9.71	415
15,292	10.43	1,595	11,656	9.96	1,161	10,708	10.43	1,117
5,867	14.58	856	5,686	13.77	783	6,322	14.99	948
21,824	12.06	2,631	19,561	11.88	2,324	19,992	12.15	2,428
42,983	11.82	5,082	36,903	11.57	4,268	37,022	12.13	4,493
9,822	7.66	752	8,852	7.81	691	7,039	8.13	572
1,621	21.15	343	1,554	20.65	321	1,353	20.65	279
145,577	9.93	14,458	123,638	9.57	11,834	116,898	9.99	11,674
3,206	6.21	199	3,252	5.01	162	3,092	5.86	181
$205,677	9.19	18,790	$186,525	8.60	16,004	$173,840	8.97	15,525
$ 3,424	1.88	64	$ 3,120	.99	31	$ 3,034	1.35	41
63,577	2.81	1,786	60,901	2.30	1,399	56,724	2.63	1,492
30,101	5.37	1,616	30,088	4.86	1,462	31,905	5.29	1,686
4,438	5.69	253	3,957	4.94	196	4,565	5.47	250
5,950	6.22	370	1,658	4.76	79	948	4.84	46
107,490	3.80	4,089	99,724	3.17	3,167	97,176	3.62	3,515
28,222	6.23	1,758	22,559	5.00	1,127	17,927	5.36	963
29,000	6.69	1,939	24,646	5.90	1,453	19,294	6.29	1,214
935	7.92	74	935	7.73	72	1,160	8.12	94
165,647	4.75	7,860	147,864	3.94	5,819	135,557	4.27	5,786
40,030	—	—	38,661	—	—	38,283	—	—
$205,677	3.84	7,860	$186,525	3.13	5,819	$173,840	3.34	5,786
	5.35%	$10,930		5.47%	$10,185		5.63%	$ 9,739
$ 13,103			$ 12,252			$ 11,410		
8,811			7,983			8,069		
22,597			18,339			14,255		
$ 44,511			$ 38,574			$ 33,734		
$ 48,691			$ 45,201			$ 43,229		
11,000			8,909			7,314		
266			461			463		
24,584			22,664			21,011		
(40,030)			(38,661)			(38,283)		
$ 44,511			$ 38,574			$ 33,734		
$250,188			$225,099			$207,574		

(4) Includes certain preferred securities.
(5) Interest income includes loan fees, net of deferred costs, of approximately $101 million, $146 million, $194 million, $210 million and $148 million in 2002, 2001, 2000, 1999 and 1998, respectively.
(6) Nonaccrual loans and related income are included in their respective loan categories.
(7) Includes taxable-equivalent adjustments that primarily relate to income on certain loans and securities that is exempt from federal and applicable state income taxes. The federal statutory tax rate was 35% for all years presented.

The Company routinely reviews its investment portfolios for impairment. Such write-downs are based primarily on issuer-specific factors and results. General economic and market conditions, including those events occurring in the technology and telecommunications industries and adverse changes impacting the availability of venture capital financing are also taken into account. While the determination of impairment is based on all of the information available at the time of the assessment, new information or economic developments in the future could lead to additional impairment.

Net gains on disposition of operations for 2001 included a $96 million gain from the divestiture of 39 stores in Idaho, New Mexico, Nevada and Utah as a condition to completing the Company's merger with First Security Corporation.

Noninterest Expense

Table 6 shows the major components of noninterest expense.

Table 6: Noninterest Expense

(in millions)	Year ended December 31,			% Change	
	2002	2001	2000	**2002/ 2001**	2001/ 2000
Salaries	**$ 4,383**	$ 4,027	$ 3,652	**9%**	10%
Incentive compensation	**1,706**	1,195	846	**43**	41
Employee benefits	**1,283**	960	989	**34**	(3)
Equipment	**1,014**	909	948	**12**	(4)
Net occupancy	**1,102**	975	953	**13**	2
Goodwill	**—**	610	530	**(100)**	15
Core deposit intangible	**155**	165	186	**(6)**	(11)
Net losses (gains) on dispositions of premises and equipment	**52**	(21)	(58)	**—**	(64)
Outside professional services	**565**	486	447	**16**	9
Contract services	**385**	472	536	**(18)**	(12)
Outside data processing	**350**	319	343	**10**	(7)
Telecommunications	**347**	355	303	**(2)**	17
Travel and entertainment	**337**	286	287	**18**	—
Advertising and promotion	**327**	276	316	**18**	(13)
Postage	**256**	242	252	**6**	(4)
Stationery and supplies	**226**	242	223	**(7)**	9
Insurance	**169**	167	157	**1**	6
Operating losses	**163**	234	179	**(30)**	31
Security	**159**	156	98	**2**	59
All other	**930**	836	643	**11**	30
Total	**$13,909**	$12,891	$11,830	**8%**	9%

The increase in salaries in 2002 resulted from additional active, full-time equivalent team members, a major portion of which was due to acquisitions and increased employment related to growth in the mortgage and home equity business. Incentive compensation increased predominantly due to mortgage commission expense resulting from higher origination volume. The increase in employee benefits for 2002 includes net pension cost of $150 million in 2002, due to the impact of a weaker stock market and plan asset returns, compared with net pension income of $49 million in 2001.

Under FAS 142, effective January 1, 2002, all goodwill amortization was discontinued.

The increase in outside professional services, travel and entertainment, and advertising and promotion was predominantly due to the increase in mortgage origination volume.

Contract services decreased partly due to the higher use of team members instead of outside contractors for systems projects.

The Company undertook numerous initiatives in 2002 to reduce operating losses, which declined 30% from 2001.

Operating Segment Results

COMMUNITY BANKING'S net income increased 11% to $4.1 billion in 2002 from $3.7 billion, excluding impairment and other special charges of $1.1 billion (after tax), in 2001. Net interest income increased to $10.7 billion in 2002 from $8.7 billion in 2001. Average loans grew 15% and average core deposits grew 9% from 2001. The provision for loan losses decreased by $101 million for 2002 due to the improvement in the credit environment relative to last year. Noninterest income for 2002 increased by $1.6 billion over 2001 mostly due to increases in gains on sales of debt securities and service charges on deposit accounts. Noninterest expense increased by $1.3 billion in 2002 over 2001 due mostly to increased expense from strong mortgage origination activity.

WHOLESALE BANKING'S net income, before the effect of change in accounting principle, was $1.3 billion for 2002, compared with $1.2 billion, excluding impairment and other special charges of $62 million (after tax), in 2001, an increase of 9%. Net interest income increased 6% in 2002, compared with 2001. Noninterest income increased $396 million to $2.5 billion in 2002 compared with 2001, which included impairment and other special charges of $99 million (before tax). Noninterest expense increased to $2.6 billion in 2002, compared with $2.3 billion for the prior year. The higher expenses in 2002 compared with 2001 were primarily due to the Acordia acquisition and increased personnel and occupancy expenses related to increased sales and service staff, higher operating losses and higher expense from minority interest in partnerships.

In first quarter 2002, under FAS 142, a transitional goodwill impairment charge of $98 million (after tax) was recognized in certain reporting units.

WELLS FARGO FINANCIAL'S net income, before the effect of change in accounting principle, increased 8% to $360 million in 2002, from $334 million in 2001, due to growth in loans combined with lower funding costs. The provision for loan losses increased by $54 million in 2002 predominantly due to growth in loans.

During the second quarter of 2002, Wells Fargo Financial refined its reserve estimation process for its U.S. consumer finance business from a combined contractual and recency based charge-off methodology to a contractual basis. The contractual basis for estimating charge-offs is consistent with the method used throughout the Company's consumer lines of business. Contractual delinquency loss recognition provides a more robust loss and reserve forecasting methodology and supports improved collections management. An estimate of the effect of this refinement was recognized as an additional $23 million provision expense in the second quarter of 2002. A subsequent $21 million charge-off was reflected in the third quarter of 2002.

In first quarter 2002, under FAS 142, a transitional goodwill impairment charge of $178 million (after tax) was recognized in certain international reporting units, substantially related to Island Finance, a Puerto Rico-based consumer finance company acquired in 1995.

For a further discussion of operating segments see Note 20 (Operating Segments) to Financial Statements.

Balance Sheet Analysis

A comparison between the year-end 2002 and 2001 balance sheets is presented below.

Securities Available for Sale

The Company holds both debt and marketable equity securities in its securities available for sale portfolio. Debt securities available for sale are primarily held for liquidity, interest rate risk management and yield enhancement purposes. Accordingly, the portfolio is primarily comprised of very liquid, high quality federal agency debt securities. At December 31, 2002, the Company held $27.4 billion of debt securities available for sale, compared with $39.3 billion at December 31, 2001. The decrease in mortgage-backed securities to $21.0 billion at December 31, 2002 from $32.4 billion at December 31, 2001 was largely due to the sale of certain longer-maturity mortgage-backed securities subject to prepayment risk and prepayments of mortgage-backed securities held. The Company had a net unrealized gain on debt securities available for sale of $1.7 billion at December 31, 2002 compared with a net unrealized gain of $655 million at December 31, 2001. The weighted-average expected maturity of the debt securities portion of the securities available for sale portfolio was 5 years and 3 months at December 31, 2002. Since 75% of this portfolio is held in mortgage-backed securities, the expected remaining maturity may differ from contractual maturity because the issuers of such securities may have the right to prepay obligations with or without penalty. 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 is indicated in Table 7.

Table 7: Mortgage-Backed Securities

(in billions)	Fair value	Net unrealized gain (loss)	Remaining maturity
At December 31, 2002	$21.0	$ 1.4	4 yrs., 11 mos.
At December 31, 2002, assuming a 200 basis point:			
Increase in interest rates	18.8	(.7)	9 yrs., 4 mos.
Decrease in interest rates	21.4	1.9	1 yrs., 10 mos.

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

Loan Portfolio

A comparative schedule of average loan balances is presented in Table 5; year-end balances are presented in Note 5 (Loans and Allowance for Loan Losses) to Financial Statements.

Loans averaged $179.3 billion in 2002, compared with $163.1 billion in 2001, an increase of 10%. Total loans at December 31, 2002 were $196.6 billion, compared with $172.5 billion at year-end 2001, an increase of 14%. Mortgages held for sale increased to $51.2 billion from $30.4 billion due to increased originations, including significant refinancing activity. A majority of the increase in loans was due to a strong demand for home mortgages and home equity loans and lines, as well as solid growth in credit card balances and consumer finance receivables.

Deposits

Comparative detail of average deposit balances is presented in Table 5. Average core deposits funded 57.2% and 58.8% of the Company's average total assets in 2002 and 2001, respectively. Year-end deposit balances are presented in Table 8. Total average interest-bearing deposits rose from $120.2 billion in 2001 to $133.8 billion in 2002. For the same periods, total average noninterest-bearing deposits rose from $55.3 billion to $63.6 billion. Savings certificates declined on average from $29.9 billion in 2001 to $24.3 billion in 2002. Noninterest-bearing checking accounts and other core deposit categories increased substantially in 2002 reflecting the Company's success in growing customer accounts and balances and reflecting growth in mortgage escrow deposits associated with the record amount of mortgages originated in 2002, offsetting the decline in savings certificates.

Table 8: Deposits

(in millions)	December 31, 2002	December 31, 2001	% Change
Noninterest-bearing	**$ 74,094**	$ 65,362	13%
Interest-bearing checking	**2,625**	2,228	18
Market rate and other savings	**99,183**	89,251	11
Savings certificates	**22,332**	25,454	(12)
Core deposits	**198,234**	182,295	9
Other time deposits	**9,228**	839	—
Deposits in foreign offices	**9,454**	4,132	129
Total deposits	**$216,916**	$187,266	16%

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Off-Balance Sheet Arrangements, Guarantees and Other Commitments

As more fully described in Note 1 (Summary of Significant Accounting Policies) to Financial Statements, the Company consolidates majority-owned subsidiaries. Affiliates in which there is at least 20 percent ownership are generally accounted for under the equity method of accounting and affiliates in which there is less than 20 percent ownership are generally carried at cost.

In the ordinary course of business, the Company engages in financial transactions that are not recorded on the Company's balance sheet, in accordance with generally accepted accounting principles, or may be recorded on the Company's balance sheet in amounts that are different than the full contract or notional amount of the transaction. Such transactions are structured to meet the financial needs of customers, manage the Company's credit, market or liquidity risks, diversify funding sources or optimize capital.

Substantially all of the Company's off-balance sheet arrangements relate to securitization activities in the ordinary course of business. The Company routinely securitizes residential mortgage loans and, from time to time, other financial assets, including student loans, commercial mortgages and automobile receivables. The Company's loan securitization transactions are normally structured as sales, in accordance with FAS 140, which involve the transfer of financial assets to certain qualifying special-purpose entities that are not subject to consolidation. In a securitization, an entity transferring the assets is able to convert those assets into cash before they would have been realized by holding the assets to maturity. Special-purpose entities used in such securitizations obtain cash to acquire the assets by issuing securities to investors. In a securitization transaction, the Company customarily provides for representations and warranties with respect to the receivables transferred. In addition, the terms of the transaction generally provide for the Company to retain the right to service the transferred receivables and to repurchase those receivables from the special-purpose entity if the outstanding balance of the receivable falls to a level where the cost of servicing such receivables exceeds the benefits of servicing. In addition, the Company may structure investment vehicles, typically in the form of collateralized debt obligations, which are sold in the market place.

At December 31, 2002, the Company's securitization arrangements were comprised of approximately $45.3 billion in securitized loan receivables, including $26.5 billion of residential mortgage loans. The Company retained servicing rights and other beneficial interests related to these securitizations of approximately $655 million, consisting of $288 million in securities, $99 million in servicing assets and $268 million in other retained interests. With respect to these securitizations, the Company provided $85 million in liquidity commitments in the form of demand notes and reserve fund balances, and had committed to provide up to $22 million in credit enhancements.

In January 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities*, which clarifies those entities that may be subject to consolidation because certain arrangements, as defined in FIN 46, may be controlled by financial interests in such entities, referred to as "variable interest entities"

(VIEs), that may not be controlled through voting interests or in which the equity investors do not bear the residual economic risks. Such financial interests that convey economic risks and rewards associated with another entity can derive from relationships such as loans, leases, service contracts, credit enhancements, guarantees, derivatives and call options. An enterprise will be required to consolidate a variable interest entity if that enterprise has a variable interest (or combination of variable interests) that will absorb a majority of the entity's expected losses, if they occur, or receive a majority of the entity's expected residual returns, if they occur, or both.

The adoption of FIN 46 will not affect the Company's accounting for securitization transactions involving qualifying special-purpose entities. However, the Company believes that it is reasonably possible that it could be a significant or majority variable interest holder in certain transactions involving VIEs. The aggregate amount of assets with respect to these transactions approximated $1.2 billion at December 31, 2002 and the Company estimates that its maximum exposure to loss as a result of its involvement with these VIEs is approximately $45 million, which approximated the Company's variable interests in these entities at the end of 2002.

The Company's 2002 sales proceeds and cash flows from securitizations, and additional information with respect to securitization activities are included in Note 21 (Securitizations) to Financial Statements.

The Company's mortgage operation, in the ordinary course of business, originates a portion of its mortgage loans through unconsolidated joint ventures in which the Company owns an interest of 50 percent or less. Loans made by the joint ventures are funded by Wells Fargo Home Mortgage, Inc., or an affiliated entity, and are subject to specified underwriting criteria. At December 31, 2002, total assets of these mortgage origination joint ventures were approximately $160 million. The Company provides liquidity to these joint ventures in the form of outstanding lines of credit and, at December 31, 2002, such liquidity commitments totaled $510 million.

The Company also holds interests in other unconsolidated joint ventures that were formed with unrelated third parties to provide certain operational efficiencies due to economies of scale. The Company's real estate lending services joint ventures are managed by a third party and provide customers title, escrow, appraisal and other real estate related services. The Company's merchant services joint venture includes credit card processing and related activities. At December 31, 2002, total assets of the Company's real estate lending and merchant services joint ventures were approximately $373 million.

In connection with certain brokerage, asset management and insurance agency acquisitions made by the Company, the terms of the acquisition agreement provide for deferred payments or additional consideration, based on certain performance targets. At December 31, 2002, the amount of contingent consideration expected to be paid was not material to the Company's financial statements.

As a financial services provider, the Company routinely enters into commitments to extend credit, including loan commitments, standby letters of credit and financial guarantees. While these contractual obligations represent future cash requirements of the Company, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans made by the Company. For additional information, see Note 5 (Loans and Allowance for Loan Losses) to Financial Statements.

In the Company's venture capital and capital markets businesses, commitments are made to fund equity investments directly to investment funds and to specific private companies. The timing of future cash requirements to fund such commitments is generally dependent upon the venture capital investment cycle. This cycle, the period over which privately-held companies are funded by venture capital investors and ultimately taken public through an initial offering, can vary based on overall market conditions, as well as the nature and type of industry in which the companies operate. It is anticipated that many such private equity investments would become public or otherwise become liquid before the balance of unfunded equity commitments is utilized. At December 31, 2002, such commitments totaled approximately $880 million. Other investment commitments, comprised principally of low-income housing, civic and other community development initiatives undertaken by the Company, totaled approximately $230 million at December 31, 2002.

The Company enters into indemnification agreements in the ordinary course of business, including underwriting agreements relating to offers and sales of the Company's securities, acquisition agreements, and various other business transactions or arrangements, such as relationships arising from service as a director or officer of the Company. For additional information, see Note 24 (Legal Actions and Other Contingent Commitments) to Financial Statements.

Contractual Obligations

In the ordinary course of operations, the Company enters into certain contractual obligations. Such obligations include the funding of operations through debt issuances as well as leases for premises and equipment.

Table 9 summarizes the Company's significant contractual obligations at December 31, 2002, except for obligations associated with short-term borrowing arrangements and pension and postretirement benefits plans. Additional information with respect to the obligations presented is included in the referenced Note to Financial Statements. In addition, refer to Notes 10 (Short-term Borrowings) and 15 (Employee Benefits and Other Expenses) to Financial Statements for further discussion of contractual obligations.

The Company enters into derivative financial instruments, which create contractual obligations, as part of its interest rate risk management process, customer accommodation or other trading activities. See "Asset/Liability and Market Risk Management" in this report and refer to Note 26 (Derivative Financial Instruments) to Financial Statements for additional information regarding derivative financial instruments.

Transactions with Related Parties

There are no related party transactions required to be disclosed in accordance with FASB Statement No. 57, *Related Party Disclosures*. Loans to executive officers and directors of the Company and its banking subsidiaries were made in the ordinary course of business and were made on substantially the same terms as comparable transactions.

Table 9: Contractual Obligations

(in millions)	Note	Less than 1 year	1-3 years	3-5 years	More than 5 years	Indeterminate maturity (1)	Total
Payments by period:							
Deposits	9	$33,218	$ 5,689	$ 1,627	$ 558	$175,824	$216,916
Long-term debt (2)	6,11	13,656	14,403	8,700	10,561	—	47,320
Guaranteed preferred beneficial interests in Company's subordinated debentures	12	—	—	—	2,885	—	2,885
Operating leases	6	459	698	451	769	—	2,377
Purchase obligations		52	57	5	10	—	124
Total contractual obligations		$47,385	$20,847	$10,783	$14,783	$175,824	$269,622

(1) Represents interest- and noninterest-bearing checking, market rate and other savings accounts.
(2) Includes capital leases of $21 million.

Risk Management

Credit Risk Management Process

The Company's credit risk management is an integrated process that stresses decentralized line of business group management and accountability, supported by the Chief Credit Officer's oversight, consistent credit policies, and frequent and comprehensive risk measurement and modeling. The process is also reviewed regularly by the Company's Loan Examiners and Internal Audit and is subject to examination by external auditors and regulators.

Credit risk (including counterparty risk) is managed within the framework and guidance of comprehensive company-wide policies. Credit policies are in place for all banking and non-banking operations that have exposure to credit risk. These policies provide a consistent and prudent approach to credit risk management across the enterprise. Actual credit performance and exception rates are measured through detailed tracking and analysis, and credit policies are routinely reviewed and/or modified as appropriate.

The Chief Credit Officer provides company-wide credit oversight. Each business group with credit risks has a designated credit officer and has the primary responsibility for managing that risk. The Chief Credit Officer delegates authority, limits and requirements to the business units. These delegations are reviewed and amended in the event of significant changes in personnel or credit performance.

All portfolios of credit risk are subject to periodic reviews, to ensure that the risk identification processes are functioning properly and that credit standards are followed. Such reviews are conducted by the business units themselves and by the office of the Chief Credit Officer. In addition, all such portfolios are subject to the independent review of the Company's Loan Examiners and/or Internal Audit.

Quarterly asset quality forecasts are completed to quantify each business group's intermediate-term outlook for loan losses and recoveries, nonperforming loans and market trends. Periodic stress tests are conducted to validate the adequacy of the overall allowance for loan losses, including a portfolio loss simulation model that simulates the allowance requirement of the Company's various sub-portfolios assuming various trends in loan quality. Loan portfolios are assessed for geographic or industry concentrations and mitigation strategies are developed.

In addition, the Company routinely reviews and evaluates downside scenarios for risks that are not borrower specific but that may influence the behavior of a particular credit, group of credits, or entire sub-portfolios. This evaluation includes assessments related to particular industries and specific macroeconomic trends.

Table 10: Nonaccrual Loans and Other Assets

(in millions)	December 31,				
	2002	2001	2000	1999	1998
Nonaccrual loans:					
Commercial [1]	**$ 796**	$ 827	$ 739	$374	$302
Real estate 1-4 family first mortgage	**210**	203	127	144	138
Other real estate mortgage [2]	**192**	210	113	118	204
Real estate construction	**93**	145	57	11	23
Consumer:					
Real estate 1-4 family junior lien mortgage	**69**	24	23	17	17
Other revolving credit and monthly payment	**48**	59	36	27	41
Total consumer	**117**	83	59	44	58
Lease financing	**79**	163	92	24	13
Foreign	**5**	9	7	9	17
Total nonaccrual loans [3]	**1,492**	1,640	1,194	724	755
As a percentage of total loans	**.8%**	1.0%	.7%	.5%	.6%
Foreclosed assets	**201**	171	128	161	152
Real estate investments [4]	**4**	2	27	33	1
Total nonaccrual loans and other assets	**$1,697**	$1,813	$1,349	$918	$908

(1) Includes commercial agricultural loans of $48 million, $68 million, $44 million, $49 million and $41 million at December 31, 2002, 2001, 2000, 1999 and 1998, respectively.
(2) Includes agricultural loans secured by real estate of $30 million, $43 million, $13 million, $17 million and $12 million at December 31, 2002, 2001, 2000, 1999 and 1998, respectively.
(3) Includes impaired loans of $612 million, $823 million, $504 million, $258 million and $300 million at December 31, 2002, 2001, 2000, 1999 and 1998, respectively.
(4) Represents the amount of real estate investments (contingent interest loans accounted for as investments) that would be classified as nonaccrual if such assets were recorded as loans. Real estate investments totaled $9 million, $24 million, $56 million, $89 million and $128 million at December 31, 2002, 2001, 2000, 1999 and 1998, respectively.

NONACCRUAL LOANS AND OTHER ASSETS

Table 10 presents comparative data for nonaccrual loans and other assets. Management's classification of a loan as nonaccrual does not necessarily indicate that the principal of the loan is uncollectible in whole or in part. Table 10 excludes loans that are 90 days or more past due and still accruing, but are both well-secured and in the process of collection or are real estate 1-4 family first mortgage loans or consumer loans exempt under regulatory rules from being classified as nonaccrual, which are presented in Table 11. However, real estate 1-4 family loans (first and junior liens) are placed on nonaccrual within 120 days of becoming past due and are shown in Table 10. Note 1 (Summary of Significant Accounting Policies) to Financial Statements describes the Company's accounting policy for nonaccrual loans.

The Company anticipates changes in the amount of nonaccrual loans that result from increases in lending activity or from resolutions of loans in the nonaccrual portfolio. The performance of any individual loan can be affected by external factors, such as economic conditions or factors particular to a borrower such as actions taken by a borrower's management. In addition, from time to time, the Company purchases loans from other financial institutions that may be classified as nonaccrual based on the Company's policies.

The Company generally identifies loans to be evaluated for impairment under FASB Statement No. 114 (FAS 114), *Accounting by Creditors for Impairment of a Loan*, when such loans are on nonaccrual. However, not all nonaccrual loans are impaired. A loan is placed on nonaccrual status upon becoming 90 days past due as to interest or principal (unless both well-secured and in the process of collection), when the full timely collection of interest or principal becomes uncertain or when a portion of the principal balance has been charged off. Real estate 1-4 family loans (first and junior liens) are placed on nonaccrual status within 120 days of becoming past due as to interest or principal, regardless of security. In contrast, under FAS 114, loans are considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments.

For loans covered under FAS 114, the Company assesses for impairment when such loans are on nonaccrual, or when the loan has been restructured. When a loan over $1 million with unique risk characteristics has been identified as impaired, the Company estimates the amount of impairment using discounted cash flows, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the underlying collateral. In such cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows.

If the measurement of the impaired loan results in a value that is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs and unamortized premium or discount), an impairment is recognized through the allowance for loan losses. FAS 114 does not change the timing of charge-offs of loans to reflect the amount ultimately expected to be collected.

If interest that was due on the book balances of all nonaccrual loans (including loans that were but are no longer on nonaccrual at year end) had been accrued under their original terms, $107 million of interest would have been recorded in 2002, compared with $41 million actually recorded.

Foreclosed assets at December 31, 2002 were $201 million, compared with $171 million at December 31, 2001. Substantially all of the foreclosed assets at December 31, 2002 have been in the portfolio three years or less.

LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING

Table 11 shows loans that are contractually past due 90 days or more as to interest or principal, but are not included in Table 10, Nonaccrual Loans and Other Assets.

Table 11: Loans 90 Days or More Past Due and Still Accruing

(in millions)	December 31,				
	2002	2001	2000	1999	1998
Commercial	**$ 92**	$ 60	$ 90	$ 27	$ 33
Real estate					
1-4 family first mortgage	**52**	107[1]	66	45	42
Other real estate mortgage	**7**	22	24	18	18
Real estate construction	**11**	47	12	4	6
Consumer:					
Real estate					
1-4 family junior lien mortgage	**71**	56	27	36	65
Credit card	**131**	117	96	105	145
Other revolving credit and monthly payment	**308**	289	263	198	171
Total consumer	**510**	462	386	339	381
Total	**$672**	$698	$578	$433	$480

(1) Prior period has been revised to exclude certain government guaranteed loans.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses reflects the credit losses inherent in the Company's loan portfolio as of the financial statement date based on a consistent methodology for assessing credit risk. The Company's allowance methodology assumes that the allowance for loan losses as a percentage of charge-offs and non-performing loans will change at different points in time based on credit performance, loan mix and collateral values. An analysis of the changes in the allowance for loan losses, including charge-offs and recoveries by loan category, is presented in Note 5 (Loans and Allowance for Loan Losses) to Financial Statements. At December 31, 2002, the allowance for loan losses was $3.86 billion, or 1.96% of total loans, compared with $3.76 billion, or 2.18%, at December 31, 2001 and $3.72 billion, or 2.31%, at December 31, 2000. The primary driver of the decrease in the allowance for loan losses as a percentage of total loans in 2002 and in 2001 was the changing loan mix with residential real estate secured consumer loans representing a higher percentage of the overall loan portfolio. The Company has historically experienced lower losses on its residential real estate secured consumer loan portfolio. The provision for loan losses totaled $1.73 billion in 2002, $1.78 billion in 2001 and $1.33 billion in 2000. Net charge-offs in 2002 were $1.73 billion, or .96% of average total loans, compared with $1.78 billion, or 1.09%, in 2001 and $1.22 billion, or .84%, in 2000. Loan loss recoveries were $503 million in 2002, compared with $421 million in 2001 and $428 million in 2000. Any loan that is past due as to principal or interest and that is not both well-secured and in the process of collection is generally charged off (to the extent that it exceeds the fair value of any related collateral) after a predetermined period of time that is based on loan category. Additionally, loans are charged off when classified as a loss by either internal loan examiners or regulatory examiners.

The Company considers the allowance for loan losses of $3.86 billion adequate to cover losses inherent in loans, commitments to extend credit and standby and other letters of credit at December 31, 2002. The process for determining the adequacy for loan losses is critical to the financial results of the Company and requires subjective and complex judgment by management, as a result of the need to make estimates about the effect of matters that are inherently uncertain (See "Financial Review – Critical Accounting Policies – Allowance for Loan Losses"). Therefore, no assurance can be given that the Company will not, in any particular period, sustain loan losses that are sizeable in relation to the amount reserved, or that subsequent evaluations of the loan portfolio, in light of the factors then prevailing, including economic conditions and the ongoing examination process by the Company and its regulators, will not require significant increases in the allowance for loan losses. For discussion of the process by which the Company determines the adequacy of the allowance for loan losses, see Note 5 (Loans and Allowance for Loan Losses) to Financial Statements.

Asset/Liability and Market Risk Management

Asset/liability management comprises the evaluation, monitoring, and management of the Company's interest rate risk, market risk and liquidity and funding. The Corporate Asset/Liability Management Committee (Corporate ALCO) maintains oversight of these risks. Corporate ALCO is comprised of senior financial and senior business executives. Each of the Company's principal business groups – Community Banking (including Mortgage Banking) and Wholesale Banking – have individual asset/liability management committees and processes linked to the Corporate ALCO process.

INTEREST RATE RISK

Interest rate risk, one of the more prominent risks in terms of potential earnings impact, is an inevitable part of being a financial intermediary. It can occur for any one or more of the following reasons: (a) assets and liabilities may mature or re-price at different times (for example, if assets re-price faster than liabilities and interest rates are generally falling, Company earnings will initially decline); (b) assets and liabilities may re-price at the same time but by different amounts (for example, when the general level of interest rates is falling, the Company may choose for customer management, competitive, or other reasons to reduce the rates paid on checking and savings deposit accounts by an amount that is less than the general decline in market interest rates); (c) short-term and long-term market interest rates may change by different amounts (i.e., the shape of the yield curve may impact new loan yields and funding costs differently); or (d) the remaining maturity of various assets or liabilities may shorten or lengthen as interest rates change (for example, mortgage-backed securities held in the securities available for sale portfolio may prepay significantly earlier than anticipated—with an associated reduction in portfolio

income—if long-term mortgage interest rates decline sharply). In addition to the direct impact of interest rate changes on net interest income through these channels, interest rates indirectly impact earnings through their effect on loan demand, credit losses, mortgage origination fees, the value of mortgage servicing rights, the value of the pension liability and other sources of Company earnings.

The Company simulates its future net income under multiple interest rate paths 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. As of December 31, 2002, the simulation analysis indicated that the Company's earnings would tend to decrease from most likely expectations under scenarios of much higher short-term rates accompanied by higher but less pronounced increases in long-term rates. As an example, a 2.00% increase in the federal funds rate accompanied by a 1.50% increase in the 10 year constant maturity treasury rate from levels prevailing at year end would reduce estimated net income by approximately 2% relative to the Company's most likely earnings plan over a twelve month horizon. The principal source of net income risk in that particular scenario is a modeled slowdown in mortgage origination activity and narrower new business spreads associated with a flatter yield curve. Simulation estimates are highly dependent on and will change with the size and mix of the actual and projected balance sheet at the time each simulation is done.

The Company uses exchange-traded and over-the-counter interest rate derivatives to hedge its interest rate exposures. The credit risk amount and estimated net fair values of these derivatives as of December 31, 2002 and 2001 are indicated in Note 26 (Derivative Financial Instruments) to Financial Statements. Derivatives are used for asset/liability management in three ways: (a) most of the Company's long-term fixed-rate debt is converted to floating-rate payments by entering into receive-fixed swaps at issuance, (b) the cash flows from selected asset and/or liability instruments/portfolios are converted from fixed to floating payments or vice versa, and (c) the Company's mortgage operation actively uses swaptions, futures, forwards and rate options to hedge the mortgage pipeline, funded mortgage loans, and mortgage servicing rights asset.

MORTGAGE BANKING INTEREST RATE RISK

The Company originates, funds and services mortgage loans. These activities subject the Company to a number of risks, including credit, liquidity and interest rate risks. The Company manages credit and liquidity risk by selling or securitizing the loans it originates. Changes in interest rates, however, may have a potentially large impact on mortgage banking income in any calendar quarter and over time. The Company manages both the risk to net income over time from all sources as well as the risk to an immediate reduction in the fair value of its mortgage servicing rights. The Company relies on mortgage loans held on its balance sheet and derivative instruments to maintain these risks within Corporate ALCO parameters.

At December 31, 2002, the Company had capitalized mortgage servicing rights of $4.5 billion. The value of its servicing rights portfolio is influenced by prepayment speed assumptions affecting the duration of the mortgage loans to which the servicing rights relate. Changes in long-term interest rates affect these prepayment speed assumptions. For example, a decrease in long-term rates would accelerate prepayment speed assumptions as borrowers refinance their mortgage loans. Under GAAP, impairment to the Company's servicing rights, due to a decrease in long-term rates or other reasons, would be reflected as a charge to earnings. The Company manages this risk in two ways. First, a major portion of the mortgage servicing rights asset is hedged with derivative contracts. The principal source of risk in this hedging process is the risk that changes in the value of the hedging contracts may not match changes in the value of the hedged portion of the mortgage servicing rights for any given change in long-term interest rates. Second, a portion of the potential reduction in the value of the mortgage servicing rights asset for a given decline in interest rates is offset by estimated increases in origination and servicing fees over a twelve month period from new mortgage activity or refinancing associated with that decline in interest rates. In a scenario of much lower long-term interest rates, the decline in the value of the mortgage servicing rights and its impact on net income would be immediate whereas the additional origination and servicing fee income accrues over time. Net of impairment reserves, the capitalized mortgage servicing rights asset is valued at .92% of the total servicing portfolio at December 31, 2002, down from 1.54% of the servicing portfolio at December 31, 2001.

MARKET RISK—TRADING ACTIVITIES

The Company incurs interest rate risk, foreign exchange risk, equity price risk and commodity price risk in several trading businesses managed under limits set by Corporate ALCO. The primary purpose of these businesses is to accommodate customers in the management of their market price risks. Additionally, the Company takes positions based on market expectations or to benefit from price differentials between financial instruments and markets. All securities, loans, foreign exchange transactions, commodity transactions and derivatives transacted with customers or used to hedge capital market transactions done with customers are carried at fair value. Counterparty risk limits are established and monitored by the Institutional Risk Committee. The notional or contractual amount, credit risk amount and estimated net fair value of all customer accommodation derivatives as of December 31, 2002 and 2001 are indicated in Note 26 (Derivative Financial Instruments) to Financial Statements. Open, "at risk" positions for all trading business are monitored by Corporate ALCO. During the 90 day period ending December 31, 2002 the maximum daily "value at risk", the worst expected loss over a given time interval within a given confidence range (99%), for all trading positions covered by value at risk measures did not exceed $25 million.

MARKET RISK—EQUITY MARKETS

Equity markets impact the Company in both direct and indirect ways. The Company makes and manages direct equity investments in start up businesses, emerging growth companies, management buy-outs, acquisitions and corporate recapitalizations. The Company also invests in non-affiliated funds that make similar private equity investments. These private equity investments are made within capital allocations approved by the Company's management and its Board of Directors. Business developments, key risks and historical returns for the private equity investments are reviewed with the Board at least annually. Management reviews these investments at least quarterly and assesses 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 the Company's exit strategy. At December 31, 2002, the private equity investments totaled $1,657 million, compared with $1,696 million at December 31, 2001.

The Company also has marketable equity securities in its available for sale investment portfolio, including shares distributed from the Company's venture capital activities. These investments are managed 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, in addition, other- than-temporary impairment may be periodically recorded. The initial indicator of impairment for marketable equity securities is a sustained decline in market price below the amount recorded for that investment. The Company considers such factors as the length of time and the extent to which the market value has been less than cost; the financial condition, capital strength, and near-term prospects of the issuer; any recent events specific to that issuer and economic conditions of its industry; and, to a lesser degree, the Company's investment horizon in relationship to an anticipated near-term recovery in the stock price, if any. At December 31, 2002, the fair value of the marketable equity securities was $556 million and cost was $598 million, compared with $991 million and $815 million, respectively, at December 31, 2001.

Changes in equity market prices may also indirectly impact the Company's net income by impacting the value of third party assets under management and hence fee income, by impacting particular borrowers whose ability to repay principal and/or interest may be impacted by the stock market, or by impacting other business activities. These indirect risks are monitored and managed as part of the operations of each business line.

LIQUIDITY AND FUNDING

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

In addition to the immediately liquid resources of cash and due from banks and federal funds sold and securities purchased under resale agreements, asset liquidity is provided by the debt securities in the securities available for sale portfolio. The weighted-average expected remaining maturity of the debt securities within this portfolio was 5 years and 3 months at December 31, 2002. Of the $25.7 billion (cost basis) of debt securities in this portfolio at December 31, 2002, $8.2 billion, or 32%, is expected to mature or be prepaid in 2003 and an additional $3.8 billion, or 15%, is expected to mature or be prepaid in 2004. (See Note 4 (Securities Available for Sale) to Financial Statements for more information.) Asset liquidity is further enhanced by the Company's ability to sell or securitize loans in secondary markets through whole-loan sales and securitizations. In 2002, the Company sold residential mortgage loans of approximately $270 billion, including securitized residential mortgage loans and commercial mortgage loans of approximately $220 billion. The amount of such assets, as well as home equity loans and other consumer loans, available to be sold or securitized totaled approximately $115 billion at December 31, 2002.

Core customer deposits have historically provided the Company with a sizeable source of relatively stable and low-cost funds. The Company's average core deposits and stockholders' equity funded 66.3% and 68.3% of its average total assets in 2002 and 2001, respectively.

The remaining funding of assets was mostly provided by long-term debt, deposits in foreign offices, short-term borrowings (federal funds purchased and securities sold under repurchase agreements, commercial paper and other short-term borrowings) and trust preferred securities. Short-term borrowings averaged $33.3 billion and $33.9 billion in 2002 and 2001, respectively. Long-term debt averaged $42.2 billion and $34.5 billion in 2002 and 2001, respectively. Trust preferred securities averaged $2.8 billion and $1.4 billion in 2002 and 2001, respectively.

Liquidity for the Company is also available through the Company's ability to raise funds in a variety of domestic and international money and capital markets. The Company accesses the capital markets for long-term funding through the issuance of registered debt, private placements and asset-based secured funding. Approximately $60 billion of the Company's debt is rated by Fitch, Inc. and Moody's Investors Service as "AA" or equivalent, which is among the highest ratings given to a financial services company. The rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings and other tools. Material changes in these factors could result in a different debt rating.

PARENT. The Parent has registered with the Securities and Exchange Commission (SEC) to issue a variety of securities, including senior and subordinated notes and preferred and common securities to be issued by one or more trusts that are directly or indirectly owned by the Company and consolidated in the financial statements. During 2002, the Parent issued a total of $8.9 billion of senior and subordinated notes and trust preferred securities leaving unused issuance capacity of $7.1 billion at December 31, 2002. The Company used the proceeds from securities issued in 2002 for general corporate purposes and expects that it will use the proceeds from the issuance of any securities in the future for general corporate purposes as well. The Parent also issues commercial paper and has two back-up credit facilities amounting to $2 billion.

BANK NOTE PROGRAM. In February 2001, Wells Fargo Bank, N.A. established a $20 billion bank note program under which it may issue up to $10 billion in short-term senior notes outstanding at any time and up to a total of $10 billion in long-term senior and subordinated notes. Securities are issued under this program as private placements in accordance with OCC regulations. During 2002, Wells Fargo Bank, N.A. issued $4.1 billion in long-term notes. At December 31, 2002, the remaining issuance authority under the long-term portion was $4.3 billion.

WELLS FARGO FINANCIAL. During 2002, Wells Fargo Financial, Inc. (WFFI) issued $2.1 billion of senior notes. On October 22, 2002, WFFI announced that it will no longer issue term debt securities. During 2002, WFFI's wholly owned Canadian subsidiary, Wells Fargo Financial Canada Corporation (WFFC), issued $350 million (Canadian) in senior notes, leaving at December 31, 2002 a total of $950 million (Canadian) available for issuance.

On October 22, 2002, the Parent issued a full and unconditional guarantee of all outstanding term debt securities and commercial paper of WFFI. WFFI ceased filing periodic reports under the Securities Exchange Act of 1934 and is no longer a separately rated company. Funding of WFFI has been assumed by the Parent to achieve corporate funding efficiencies. The Parent has also guaranteed all outstanding term debt and commercial paper of WFFC. WFFC expects to continue to issue term debt and commercial paper in Canada, fully guaranteed by the Parent.

Capital Management

The Company has an active program for managing stockholder capital. The objective of effective capital management is to produce above market long-term returns by opportunistically using capital when returns are perceived to be high and issuing/accumulating capital when such costs are perceived to be low.

The Company uses capital to fund organic growth, acquire banks and other financial services companies, pay dividends and repurchase its shares. During 2002, the Company's consolidated assets increased by $42 billion, or 14%. Capital used for acquisitions in 2002 totaled $1.4 billion. During 2001 and 2002, the Board of Directors authorized the repurchase of up to 85 million and 50 million additional shares, respectively, of the Company's outstanding common stock. During 2002, the Company repurchased approximately 43 million shares of its common stock. At December 31, 2002, the total remaining common stock repurchase authority under the 2001 and 2002 authorizations was approximately 58 million shares. Total common stock dividend payments in 2002 were $1.9 billion. In January 2003, the Board of Directors approved an increase in the Company's quarterly common stock dividend to 30 cents per share from 28 cents per share, representing a 7% increase in the quarterly dividend rate.

The Company's potential sources of capital include retained earnings, common and preferred stock issuance, issuance of subordinated debt and trust preferred securities. In 2002, total net income was $5.4 billion and the change in retained earnings was $3.4 billion after payment of $1.9 billion in common stock dividends. Total common stock issued in 2002 under various employee benefit and director plans and under the Company's dividend reinvestment program was 22 million shares. Issuance of subordinated debt amounted to $1.7 billion, and one placement of trust preferred securities in the amount of $450 million was completed in 2002.

The Company anticipates that it will incur capital expenditures of approximately $600 million in 2003 for stores, relocation and remodeling of company facilities, routine replacement of furniture, equipment, servers and other networking equipment related to expansion of the Company's internet services business. The Company will fund these expenditures from various sources, including retained earnings of the Company and borrowings of various maturities.

The Company and each of the subsidiary banks are subject to various regulatory capital adequacy requirements administered by the Federal Reserve Board and the OCC. Risk-based capital guidelines establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures. At December 31, 2002, the Company and each of the covered subsidiary banks were "well capitalized" under regulatory standards. See Note 25 (Regulatory and Agency Capital Requirements) to Financial Statements for additional information.

Comparison of 2001 with 2000

Net income in 2001 was $3.42 billion, compared with $4.03 billion in 2000. Diluted earnings per common share were $1.97, compared with $2.33 in 2000. The decreases in net income and earnings per share were due to second quarter 2001 non-cash impairment of public and private equity securities and other special charges of $1.16 billion (after tax), or $.67 per share. Apart from these charges, very strong growth in business revenue more than offset the impact of higher credit losses on 2001 profits.

Return on average assets (ROA) was 1.20% and return on average common equity (ROE) was 12.79% in 2001, compared with 1.61% and 16.31%, respectively, in 2000. Excluding non-cash impairment and other special charges ROA was 1.60% and ROE was 17.13% in 2001.

Net interest income on a taxable-equivalent basis was $12.54 billion in 2001, compared with $10.93 billion in 2000. The increase was primarily due to an increase in earning assets. The Company's net interest margin was 5.36% for 2001, compared with 5.35% in 2000.

Noninterest income was $7.69 billion in 2001, compared with $8.84 billion in 2000. The decrease was due to approximately $1.72 billion (before tax) of impairment write-downs in the second quarter of 2001 reflecting other-than-temporary impairment in the valuation of publicly-traded securities and private equity investments, partially offset by increases in gains on sales of debt securities available for sale, mortgage banking income and gains on dispositions of operations. The increase in mortgage banking income was the result of an increase in mortgage origination and other closing fees that was predominantly due to increased refinancing activity resulting from the decline in fixed-rate mortgage rates during the last three quarters of 2001. Mortgage servicing fees before amortization and valuation provision for impairment increased in 2001 in line with substantial growth in the servicing portfolio. However, these additional fees were more than offset by increased amortization and valuation provision for impairment for mortgage servicing rights. Such valuation adjustments are driven by higher estimated prepayments assumed to be associated with the lower prevailing level of interest rates. During 2001, the mortgage industry experienced high levels of prepayment activity as a result of lower interest rates. The FNMA Current Coupon rate (i.e., the secondary market par mortgage yield for 30 year fixed-rate mortgages) was 6.45% at December 31, 2001, compared with 6.96% at December 31, 2000. Consequently, assumed prepayment speeds, an important element in determining the fair value of mortgage servicing rights, increased dramatically resulting in valuation provision for impairment of $1.1 billion for the year ended December 31, 2001. Given the level of interest rates at December 31, 2000, and the resulting assumptions used to value mortgage servicing rights and other retained interests, the fair value of the mortgage servicing rights were in excess of the Company's carrying value at December 31, 2000. Therefore, no valuation allowance was recognized.

Revenue, the sum of net interest income and noninterest income adjusted for the $1.72 billion (before tax) of non-cash impairment, increased from $19.71 billion in 2000 to $21.87 billion in 2001, or 11%.

Noninterest expense totaled $12.89 billion in 2001, compared with $11.83 billion in 2000, an increase of 9%. The increase was primarily due to an increase in salaries and incentive compensation from increases in full-time equivalent team members and higher commissions due to record mortgage originations. Expense growth also included the effect of acquisitions, particularly Acordia, the fifth largest insurance broker in the U.S.

The provision for loan losses was $1.78 billion in 2001, compared with $1.33 billion in 2000. During 2001, net charge-offs were $1.78 billion, or 1.09% of average total loans, compared with $1.22 billion, or .84%, during 2000. The allowance for loan losses was $3.76 billion, or 2.18% of total loans, at December 31, 2001, compared with $3.72 billion, or 2.31%, at December 31, 2000.

At December 31, 2001, total nonaccrual loans were $1.64 billion, or 1.0% of total loans, compared with $1.20 billion, or .7%, at December 31, 2000. Foreclosed assets were $171 million at December 31, 2001, compared with $128 million at December 31, 2000.

The ratio of common stockholders' equity to total assets was 8.83% at December 31, 2001, compared with 9.63% at December 31, 2000. The Company's total risk-based capital (RBC) ratio at December 31, 2001 was 10.45% and its Tier 1 RBC ratio was 6.99%, exceeding the minimum regulatory guidelines of 8% and 4%, respectively, for bank holding companies. The Company's RBC ratios at December 31, 2000 were 10.43% and 7.29%, respectively. The Company's Tier 1 leverage ratios were 6.25% and 6.49% at December 31, 2001 and 2000, respectively, exceeding the minimum regulatory guideline of 3% for bank holding companies.

Factors That May Affect Future Results

We make forward-looking statements in this report and in other reports and proxy statements we file with the SEC. In addition, our senior management might make forward-looking statements orally to analysts, investors, the media and others. Broadly speaking, forward-looking statements include:

- projections of our revenues, income, earnings per share, capital expenditures, dividends, capital structure or other financial items;
- descriptions of plans or objectives of our management for future operations, products or services, including pending acquisitions;
- forecasts of our future economic performance; and
- descriptions of assumptions underlying or relating to any of the foregoing.

In this report, for example, we make forward-looking statements discussing our expectations about:

- future credit losses and non-performing assets;
- the future value of mortgage servicing rights;
- the future value of equity securities, including those in our venture capital portfolios;
- the impact of new accounting standards;
- future short-term and long-term interest rate levels and their impact on our net interest margin, net income, liquidity and capital; and
- future capital expenditures.

Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements often include words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "target," "can," "could," "may," "should," "will," "would" or similar expressions. Do not unduly rely on forward-looking statements. They give our expectations about the future and are not guarantees. Forward-looking statements speak only as of the date they are made, and we might not update them to reflect changes that occur after the date they are made.

There are several factors—many beyond our control—that could cause results to differ significantly from our expectations. Some of these factors are described below. Other factors, such as credit, market, operational, liquidity, interest rate and other risks, are described elsewhere in this report (see, for example, "Balance Sheet Analysis"). Factors relating to the regulation and supervision of the Company are described in our Annual Report on Form 10-K for the year ended December 31, 2002. Any factor described in this report or in our 2002 Form 10-K could by itself, or together with one or more other factors, adversely affect our business, results of operations and/or financial condition. There are factors not described in this report or in our Form 10-K that could cause results to differ from our expectations.

Industry Factors

AS A FINANCIAL SERVICES COMPANY, OUR EARNINGS ARE SIGNIFICANTLY AFFECTED BY GENERAL BUSINESS AND ECONOMIC CONDITIONS.

Our business and earnings are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, and the strength of the U.S. economy and the local economies in which we operate. For example, an economic downturn, increase in unemployment, or other events that negatively impact household and/or corporate incomes could decrease the demand for the Company's loan and non-loan products and services and increase the number of customers who fail to pay interest or principal on their loans.

Geopolitical conditions can also impact our earnings. Acts or threats of terrorism, actions taken by the U.S. or other governments in response to acts or threats of terrorism and/or military conflicts including a war with Iraq, could impact business and economic conditions in the U.S. and abroad. The terrorist attacks in 2001, for example, caused an immediate decrease in demand for air travel, which adversely affected not only the airline industry but also other travel-related and leisure industries, such as lodging, gaming and tourism.

We discuss other business and economic conditions in more detail elsewhere in this report.

OUR EARNINGS ARE SIGNIFICANTLY AFFECTED BY THE FISCAL AND MONETARY POLICIES OF THE FEDERAL GOVERNMENT AND ITS AGENCIES.
The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its policies determine in large part our cost of funds for lending and investing and the return we earn on those loans and investments, both of which impact our net interest margin, and can materially affect the value of financial instruments we hold, such as debt securities and mortgage servicing rights. Its policies also can affect our borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve Board policies are beyond our control and hard to predict or anticipate.

THE FINANCIAL SERVICES INDUSTRY IS HIGHLY COMPETITIVE.
We operate in a highly competitive industry which could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can now merge by creating a new type of financial services company called a "financial holding company," which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Recently, a number of foreign banks have acquired financial services companies in the United States, further increasing competition in the U.S. market. Also, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and some have lower cost structures.

WE ARE HEAVILY REGULATED BY FEDERAL AND STATE AGENCIES.
The holding company, its subsidiary banks and many of its nonbank subsidiaries are heavily regulated at the federal and state levels. This regulation is to protect depositors, federal deposit insurance funds and the banking system as a whole, not security holders. Congress and state legislatures and federal and state regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways including limiting the types of financial services and products we may offer and/or increasing the ability of nonbanks to offer competing financial services and products. Also, our failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies and damage to our reputation. For more information, refer to the "Regulation and Supervision" section of our Annual Report on Form 10-K for the year ended December 31, 2002 and to Notes 3 (Cash, Loan and Dividend Restrictions) and 25 (Regulatory and Agency Capital Requirements) to Financial Statements included in this report.

FUTURE LEGISLATION COULD CHANGE OUR COMPETITIVE POSITION.
Various legislation, including proposals to substantially change the financial institution regulatory system and to expand or contract the powers of banking institutions and bank holding companies, is from time to time introduced in the Congress. This legislation may change banking statutes and the operating environment of the Company and its subsidiaries in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any of this potential legislation will be enacted, and if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company or any of its subsidiaries.

WE DEPEND ON THE ACCURACY AND COMPLETENESS OF INFORMATION ABOUT CUSTOMERS AND COUNTERPARTIES.
In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit, we may assume that a customer's audited financial statements conform with GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We also may rely on the audit report covering those financial statements. Our financial condition and results of operations could be negatively impacted to the extent we rely on financial statements that do not comply with GAAP or that are materially misleading.

CONSUMERS MAY DECIDE NOT TO USE BANKS TO COMPLETE THEIR FINANCIAL TRANSACTIONS.
Technology and other changes are allowing parties to complete financial transactions that historically have involved banks. For example, consumers can now pay bills and transfer funds directly without banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and income generated from those deposits.

Company Factors

MAINTAINING OR INCREASING OUR MARKET SHARE DEPENDS ON MARKET ACCEPTANCE AND REGULATORY APPROVAL OF NEW PRODUCTS AND SERVICES.

Our success depends, in part, on our ability to adapt our products and services to evolving industry standards. There is increasing pressure on financial services companies to provide products and services at lower prices. This can reduce our net interest margin and revenues from our fee-based products and services. In addition, the widespread adoption of new technologies, including internet-based services, could require us to make substantial expenditures to modify or adapt our existing products and services. We might not successfully introduce new products and services, achieve market acceptance of our products and services, and/or develop and maintain loyal customers.

THE HOLDING COMPANY RELIES ON DIVIDENDS FROM ITS SUBSIDIARIES FOR MOST OF ITS REVENUE.

The holding company is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenue from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on the holding company's common and preferred stock and interest and principal on its debt. Various federal and/or state laws and regulations limit the amount of dividends that our bank and certain of our nonbank subsidiaries may pay to the holding company. Also, the holding company's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. For more information, refer to "Regulation and Supervision—Dividend Restrictions" and "—Holding Company Structure" in our Annual Report on Form 10-K for the year ended December 31, 2002.

OUR ACCOUNTING POLICIES AND METHODS ARE KEY TO HOW WE REPORT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS, AND THEY MAY REQUIRE MANAGEMENT TO MAKE ESTIMATES ABOUT MATTERS THAT ARE INHERENTLY UNCERTAIN.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so that not only do they comply with generally accepted accounting principles but also that they reflect management's judgment as to the most appropriate manner in which to record and report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in our reporting materially different amounts than would have been reported under a different alternative. Note 1 (Summary of Significant Accounting Policies) to Financial Statements describes our significant accounting policies.

We have identified three accounting policies as being "critical" to the presentation of our financial condition and results of operations because they require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These critical accounting policies relate to: (1) the determination of allowance for loan losses, (2) the valuation of mortgage servicing rights, and (3) pension accounting. Because of the inherent uncertainty of estimates about these matters, we cannot provide any assurance that the Company will not:

- significantly increase its allowance for loan losses and/or sustain loan losses that are significantly higher than the amount reserved;
- recognize significant provision for impairment of its mortgage servicing rights; or
- significantly increase its pension liability.

For more information, refer in this report to "Critical Accounting Policies," "Balance Sheet Analysis" and "Risk Management."

WE HAVE BUSINESSES OTHER THAN BANKING.
We are a diversified financial services company. In addition to banking, we provide insurance, investments, mortgages and consumer finance. Although we believe our diversity helps mitigate the impact to the Company when downturns affect any one segment of our industry, it also means that our earnings could be subject to different risks and uncertainties. We discuss some examples below.

MERCHANT BANKING. Our merchant banking activities include venture capital investments, which have a much greater risk of capital losses than our traditional banking activities. Also, it is difficult to predict the timing of any gains from these activities. Realization of gains from our venture capital investments depends on a number of factors—many beyond our control—including general economic conditions, the prospects of the companies in which we invest, when these companies go public, the size of our position relative to the public float, and whether we are subject to any resale restrictions. Factors such as a slowdown in consumer demand or a deterioration in capital spending on technology and telecommunications equipment, could result in declines in the values of our publicly-traded and private equity securities. If we determine that the declines are other-than-temporary, additional impairment charges would be recognized. Also, we will realize losses to the extent we sell securities at less than book value. For more information, see in this report "Balance Sheet Analysis—Securities Available for Sale."

MORTGAGE BANKING. The impact of interest rates on our mortgage banking business can be large and complex. Changes in interest rates can impact loan origination fees and loan servicing fees, which account for a significant portion of mortgage-related revenues. A decline in mortgage rates generally increases the demand for mortgage loans as borrowers refinance, but also generally leads to accelerated payoffs in our mortgage servicing portfolio. Conversely, in a constant or increasing rate environment, we would expect fewer loans to be refinanced and a decline in payoffs in our servicing portfolio. Although the Company uses dynamic and sophisticated models to assess the impact of interest rates on mortgage fees, amortization of mortgage servicing rights, and the value of mortgage servicing assets, the estimates of net income and fair value produced by these models are dependent on estimates and assumptions of future loan demand, prepayment speeds and other factors which may overstate or understate actual subsequent experience. In addition, although the Company uses derivative instruments to hedge the value of its servicing portfolio, the hedges do not cover the full value of the portfolio and the Company can provide no assurances that the hedges will be effective to offset significant decreases in the value of the portfolio. For more information, see in this report "Critical Accounting Policies — Mortgage Servicing Rights Valuation" and "Asset/Liability and Market Risk Management."

WE RELY ON OTHER COMPANIES TO PROVIDE KEY COMPONENTS OF OUR BUSINESS INFRASTRUCTURE.
Third parties provide key components of our business infrastructure such as internet connections and network access. Any disruption in internet, network access or other voice or data communication services provided by these third parties or any failure of these third parties to handle current or higher volumes of use could adversely affect our ability to deliver products and services to our customers and otherwise to conduct our business. Technological or financial difficulties of a third party service provider could adversely affect our business to the extent those difficulties result in the interruption or discontinuation of services provided by that party.

WE HAVE AN ACTIVE ACQUISITION PROGRAM.
We regularly explore opportunities to acquire financial institutions and other financial services providers. We cannot predict the number, size or timing of future acquisitions. We typically do not comment publicly on a possible acquisition or business combination until we have signed a definitive agreement for the transaction.

Our ability to successfully complete an acquisition generally is subject to regulatory approval, and we cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. We might be required to divest banks or branches as a condition to receiving regulatory approval.

Difficulty in integrating an acquired company may cause us not to realize expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from the acquisition. Specifically, the integration process could result in higher than expected deposit attrition (run-off), loss of key employees, the disruption of our business or the business of the acquired company, or otherwise adversely affect our ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition. Also, the negative impact of any divestitures required by regulatory authorities in connection with acquisitions or business combinations may be greater than expected.

LEGISLATIVE RISK

Our business model is dependent on sharing information between the family of companies owned by Wells Fargo to better satisfy our customers' needs. Laws that restrict the ability of our companies to share information about customers could negatively impact our revenue and profit.

OUR BUSINESS COULD SUFFER IF WE FAIL TO ATTRACT AND RETAIN SKILLED PEOPLE.

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities engaged in by the Company can be intense. We may not be able to hire people or to keep them.

OUR STOCK PRICE CAN BE VOLATILE.

Our stock price can fluctuate widely in response to a variety of factors including:

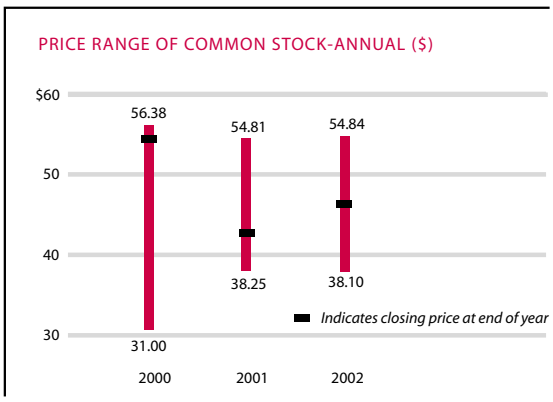
- actual or anticipated variations in our quarterly operating results;
- recommendations by securities analysts;
- new technology used, or services offered, by our competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- failure to integrate our acquisitions or realize anticipated benefits from our acquisitions;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry;
- changes in government regulations; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

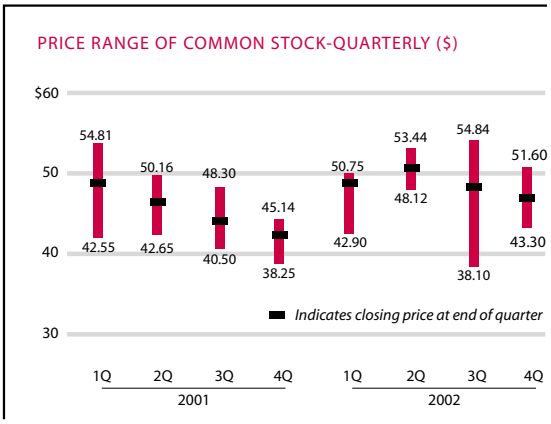
General market fluctuations, industry factors and general economic and political conditions and events, such as the recent terrorist attacks, economic slowdowns or recessions, interest rate changes, credit loss trends or currency fluctuations, also could cause our stock price to decrease regardless of our operating results.

Additional Information

Common stock of the Company is traded on the New York Stock Exchange and the Chicago Stock Exchange. The high, low and end-of-period annual and quarterly prices of the Company's common stock as reported on the New York Stock Exchange Composite Transaction Reporting System are presented in the graphs. The number of holders of record of the Company's common stock was 97,002 as of January 31, 2003.

The Company makes available free of charge on or through its website (www.wellsfargo.com) its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports, electronically filed with or furnished to the Securities and Exchange Commission as soon as reasonably practicable. Those reports and amendments are also available free of charge on the SEC's website (www.sec.gov).





Wells Fargo & Company and Subsidiaries

Consolidated Statement of Income

(in millions, except per share amounts)	Year ended December 31,		
	2002	2001	2000
INTEREST INCOME			
Securities available for sale	**$ 2,424**	$ 2,544	$ 2,671
Mortgages held for sale	**2,450**	1,595	849
Loans held for sale	**252**	317	418
Loans	**13,418**	14,461	14,446
Other interest income	**288**	284	341
Total interest income	**18,832**	19,201	18,725
INTEREST EXPENSE			
Deposits	**1,919**	3,553	4,089
Short-term borrowings	**536**	1,273	1,758
Long-term debt	**1,404**	1,826	1,939
Guaranteed preferred beneficial interests in Company's subordinated debentures	**118**	89	74
Total interest expense	**3,977**	6,741	7,860
NET INTEREST INCOME	**14,855**	12,460	10,865
Provision for loan losses	**1,733**	1,780	1,329
Net interest income after provision for loan losses	**13,122**	10,680	9,536
NONINTEREST INCOME			
Service charges on deposit accounts	**2,179**	1,876	1,704
Trust and investment fees	**1,781**	1,710	1,624
Credit card fees	**920**	796	721
Other fees	**1,384**	1,244	1,113
Mortgage banking	**1,713**	1,671	1,444
Insurance	**997**	745	411
Net gains (losses) on debt securities available for sale	**293**	316	(739)
Net (losses) gains from equity investments	**(327)**	(1,538)	2,130
Other	**701**	870	435
Total noninterest income	**9,641**	7,690	8,843
NONINTEREST EXPENSE			
Salaries	**4,383**	4,027	3,652
Incentive compensation	**1,706**	1,195	846
Employee benefits	**1,283**	960	989
Equipment	**1,014**	909	948
Net occupancy	**1,102**	975	953
Goodwill	**—**	610	530
Core deposit intangibles	**155**	165	186
Net losses (gains) on dispositions of premises and equipment	**52**	(21)	(58)
Other	**4,214**	4,071	3,784
Total noninterest expense	**13,909**	12,891	11,830
INCOME BEFORE INCOME TAX EXPENSE AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	**8,854**	5,479	6,549
Income tax expense	**3,144**	2,056	2,523
NET INCOME BEFORE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	**5,710**	3,423	4,026
Cumulative effect of change in accounting principle	**(276)**	—	—
NET INCOME	**$ 5,434**	$ 3,423	$ 4,026
NET INCOME APPLICABLE TO COMMON STOCK	**$ 5,430**	$ 3,409	$ 4,009
EARNINGS PER COMMON SHARE BEFORE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE			
Earings per common share	**$ 3.35**	$ 1.99	$ 2.36
Diluted earnings per common share	**$ 3.32**	$ 1.97	$ 2.33
EARNINGS PER COMMON SHARE			
Earnings per common share	**$ 3.19**	$ 1.99	$ 2.36
Diluted earnings per common share	**$ 3.16**	$ 1.97	$ 2.33
DIVIDENDS DECLARED PER COMMON SHARE	**$ 1.10**	$ 1.00	$ .90
Average common shares outstanding	**1,701.1**	1,709.5	1,699.5
Diluted average common shares outstanding	**1,718.0**	1,726.9	1,718.4

The accompanying notes are an integral part of these statements.

Wells Fargo & Company and Subsidiaries

Consolidated Balance Sheet

(in millions, except shares)	December 31, 2002	2001
ASSETS		
Cash and due from banks	**$ 17,820**	$ 16,968
Federal funds sold and securities purchased under resale agreements	**3,174**	2,530
Securities available for sale	**27,947**	40,308
Mortgages held for sale	**51,154**	30,405
Loans held for sale	**6,665**	4,745
Loans	**196,634**	172,499
Allowance for loan losses	**3,862**	3,761
Net loans	**192,772**	168,738
Mortgage servicing rights	**4,489**	6,241
Premises and equipment, net	**3,688**	3,549
Core deposit intangibles	**868**	1,013
Goodwill	**9,753**	9,527
Other assets	**30,929**	23,545
Total assets	**$349,259**	$ 307,569
LIABILITIES		
Noninterest-bearing deposits	**$ 74,094**	$ 65,362
Interest-bearing deposits	**142,822**	121,904
Total deposits	**216,916**	187,266
Short-term borrowings	**33,446**	37,782
Accrued expenses and other liabilities	**18,334**	16,777
Long-term debt	**47,320**	36,095
Guaranteed preferred beneficial interests in Company's subordinated debentures	**2,885**	2,435
STOCKHOLDERS' EQUITY		
Preferred stock	**251**	218
Unearned ESOP shares	**(190)**	(154)
Total preferred stock	**61**	64
Common stock — $1⅔ par value, authorized 6,000,000,000 shares; issued 1,736,381,025 shares	**2,894**	2,894
Additional paid-in capital	**9,498**	9,436
Retained earnings	**19,394**	16,005
Cumulative other comprehensive income	**976**	752
Treasury stock — 50,474,518 shares and 40,886,028 shares	**(2,465)**	(1,937)
Total stockholders' equity	**30,358**	27,214
Total liabilities and stockholders' equity	**$349,259**	$307,569

The accompanying notes are an integral part of these statements.

Wells Fargo & Company and Subsidiaries

Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income

(in millions, except shares)	Number of shares	Preferred stock	Unearned ESOP shares	Common stock	Additional paid-in capital	Retained earnings	Notes receivable from ESOP	Treasury stock	Cumulative other comprehensive income	Total stock-holders' equity
BALANCE DECEMBER 31, 1999		$ 344	$ (73)	$ 2,894	$ 9,213	$ 12,565	$ (1)	$ (1,831)	$ 760	$ 23,871
Comprehensive income										
Net income - 2000						4,026				4,026
Other comprehensive income, net of tax:										
Translation adjustments									(2)	(2)
Net unrealized losses on securities available for sale									(234)	(234)
Total comprehensive income										3,790
Common stock issued	17,614,859			1	295	(458)		716		554
Common stock issued for acquisitions	75,554,229				(185)	(6)		3,128		2,937
Common stock repurchased	78,573,812			(1)	(42)			(3,195)		(3,238)
Stock appreciation rights					48					48
Preferred stock repurchased		(1)								(1)
Preferred stock issued to ESOP		170	(181)		11					—
Preferred stock released to ESOP			136		(8)					128
Preferred stock (122,288) converted to common shares	3,036,660	(128)			5			123		—
Preferred stock dividends						(17)				(17)
Common stock dividends						(1,569)				(1,569)
Cash payments received on notes receivable from ESOP							1			1
Change in Rabbi trust assets (classified as treasury stock)								(16)		(16)
Net change		41	(45)	—	124	1,976	1	756	(236)	2,617
BALANCE DECEMBER 31, 2000		385	(118)	2,894	9,337	14,541	—	(1,075)	524	26,488
Comprehensive income										
Net income - 2001						3,423				3,423
Other comprehensive income, net of tax:										
Translation adjustments									(3)	(3)
Minimum pension liability adjustment									(42)	(42)
Net unrealized gains on securities available for sale and other retained interests									10	10
Cumulative effect of the change in accounting principle for derivatives and hedging activities									71	71
Net unrealized gains on derivatives and hedging activities									192	192
Total comprehensive income										3,651
Common stock issued	16,472,042				92	(236)		738		594
Common stock issued for acquisitions	428,343				1	1		20		22
Common stock repurchased	39,474,053							(1,760)		(1,760)
Preferred stock (192,000) issued to ESOP		192	(207)		15					—
Preferred stock released to ESOP			171		(12)					159
Preferred stock (158,517) converted to common shares	3,422,822	(159)			3			156		—
Preferred stock redeemed		(200)								(200)
Preferred stock dividends						(14)				(14)
Common stock dividends						(1,710)				(1,710)
Change in Rabbi trust assets (classified as treasury stock)								(16)		(16)
Net change		(167)	(36)	—	99	1,464	—	(862)	228	726
BALANCE DECEMBER 31, 2001		218	(154)	2,894	9,436	16,005	—	(1,937)	752	27,214
Comprehensive income										
Net income - 2002						**5,434**				**5,434**
Other comprehensive income, net of tax:										
Translation adjustments									**1**	**1**
Minimum pension liability adjustment									**42**	**42**
Net unrealized gains on securities available for sale and other retained interests									**484**	**484**
Net unrealized losses on derivatives and hedging activities									**(303)**	**(303)**
Total comprehensive income										**5,658**
Common stock issued	**17,345,078**				**43**	**(168)**		**777**		**652**
Common stock issued for acquisitions	**12,017,193**				**4**			**531**		**535**
Common stock repurchased	**43,170,943**							**(2,033)**		**(2,033)**
Preferred stock (238,000) issued to ESOP		**239**	**(256)**		**17**					**—**
Preferred stock released to ESOP			**220**		**(14)**					**206**
Preferred stock (205,727) converted to common shares	**4,220,182**	**(206)**			**12**			**194**		**—**
Preferred stock dividends						**(4)**				**(4)**
Common stock dividends						**(1,873)**				**(1,873)**
Change in Rabbi trust assets and similar arrangements (classified as treasury stock)								**3**		**3**
Net change		**33**	**(36)**	**—**	**62**	**3,389**	**—**	**(528)**	**224**	**3,144**
BALANCE DECEMBER 31, 2002		**$251**	**$(190)**	**$2,894**	**$9,498**	**$19,394**	**$ —**	**$ (2,465)**	**$976**	**$ 30,358**

The accompanying notes are an integral part of these statements.

Wells Fargo & Company and Subsidiaries

Consolidated Statement of Cash Flows

(in millions)	Year ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net income	**$ 5,434**	$ 3,423	$ 4,026
Adjustments to reconcile net income to net cash (used) provided by operating activities:			
Provision for loan losses	**1,733**	1,780	1,329
Depreciation and amortization	**3,495**	2,961	1,790
Net (gains) losses on securities available for sale	**(198)**	726	(1,133)
Net gains on mortgage loan origination/sales activities	**(1,038)**	(705)	(38)
Net (gains) losses on sales of loans	**(19)**	(35)	134
Net losses (gains) on dispositions of premises and equipment	**52**	(21)	(58)
Net gains on dispositions of operations	**(10)**	(122)	(23)
Release of preferred shares to ESOP	**206**	159	128
Net increase in trading assets	**(3,859)**	(1,219)	(1,087)
Net increase (decrease) in deferred income taxes	**305**	(589)	873
Net decrease (increase) in accrued interest receivable	**145**	232	(230)
Net (decrease) increase in accrued interest payable	**(53)**	(269)	290
Originations of mortgages held for sale	**(286,100)**	(179,475)	(62,095)
Proceeds from sales of mortgages held for sale	**265,028**	157,884	62,873
Principal collected on mortgages held for sale	**2,063**	1,731	1,731
Net increase in loans held for sale	**(1,091)**	(206)	(1,498)
Other assets, net	**(2,000)**	(956)	(3,791)
Other accrued expenses and liabilities, net	**1,929**	5,082	4,149
Net cash (used) provided by operating activities	**(13,978)**	(9,619)	7,370
Cash flows from investing activities:			
Securities available for sale:			
Proceeds from sales	**11,863**	19,586	23,624
Proceeds from prepayments and maturities	**9,684**	6,730	6,247
Purchases	**(7,261)**	(29,053)	(19,770)
Net cash (paid for) acquired from acquisitions	**(588)**	(459)	469
Net increase in banking subsidiaries' loans resulting from originations and collections	**(17,745)**	(11,596)	(36,076)
Proceeds from sales (including participations) of banking subsidiaries' loans	**948**	2,305	11,898
Purchases (including participations) of loans by banking subsidiaries	**(2,818)**	(1,104)	(409)
Principal collected on nonbank subsidiaries' loans	**11,396**	9,964	8,305
Nonbank subsidiaries' loans originated	**(14,621)**	(11,651)	(9,300)
Proceeds from dispositions of operations	**94**	1,191	13
Proceeds from sales of foreclosed assets	**473**	279	255
Net (increase) decrease in federal funds sold and securities purchased under resale agreements	**(475)**	(932)	124
Net increase in mortgage servicing rights	**(1,259)**	(3,405)	(1,460)
Other, net	**(2,646)**	(1,095)	(6,489)
Net cash used by investing activities	**(12,955)**	(19,240)	(22,569)
Cash flows from financing activities:			
Net increase in deposits	**25,050**	17,707	20,745
Net (decrease) increase in short-term borrowings	**(5,224)**	8,793	(3,511)
Proceeds from issuance of long-term debt	**21,711**	14,658	15,544
Repayment of long-term debt	**(10,902)**	(10,625)	(9,849)
Proceeds from issuance of guaranteed preferred beneficial interests in Company's subordinated debentures	**450**	1,500	—
Proceeds from issuance of common stock	**578**	484	422
Redemption of preferred stock	**—**	(200)	—
Repurchase of common stock	**(2,033)**	(1,760)	(3,238)
Payment of cash dividends on preferred and common stock	**(1,877)**	(1,724)	(1,586)
Other, net	**32**	16	(468)
Net cash provided by financing activities	**27,785**	28,849	18,059
Net change in cash and due from banks	**852**	(10)	2,860
Cash and due from banks at beginning of year	**16,968**	16,978	14,118
Cash and due from banks at end of year	**$ 17,820**	$ 16,968	$ 16,978
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	**$ 3,924**	$ 6,472	$ 8,150
Income taxes	**$ 2,789**	$ 2,552	$ 817
Noncash investing and financing activities:			
Net transfers between mortgages held for sale and loans	**$ 439**	$ 1,230	$ 129
Net transfers between loans held for sale and loans	**$ 829**	$ —	$ 1,388
Transfers from loans to foreclosed assets	**$ 491**	$ 325	$ 189

The accompanying notes are an integral part of these statements.

Note 1: Summary of Significant Accounting Policies

Wells Fargo & Company and Subsidiaries (consolidated) (the Company) is a diversified financial services company providing banking, insurance, investments, mortgage banking and consumer finance through banking stores, the internet and other distribution channels to consumers, commercial businesses and financial institutions in all 50 states of the U.S. and in other countries. Wells Fargo & Company (the Parent) is a financial holding company and a bank holding company.

The accounting and reporting policies of the Company conform with generally accepted accounting principles (GAAP) and prevailing practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires management to 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. Significant estimates have been made by management in several areas, including the allowance for loan losses (Note 5), the valuation of mortgage servicing rights (Notes 21 and 22) and pension accounting (Note 15). Actual results could differ from those estimates. Certain amounts in the financial statements for prior years have been reclassified to conform with the current financial statement presentation.

The following is a description of the significant accounting policies of the Company.

Consolidation

The consolidated financial statements of the Company include the accounts of the Parent, and its majority-owned subsidiaries, which are consolidated on a line-by-line basis. Significant intercompany accounts and transactions are eliminated in consolidation. Other affiliates in which there is at least 20% ownership are generally accounted for by the equity method; those in which there is less than 20% ownership are generally carried at cost, except for marketable equity securities, which are carried at fair value with changes in fair value included in other comprehensive income. Assets that are accounted for by either the equity or cost method are included in other assets.

Securities

Securities are accounted for according to their purpose and holding period.

SECURITIES AVAILABLE FOR SALE Debt securities that might not be held until maturity and marketable equity securities are classified as securities available for sale and are reported at estimated fair value, with unrealized gains and losses, after applicable taxes, reported as a component of cumulative other comprehensive income. The estimated fair value of a security is determined based on current quotations, where available. Where current quotations are not available, the estimated fair value is determined based primarily on the present value of future cash flows, adjusted for the quality rating of the securities, prepayment assumptions and other factors. The asset value is reduced when declines in the value of debt securities and marketable equity securities are considered other than temporary and the estimated loss is recorded in noninterest income. The initial indicator of impairment for marketable equity securities is a sustained decline in market price below the amount recorded for that investment. The Company considers such factors as the length of time and the extent to which the market value has been less than cost; the financial condition, capital strength, and near-term prospects of the issuer; any recent events specific to that issuer and economic conditions of its industry; and, to a lesser degree, the Company's investment horizon in relationship to an anticipated near-term recovery in the stock price, if any. These investments are managed within capital risk limits approved by management and the Board and monitored by the Corporate Asset/Liability Management Committee. Realized gains and losses on the sale of these securities are recognized in noninterest income using the specific identification method. For certain debt securities (for example, Government National Mortgage Association securities), the Company anticipates prepayments of principal in the calculation of the effective yield used to accrete discounts or amortize premiums to interest income.

TRADING SECURITIES Securities acquired for short-term appreciation or other trading purposes are recorded in a trading portfolio and are carried at fair value, with unrealized gains and losses recorded in noninterest income. Trading securities are included in other assets in the balance sheet.

NONMARKETABLE EQUITY SECURITIES Nonmarketable equity securities include venture capital equity securities that are not publicly-traded and securities acquired for various purposes, such as to meet regulatory requirements (for example, Federal Reserve Bank stock). These assets are reviewed at least quarterly for possible other-than-temporary impairment. Management's review typically includes an analysis of the facts and circumstances of each individual investment, the expectations for that investment's cash flows and capital needs, the viability of its business model and the Company's exit strategy. These securities are generally accounted for at cost and are included in other assets. The asset value is reduced when declines in value are considered to be other than temporary and the estimated loss is recognized as a loss from equity investments and included in noninterest income.

Mortgages Held for Sale

Mortgages held for sale are stated at the lower of aggregate cost or market value. The determination of any write-down to market value includes consideration of all open positions, outstanding commitments from investors and interest rate lock commitment value already recorded.

Loans Held for Sale

Loans held for sale include those student loans that the Company has demonstrated the intent and ability to sell. Such loans are carried at the lower of aggregate cost or market value. Gains and losses on loan sales are recorded in noninterest income, based on the difference between sales proceeds and carrying value.

Loans

Loans are reported at the principal amount outstanding, net of unearned income. Unearned income, which includes deferred fees net of deferred direct incremental loan origination costs, is amortized to interest income generally over the contractual life of the loan using an interest method or the straight-line method if it is not materially different.

NONACCRUAL LOANS Loans are placed on nonaccrual status upon becoming 90 days past due as to interest or principal (unless both well-secured and in the process of collection), when the full timely collection of interest or principal becomes uncertain or when a portion of the principal balance has been charged off. Real estate 1-4 family loans (both first liens and junior liens) are placed on nonaccrual status within 120 days of becoming past due as to interest or principal, regardless of security. Generally, consumer loans not secured by real estate are placed on nonaccrual status only when a portion of the principal has been charged off. Such loans are entirely charged off when deemed uncollectible or when they reach a predetermined number of days past due depending upon loan product, industry practice, country, terms and other factors.

When a loan is placed on nonaccrual status, the accrued and unpaid interest receivable is reversed and the loan is accounted for on the cash or cost recovery method thereafter, until qualifying for return to accrual status. Generally, a loan may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan agreement or when the loan is both well-secured and in the process of collection and collectibility is no longer doubtful.

IMPAIRED LOANS Loans, other than smaller-balance homogeneous loans and wholesale loans with a balance less than $1 million, are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments.

This assessment for impairment occurs when such loans are on nonaccrual. When a loan over $1 million with unique risk characteristics has been identified as being impaired, the amount of impairment will be measured by the Company using discounted cash flows, except when it is determined that the sole (remaining) source of repayment for the loan is the operation or liquidation of the underlying collateral. In such cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows.

If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs and unamortized premium or discount), an impairment is recognized by creating or adjusting an existing allocation of the allowance for loan losses.

ALLOWANCE FOR LOAN LOSSES The allowance for loan losses is a valuation allowance for probable credit losses inherent in the portfolio as of the balance sheet date. The Company's determination of the level of the allowance for loan losses rests upon various judgments and assumptions, including general economic conditions, loan portfolio composition, prior loan loss experience, evaluation of credit risk related to certain individual borrowers and pools of homogenous loans, periodic use of sensitivity analysis and expected loss simulation modeling and the Company's ongoing internal audit and examination processes and those of its regulators.

Transfers and Servicing of Financial Assets

A transfer of financial assets is accounted for as a sale when control is surrendered over the assets transferred. Servicing rights and other retained interests in the assets sold are recorded by allocating the previous recorded investment between the assets sold and the interest retained based on their relative fair values, if practicable to determine, at the date of transfer. Fair values of servicing rights and other retained interests at the date of transfer are determined using present value of estimated future cash flows valuation techniques, incorporating assumptions that market participants would use in their estimates of values.

The Company recognizes as assets the rights to service mortgage loans for others, whether the servicing rights are acquired through purchases or retained upon sales of loan originations. Mortgage servicing rights are amortized over the period of estimated net servicing income. For purposes of evaluating and measuring impairment of mortgage servicing rights, the Company stratifies its portfolio on the basis of certain risk characteristics including loan type and note rate. Based upon current fair values, mortgage servicing rights are assessed quarterly for impairment. Any such indicated provision for impairment is recognized in income, during the period in which it occurs, in a mortgage servicing rights valuation allowance account which is adjusted each subsequent period to reflect any increase or decrease in the indicated impairment. The Company reviews mortgage servicing rights for other-than-temporary impairment each quarter and recognizes a direct write-down when the recoverability of a recorded valuation allowance is determined to be remote. In determining whether other-than-temporary impairment has taken place, the Company considers both historical and projected trends in interest rates and pay off activity and the potential for impairment recovery through interest rate increases. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the mortgage servicing rights, precluding subsequent reversals. The current fair values of mortgage servicing rights and other retained interests are determined using present value of estimated

future cash flows valuation techniques, incorporating assumptions that market participants would use in their estimates of values.

Premises and Equipment

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

Depreciation and amortization are computed primarily using the straight-line method. Estimated useful lives range up to 40 years for buildings, up to 10 years for furniture and equipment, and the shorter of the estimated useful life or lease term for leasehold improvements. Capitalized leased assets are amortized on a straight-line basis over the lives of the respective leases, which generally range from 20 to 35 years.

Goodwill and Identifiable Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations under the purchase method of accounting. On July 1, 2001, the Company adopted Financial Accounting Standards Board Statement No. 142 (FAS 142), *Goodwill and Other Intangible Assets*. FAS 142 eliminates amortization of goodwill associated with business combinations completed after June 30, 2001. During the transition period from July 1, 2001 through December 31, 2001, the Company's goodwill associated with business combinations completed prior to July 1, 2001 continued to be amortized over periods of up to 25 years. Effective January 1, 2002, all goodwill amortization was discontinued.

Effective January 1, 2002, the Company assesses goodwill for impairment annually, and more frequently in the presence of certain circumstances, on a reporting unit level by applying a fair-value-based test using discounted estimated future net cash flows. Impairment exists when the carrying amount of the goodwill exceeds its implied fair value. In the first quarter of 2002, the Company completed its initial goodwill impairment assessment and recorded a transitional impairment charge as a cumulative effect of a change in accounting principle in the Consolidated Statement of Income. Impairment losses are recognized in accordance with FAS 142 as a charge to noninterest expense (unless related to discontinued operations) and an adjustment to the carrying value of the goodwill asset. Subsequent reversals of goodwill impairment are prohibited.

Core deposit intangibles are amortized on an accelerated basis based on useful lives of up to 15 years. Other identifiable intangible assets that are included in other assets are generally amortized using an accelerated method over useful lives of up to 15 years.

The Company reviews core deposit intangibles and other identifiable intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable (except mortgage servicing rights, which are reviewed quarterly). For these intangible assets impairment is indicated if the sum of undiscounted estimated future net cash flows is less than the carrying value of the asset. Impairment is recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value. Subsequent reversals of intangible assets impairment losses are prohibited.

Pension Accounting

The Company accounts for its defined benefit pension plans using an actuarial model required by FASB Statement No. 87, *Employers' Accounting for Pensions*. This model uses an approach that allocates pension costs over the service period of employees in the plan. The principle underlying this accounting is that employees render service ratably over this period and, therefore, the income statement effects of pensions should follow the same pattern.

One of the principal components of the net periodic pension calculation is the expected long-term rate of return on plan assets. The required use of an expected long-term rate of return on plan assets may result in recognized pension income returns that are greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns and therefore result in a pattern of income and expense recognition that more closely matches the service period related to employees in the plan. Any difference between actual and expected return in excess of a 5% corridor is recognized in the net periodic pension calculation over five subsequent years.

The Company uses long-term historical actual return information, the mix of investments that comprise plan assets, and future estimates of long-term investment returns to develop its expected return on plan assets.

The discount rate assumptions used for pension accounting reflect the rates available at the measurement date on high-quality fixed-income debt instruments.

Income Taxes

The Company files a consolidated federal income tax return. Combined state tax returns are filed in certain states.

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Foreign taxes paid are applied as credits to reduce federal income taxes payable.

Stock-Based Compensation

The Company has several stock-based employee compensation plans, which are described more fully in Note 14. As permitted by FASB Statement No. 123 (FAS 123), *Accounting for Stock-Based Compensation*, the Company has elected to continue applying the intrinsic value method of Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees*, in accounting for its stock plans. As required by FASB Statement No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure, an amendment to FASB Statement 123*, pro forma net income and earnings per common share information is provided below, as if the Company accounted for its employee stock option plans under the fair value method of FAS 123. The fair value of options was estimated at the grant date using a Black-Scholes option pricing model, which was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because the Company's stock options have characteristics significantly more restrictive than those of traded or transferable options, in management's opinion, the existing valuation models do not necessarily provide a reliable single measure of the fair value of stock options.

(in millions, except per share amounts)	Year ended December 31,		
	2002	2001	2000
Net income, as reported	**$5,434**	$3,423	$4,026
Add: Stock-based employee compensation expense included in reported net income, net of tax	**3**	4	4
Less: Total stock-based employee compensation expense under the fair value method for all awards, net of tax	**(190)**	(150)	(116)
Net income, pro forma	**$5,247**	$3,277	$3,914
Earnings per common share			
As reported	**$ 3.19**	$ 1.99	$ 2.36
Pro forma	**3.08**	1.91	2.29
Diluted earnings per common share			
As reported	**$ 3.16**	$ 1.97	$ 2.33
Pro forma	**3.05**	1.89	2.27

Earnings Per Common Share

Earnings per common share are presented under two formats: earnings per common share and diluted earnings per common share. Earnings per common share are computed by dividing net income (after deducting dividends on preferred stock) by the average number of common shares outstanding during the year. Diluted earnings per common share are computed by dividing net income (after deducting dividends on preferred stock) by the average number of common shares outstanding during the year, plus the impact of common stock equivalents (i.e., stock options, restricted share rights and convertible subordinated debentures) that are dilutive.

Derivative Instruments and Hedging Activities

On January 1, 2001, the Company adopted FASB Statement No. 133 (FAS 133), *Accounting for Derivative Instruments and Hedging Activities*, and FASB Statement No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities – an amendment of FASB Statement No. 133*. All derivative instruments are recognized on the balance sheet at fair value. On the date the Company enters into a derivative contract, the Company designates the derivative instrument as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge) or (3) held for trading, customer accommodation or not qualifying for hedge accounting ("free-standing derivative instruments"). For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability or of an unrecognized firm commitment attributable to the hedged risk are recorded in current period net income in the same financial statement category as the hedged item. For a cash flow hedge, changes in the fair value of the derivative instrument to the extent that it is effective are recorded in other comprehensive income within stockholders' equity and subsequently reclassified to net income in the same period(s) that the hedged transaction impacts net income in the same financial statement category as the hedged item. For free-standing derivative instruments, changes in the fair values are reported in current period noninterest income.

The Company formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific forecasted transactions. The Company also formally assesses, both at the inception of the hedge and on an ongoing basis, whether the derivative instruments used are highly effective in offsetting changes in fair values or cash flows of hedged items. If it is determined that the derivative instrument is not highly effective as a hedge, hedge accounting is discontinued.

The Company discontinues hedge accounting prospectively when (1) it determines that a derivative instrument is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item; (2) a derivative instrument expires or is sold, terminated, or exercised; (3) a derivative instrument is dedesignated as a hedge instrument, because it is unlikely that a forecasted transaction will occur; or (4) management determines that designation of a derivative instrument as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that a derivative instrument no longer qualifies as an effective fair value hedge, the derivative instrument will continue to be carried on the balance sheet at its fair value with changes in fair value included in earnings, and

the previously hedged asset or liability will no longer be adjusted for changes in fair value. Previous adjustments to the hedged item will be accounted for in the same manner as other components of the carrying amount of the asset or liability. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative instrument will continue to be carried on the balance sheet at its fair value with changes in fair value included in earnings, and gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. When hedge accounting is discontinued because the hedging instrument is sold, terminated, or dedesignated the amount reported in other comprehensive income to the date of sale, termination, or dedesignation will continue to be reported in other comprehensive income until the forecasted transaction impacts earnings. In all other situations in which hedge accounting is discontinued, the derivative instrument will be carried at its fair value on the balance sheet, with changes in its fair value recognized in current period earnings.

The Company occasionally purchases or originates financial instruments that contain an embedded derivative instrument. At inception of the financial instrument, the Company assesses whether the economic characteristics of the embedded derivative instrument are clearly and closely related to the economic characteristics of the financial instrument (host contract), whether the financial instrument that embodies both the embedded derivative instrument and the host contract is currently measured at fair value with changes in fair value reported in earnings, and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. If the embedded derivative instrument is determined not to be clearly and closely related to the host contract, is not currently measured at fair value with changes in fair value reported in earnings, and the embedded derivative instrument would qualify as a derivative instrument, the embedded derivative instrument is separated from the host contract and carried at fair value with changes recorded in current period earnings. As permitted by the FASB, the Company has elected not to apply FAS 133 to embedded derivative instruments that existed on January 1, 2001 and were issued or acquired before January 1, 1999 and not substantially modified thereafter.

Prior to the adoption of FAS 133, the Company primarily used interest rate derivative contracts to hedge mismatches in the rate maturity of loans and their funding sources and the price risk of interest-rate sensitive assets. Interest rate derivative contracts were accounted for by the deferral or accrual method if designated as hedges and expected to be effective in reducing risk. The resulting gains or losses were deferred and recognized in income along with effects of related hedged asset or liability. If the hedge was no longer deemed to be effective, hedge accounting was discontinued; previously unrecognized hedge results and the net settlement upon close-out were deferred and amortized over the life of the hedged asset or liability. If the hedged asset or liability settled before maturity of the interest rate derivative contract and the derivative contract was closed out or settled, the net settlement amount was accounted for as part of the gains and losses on the hedged item. The Company also entered into various derivative contracts to provide derivative products as customer accommodations. Derivative contracts used for this purpose were marked to market and recorded as a component of noninterest income.

Note 2: Business Combinations

The Company regularly explores opportunities to acquire financial institutions and related financial services businesses. Generally, management of the Company does not make a public announcement about an acquisition opportunity until a definitive agreement has been signed.

Excluding the Company's merger with First Security Corporation, the table below includes transactions completed in the years ended December 31, 2002, 2001 and 2000:

(in millions)	Date	Assets
2002		
Risk Management Services, Inc., Morristown, Tennessee	January 1	$ 2
Alcalay, Cohen, Inc. d/b/a General Insurance Consultants, Tarzana, California	February 1	6
Texas Financial Bancorporation, Inc., Minneapolis, Minnesota	February 1	2,957
Five affiliated banks and related entities of Marquette Bancshares, Inc. located in Minnesota, Wisconsin, Illinois, Iowa and South Dakota	February 1	3,086
SIFE, Walnut Creek, California	February 22	25
Rediscount business of Washington Mutual Bank, FA, Philadelphia, Pennsylvania	March 28	281
Tejas Bancshares, Inc., Amarillo, Texas	April 26	374
FAS Holdings, Inc., San Diego, California	July 22	48
Nelson Capital Management, Inc., Palo Alto, California	October 1	13
Daniel T. Nowels, Inc., Colorado Springs, Colorado	November 1	—
		$ 6,792
2001		
Conseco Finance Vendor Services Corporation, Paramus, New Jersey	January 31	$ 860
Buffalo Insurance Agency Group, Inc., Buffalo, Minnesota	March 1	1
SCI Financial Group, Inc., Cedar Rapids, Iowa	March 29	21
Midland Trust Company, National Association, Midland, Texas	April 7	10
ACO Brokerage Holdings Corporation (Acordia Group of Insurance Agencies), Chicago, Illinois	May 1	866
H.D. Vest, Inc., Irving, Texas	July 2	182
CarFinance America, Inc., Memphis, Tennessee	July 25	6
H & R Phillips, Inc., New York, New York	December 6	4
		$ 1,950
2000		
First Place Financial Corporation, Farmington, New Mexico	January 18	$ 733
North County Bancorp, Escondido, California	January 27	413
Prime Bancshares, Inc., Houston, Texas	January 28	1,366
Ragen MacKenzie Group Incorporated, Seattle, Washington	March 16	901
Napa National Bancorp, Napa, California	March 17	188
Servus Financial Corporation, Herndon, Virginia	March 17	168
Michigan Financial Corporation, Marquette, Michigan	March 30	975
Bryan, Pendleton, Swats & McAllister, LLC, Nashville, Tennessee	March 31	12
Black & Company, Inc., Portland, Oregon	May 1	4
1st Choice Financial Corp., Greeley, Colorado	June 13	483
First Commerce Bancshares, Inc., Lincoln, Nebraska	June 16	2,868
National Bancorp of Alaska, Inc., Anchorage, Alaska	July 14	3,518
Charter Financial, Inc., New York, New York	September 1	532
Buffalo National Bancshares, Inc., Buffalo, Minnesota	September 28	123
Brenton Banks, Inc., Des Moines, Iowa	December 1	2,191
Paragon Capital, LLC, Needham, Massachusetts	December 15	13
Flagship Credit Corporation, Philadelphia, Pennsylvania	December 21	841
		$ 15,329

At December 31, 2002, the Company had three pending business combinations with total assets of approximately $700 million, and anticipates that the transactions will be completed during the first quarter of 2003.

In connection with certain brokerage, asset management and insurance agency acquisitions made by the Company, the terms of the acquisition agreement provide for deferred payments or additional consideration based on certain performance targets. At December 31, 2002, the amount of contingent consideration expected to be paid was not material to the Company's financial statements.

Merger Involving the Company and First Security Corporation

On October 25, 2000 the merger involving the Company and First Security Corporation was completed as a pooling-of-interests. Under the terms of the merger agreement, stockholders of First Security received .355 shares of common stock of the Company for each share of common stock owned. As a condition to the merger, the Company was required by regulatory agencies to divest 39 stores in Idaho, New Mexico, Nevada and Utah having aggregate deposits of approximately $1.5 billion. These sales were completed in the first quarter of 2001 and the Company realized a net gain of $96 million, which included a $54 million reduction of goodwill.

Note 3: Cash, Loan and Dividend Restrictions

Federal Reserve Board (FRB) regulations require reserve balances on deposits to be maintained with the Federal Reserve Banks by each of the banking subsidiaries. The average required reserve balance was $1.8 billion and $2.1 billion in 2002 and 2001, respectively.

Federal law places restrictions on the amount and the terms of both credit and non-credit transactions between a bank and its nonbank affiliates. These transactions between a bank and its nonbank affiliates are limited. They may not exceed 10% of the bank's capital and surplus (which for this purpose represents Tier 1 and Tier 2 capital, as calculated under the risk-based capital guidelines, plus the balance of the allowance for loan losses excluded from Tier 2 capital) with any single nonbank affiliate and 20% of the bank's capital and surplus with all its nonbank affiliates. Transactions that are extensions of credit may require collateral to be held to provide added security to the bank. (For further discussion of risk-based capital, see Note 25).

The payment of dividends by subsidiary banks is subject to various federal and state regulatory limitations. Dividends payable by a national bank without the express approval of the Office of the Comptroller of the Currency (OCC) are limited to that bank's retained net profits for the preceding two calendar years plus retained net profits up to the date of any dividend declaration in the current calendar year. Retained net profits are defined by the OCC as net income less dividends declared during the period as determined based on regulatory accounting principles. The Company also has state-chartered subsidiary banks that are subject to state regulations that limit dividends. Under those provisions, the Company's national and state-chartered subsidiary banks could have declared dividends of $1,617 million and $1,026 million in 2002 and 2001, respectively, without obtaining prior regulatory approval. In addition, the Company's nonbank subsidiaries could have declared dividends of $1,252 million and $1,292 million at December 31, 2002 and 2001, respectively.

Note 4: Securities Available for Sale

The following table provides the cost and fair value for the major components of securities available for sale carried at fair value. There were no securities classified as held to maturity at the end of 2002 or 2001.

(in millions)	2002				December 31, 2001			
	Cost	**Estimated unrealized gross gains**	**Estimated unrealized gross losses**	**Estimated fair value**	Cost	Estimated unrealized gross gains	Estimated unrealized gross losses	Estimated fair value
Securities of U.S. Treasury and federal agencies	**$ 1,315**	**$ 66**	**$ —**	**$ 1,381**	$ 1,983	$ 66	$ (2)	$ 2,047
Securities of U.S. states and political subdivisions	**2,232**	**155**	**(5)**	**2,382**	2,146	90	(13)	2,223
Mortgage-backed securities:								
Federal agencies	**17,766**	**1,325**	**(1)**	**19,090**	29,280	449	(8)	29,721
Private collateralized mortgage obligations [1]	**1,775**	**108**	**(3)**	**1,880**	2,628	49	(19)	2,658
Total mortgage-backed securities	**19,541**	**1,433**	**(4)**	**20,970**	31,908	498	(27)	32,379
Other	**2,608**	**125**	**(75)**	**2,658**	2,625	86	(43)	2,668
Total debt securities	**25,696**	**1,779**	**(84)**	**27,391**	38,662	740	(85)	39,317
Marketable equity securities	**598**	**72**	**(114)**	**556**	815	264	(88)	991
Total [2]	**$26,294**	**$1,851**	**$(198)**	**$27,947**	$39,477	$1,004	$(173)	$40,308

(1) Substantially all private collateralized mortgage obligations are AAA-rated bonds collateralized by 1-4 family residential first mortgages.
(2) At December 31, 2002, the Company held no securities of any single issuer (excluding the U.S. Treasury and federal agencies) with a book value that exceeded 10% of stockholders' equity.

Securities pledged where the secured party has the right to sell or repledge totaled $3.6 billion at December 31, 2002 and $7.6 billion at December 31, 2001. Securities pledged where the secured party does not have the right to sell or repledge totaled $17.9 billion at December 31, 2002 and $15.7 billion at December 31, 2001 and are primarily pledged to secure trust and public deposits and for other purposes as required or permitted by law. The Company has accepted collateral in the form of securities that it has the right to sell or repledge of $3.1 billion at December 31, 2002 and $2.7 billion at December 31, 2001, of which $1.7 billion and $1.4 billion had been sold or repledged at December 31, 2002 and 2001, respectively.

Securities available for sale decreased from $40.3 billion at December 31, 2001 to $27.9 billion at December 31, 2002. The decrease was predominantly due to a decrease in federal agency securities from the sale of certain longer-maturity mortgage-backed securities subject to prepayment risk and prepayments of mortgage-backed securities held.

The table to the right provides the components of the realized net gains (losses) on the sales of securities from the securities available for sale portfolio, including those related to mortgage banking and marketable equity securities.

The decrease in realized gross losses between December 31, 2002 and December 31, 2001 was due to a $1.18 billion other-than-temporary impairment the Company recognized in the second quarter of 2001.

(in millions)	Year ended December 31,		
	2002	2001	2000
Realized gross gains	**$ 617**	$ 789	$ 2,353
Realized gross losses [1]	**(419)**	(1,515)	(1,220)
Realized net gains (losses)	**$ 198**	$ (726)	$ 1,133

(1) Includes other-than-temporary impairment of $180 million, $1,198 million and $100 million for 2002, 2001 and 2000, respectively.

The table on the next page provides the remaining contractual principal maturities and yields (taxable-equivalent basis) of debt securities available for sale. The remaining contractual principal maturities for mortgage-backed securities were allocated assuming no prepayments. Remaining maturities will differ from contractual maturities because mortgage debt issuers may have the right to prepay obligations prior to contractual maturity.

(in millions)	December 31, 2002									
	Total amount	Weighted-average yield	Remaining contractual principal maturity							
			Within one year		After one year through five years		After five years through ten years		After ten years	
			Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities of U.S. Treasury and federal agencies	$ 1,381	5.20%	$ 490	4.93%	$ 833	5.34%	$ 56	5.36%	$ 2	7.40%
Securities of U.S. states and political subdivisions	2,382	8.53	127	8.63	550	8.22	296	7.60	1,409	8.83
Mortgage-backed securities:										
Federal agencies	19,090	7.72	8	6.63	137	7.15	220	6.99	18,725	7.73
Private collateralized mortgage obligations	1,880	7.35	929	6.96	17	6.97	16	4.75	918	7.81
Total mortgage-backed securities	20,970	7.69	937	6.96	154	7.13	236	6.84	19,643	7.73
Other	2,658	7.76	43	6.16	642	6.09	330	7.26	1,643	8.55
ESTIMATED FAIR VALUE OF DEBT SECURITIES (1)	$27,391	7.64%	$1,597	6.45%	$2,179	6.41%	$918	7.15%	$22,697	7.86%
TOTAL COST OF DEBT SECURITIES	$25,696		$1,503		$2,058		$898		$21,237	

(1) The weighted-average yield is computed using the amortized cost of debt securities available for sale.

Note 5: Loans and Allowance for Loan Losses

A summary of the major categories of loans outstanding and related unfunded commitments is shown in the table below. Unfunded commitments are defined as all legally binding agreements to extend credit, net of all funds lent, and all standby and commercial letters of credit issued under the terms of those commitments. At December 31, 2002 and 2001, the commercial loan category did not have a concentration in any industry that exceeded 10% of total loans.

At December 31, 2002 and 2001, neither the real estate 1-4 family first nor junior lien mortgage categories had a concentration in any state that exceeded 10% of total loans, except for the 1-4 family first mortgage category in California, which represents 11% of total loans. At December 31, 2002 and 2001, the other revolving credit and monthly payment category did not have any concentration in any product type that exceeded 10% of total loans.

(in millions)	December 31,			
	2002		2001	
	Outstanding	**Commitments to extend credit**	Outstanding	Commitments to extend credit
Commercial	**$ 47,292**	**$ 47,700**	$ 47,547	$ 52,682
Real estate 1-4 family first mortgage	**36,339**	**3,658**	25,588	2,147(2)
Other real estate mortgage	**25,312**	**2,111**	24,808	2,081
Real estate construction	**7,804**	**3,581**	7,806	4,237
Consumer:				
Real estate 1-4 family junior lien mortgage	**35,927**	**23,098**	25,530	14,038
Credit card	**7,455**	**21,380**	6,700	16,817
Other revolving credit and monthly payment	**26,353**	**11,451**	23,502	9,104
Total consumer	**69,735**	**55,929**	55,732	39,959
Lease financing	**8,241**	**—**	9,420	—
Foreign	**1,911**	**175**	1,598	214
Total loans (1)	**$196,634**	**$113,154**	$172,499	$ 101,320

(1) Outstanding loan balances at December 31, 2002 and 2001 are net of unearned income, including net deferred loan fees, of $4,276 million and $4,143 million, respectively.
(2) Revised to include certain interest rate loan commitments.

In the course of evaluating the credit risk presented by a customer and the pricing that will adequately compensate the Company for assuming that risk, management may require a certain amount of collateral support. The type of collateral held varies, but may include accounts receivable, inventory, land, buildings, equipment, income-producing commercial properties and residential real estate. The Company has the same collateral requirements for loans whether they are funded immediately or on a delayed basis (commitment).

A commitment to extend credit is a legally binding agreement to lend funds to a customer usually at a stated interest rate and for a specified purpose. Such commitments have fixed expiration dates and generally require a fee. The extension of a commitment gives rise to credit risk. The actual liquidity requirements or credit risk that the Company will experience will be lower than the contractual amount of commitments to extend credit shown in the table on the previous page because a significant portion of those commitments are expected to expire without being drawn upon. Certain commitments are subject to loan agreements containing covenants regarding the financial performance of the customer that must be met before the Company is required to fund the commitment. The Company uses the same credit policies in making commitments to extend credit as it does in making loans.

In addition, the Company manages the potential credit risk in commitments to extend credit by limiting the total amount of arrangements, both by individual customer and in the aggregate; by monitoring the size and maturity structure of these portfolios; and by applying the same credit standards maintained for all of its related credit activities. The credit risk associated with these commitments is considered in management's determination of the allowance for loan losses.

Standby letters of credit totaled $6.3 billion and $5.5 billion at December 31, 2002 and 2001, respectively. Standby letters of credit are issued on behalf of customers in connection with contracts between the customers and third parties. Under standby letters of credit, the Company assures that the third parties will receive specified funds if customers fail to meet their contractual obligations. The liquidity risk to the Company arises from its obligation to make payment in the event of a customer's contractual default. The credit risk involved in issuing standby letters of credit and the Company's management of that credit risk is considered in management's determination of the allowance for loan losses. Standby letters of credit are reported net of participations sold to other institutions of $1,129 million and $736 million at December 31, 2002 and 2001, respectively. Deferred fees associated with these standby letters of credit were immaterial to the Company's financial statements.

Included in standby letters of credit are those that back financial instruments (financial guarantees). The Company had issued or purchased participations in financial guarantees of approximately $3.0 billion and $1.6 billion at December 31, 2002 and 2001, respectively. The Company also had commitments for commercial and similar letters of credit of $719 million and $577 million at December 31, 2002 and 2001, respectively. Substantially all fees received from the issuance of financial guarantees are deferred and amortized on a straight-line basis over the term of the guarantee.

The Company has entered into various contingent performance guarantee arrangements with terms ranging from 1 to 30 years. These guarantees have arisen through certain risk participation agreements, lending arrangements, or sales of loans. The impact of these guarantees at December 31, 2002 was not material to the Company's financial statements.

The Company has an established process to determine the adequacy of the allowance for loan losses which assesses the risk and losses inherent in its portfolio. This process provides an allowance consisting of two components, allocated and unallocated. To arrive at the allocated component of the allowance, the Company combines estimates of the allowances needed for loans analyzed individually (including impaired loans subject to FASB Statement No. 114 (FAS 114), *Accounting by Creditors for Impairment of a Loan*) and loans analyzed on a pooled basis.

The determination of the allocated allowance for portfolios of larger commercial and commercial real estate loans involves the use of a continuous and standardized loan grading process in combination with a review of individual higher-risk transactions. The Company grades loans and assigns a loss factor to each pool of loans based on the grades. The loss factors used for this analysis are derived in two ways. First, migration models are used to determine loss factors by tracking actual portfolio movements between loan grades over the loss emergence period of these portfolios. Second, in the case of graded loans without identified credit weakness, the loss factors are estimated using a combination of long-term average loss experience of the Company's graded portfolios and external industry data. In addition, the Company analyzes larger non-performing loans individually for impairment using a cash flow or collateral based methodology. Calculated impairment is included in the allowance unless impairment is recognized through a charge-off.

In the case of more homogeneous portfolios, such as consumer loans and leases, residential mortgage loans, and some segments of small business loans, the determination of the allocated allowance is conducted at an aggregate, or pooled, level. For such portfolios, the risk assessment process includes the use of forecasting models, which focus on recent delinquency and loss trends in different portfolio segments to measure inherent loss in these portfolios. Such analyses are updated frequently to capture recent behavioral characteristics of the subject portfolios, as well as any changes in management's loss mitigation or customer solicitation strategies, in order to reduce the differences between estimated and observed losses.

The risk associated with unfunded commitments and letters of credit are a consideration in the loss factor analysis associated with loans outstanding. This risk assessment is converted to a loan equivalent factor and has historically been a minor component of the allocated allowance. At December 31, 2002, 5.7% of allocated reserves and 3.8% of the total allowance is related to this potential risk. Any provision necessary to cover this exposure has been included as a component of the Company's provision for loan losses.

While coverage of one year's losses is often adequate (particularly for homogeneous pools of loans and leases), the time period covered by the allowance may vary by portfolio, based on the Company's best estimate of the inherent losses in the entire portfolio as of the evaluation date.

To mitigate imprecision and incorporate the range of probable outcomes inherent in estimates of expected credit losses, the allocated component of the allowance is supplemented by an unallocated component. The unallocated component also incorporates the Company's judgmental determination of risks inherent in portfolio composition or economic uncertainties and other subjective factors, including industry trends impacting specific portfolio segments that have not yet resulted in changes to individual loan grades. Therefore the ratio of the allocated to the unallocated components within the total allowance for loan losses may fluctuate from period to period. The allocated and unallocated components represent the total allowance for loan losses that would adequately cover losses inherent in the loan portfolio. Although management has allocated a portion of the allowance to specific loan categories, the adequacy of the allowance must be considered in its entirety.

The Company's determination of the level of the allowance and, correspondingly, the provision for loan losses rests upon various judgments and assumptions, including (1) general economic conditions, (2) loan portfolio composition, (3) prior loan loss experience, (4) the evaluation of credit risk related to both individual borrowers and pools of homogenous loans, (5) periodic use of sensitivity analysis and expected loss simulation modeling and (6) the Company's ongoing examination processes and that of its regulators. The Company has an internal risk analysis and review staff that continuously reviews loan quality and reports the results of its examinations to executive management and the Board of Directors. Such reviews also assist management in establishing the level of the allowance. In addition, the Company periodically evaluates the adequacy of its allowance for loan losses using a statistical loss model.

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

The Company considers the allowance for loan losses of $3.86 billion adequate to cover losses inherent in loans, loan commitments and standby and other letters of credit at December 31, 2002.

Changes in the allowance for loan losses were as follows:

(in millions)	Year ended December 31,				
	2002	2001	2000	1999	1998
Balance, beginning of year	**$ 3,761**	$ 3,719	$ 3,344	$ 3,307	$ 3,220
Allowances related to business combinations/other	**93**	41	265	48	148
Provision for loan losses	**1,733**	1,780	1,329	1,104	1,617
Loan charge-offs:					
Commercial	**(716)**	(692)	(429)	(395)	(271)
Real estate 1-4 family first mortgage	**(27)**	(29)	(16)	(14)	(29)
Other real estate mortgage	**(24)**	(32)	(32)	(28)	(54)
Real estate construction	**(40)**	(37)	(8)	(2)	(3)
Consumer:					
Real estate 1-4 family junior lien mortgage	**(67)**	(47)	(34)	(33)	(31)
Credit card	**(407)**	(421)	(367)	(403)	(549)
Other revolving credit and monthly payment	**(770)**	(770)	(623)	(585)	(1,069)
Total consumer	**(1,244)**	(1,238)	(1,024)	(1,021)	(1,649)
Lease financing	**(93)**	(94)	(52)	(38)	(49)
Foreign	**(84)**	(78)	(86)	(90)	(84)
Total loan charge-offs	**(2,228)**	(2,200)	(1,647)	(1,588)	(2,139)
Loan recoveries:					
Commercial	**162**	96	98	90	87
Real estate 1-4 family first mortgage	**4**	3	4	6	12
Other real estate mortgage	**16**	22	13	38	79
Real estate construction	**19**	3	4	5	4
Consumer:					
Real estate 1-4 family junior lien mortgage	**14**	11	14	15	7
Credit card	**47**	40	39	49	59
Other revolving credit and monthly payment	**205**	203	213	243	187
Total consumer	**266**	254	266	307	253
Lease financing	**22**	25	13	12	12
Foreign	**14**	18	30	15	14
Total loan recoveries	**503**	421	428	473	461
Net loan charge-offs	**(1,725)**	(1,779)	(1,219)	(1,115)	(1,678)
Balance, end of year	**$ 3,862**	$ 3,761	$ 3,719	$ 3,344	$ 3,307
Net loan charge-offs as a percentage of average total loans	**.96%**	1.09%	.84%	.90%	1.44%
Allowance as a percentage of total loans	**1.96%**	2.18%	2.31%	2.51%	2.76%

Nonaccrual loans were $1.5 billion and $1.6 billion at December 31, 2002 and 2001, respectively. Loans past due 90 days or more as to interest or principal and still accruing interest were $672 million and $698 million at December 31, 2002 and 2001, respectively.

In accordance with FAS 114, the following table shows the recorded investment in impaired loans and the methodology used to measure impairment at December 31, 2002 and 2001:

(in millions)	December 31,	
	2002	2001
Impairment measurement based on:		
Collateral value method	**$ 309**	$485
Discounted cash flow method	**303**	338
Total [1]	**$ 612**	$823

(1) Includes $201 million and $482 million of impaired loans with a related FAS 114 allowance of $52 million and $86 million at December 31, 2002 and 2001, respectively.

The average recorded investment in impaired loans during 2002, 2001 and 2000 was $705 million, $707 million and $313 million, respectively. Total interest income recognized on impaired loans during 2002, 2001 and 2000 was $17 million, $13 million and $3 million, respectively, which was predominantly recorded using the cost recovery method. Under the cost recovery method, all payments received are applied to principal. This method is used when the ultimate collectibility of the total principal is in doubt.

Note 6: Premises, Equipment, Lease Commitments and Other Assets

The following table presents comparative data for premises and equipment:

(in millions)	December 31, 2002	2001
Land	**$ 486**	$ 463
Buildings	**2,758**	2,593
Furniture and equipment	**2,991**	3,012
Leasehold improvements	**911**	874
Premises leased under capital leases	**45**	54
Total	**7,191**	6,996
Less accumulated depreciation and amortization	**3,503**	3,447
Net book value	**$3,688**	$3,549

Depreciation and amortization expense was $599 million, $561 million and $560 million in 2002, 2001 and 2000, respectively.

The Company is obligated under a number of noncancelable operating leases for premises (including vacant premises) and equipment with terms, including renewal options, up to 100 years, many of which provide for periodic adjustment of rentals based on changes in various economic indicators. The following table shows future minimum payments under noncancelable operating leases and capital leases, net of sublease rentals, with terms in excess of one year as of December 31, 2002:

(in millions)	Operating leases	Capital leases
Year ended December 31,		
2003	$ 459	$ 6
2004	388	4
2005	310	4
2006	248	3
2007	203	2
Thereafter	769	18
Total minimum lease payments	$2,377	37
Executory costs		(1)
Amounts representing interest		(15)
Present value of net minimum lease payments		$21

Rental expense, net of rental income, for all operating leases was $535 million, $473 million and $499 million in 2002, 2001 and 2000, respectively.

The components of other assets at December 31, 2002 and 2001 were as follows:

(in millions)	December 31, 2002	2001
Trading assets	**$10,167**	$ 4,996
Accounts receivable	**5,206**	4,370
Nonmarketable equity investments:		
Private equity investments	**1,657**	1,696
Federal bank stock	**1,591**	1,295
All other	**1,473**	1,071
Total nonmarketable equity investments	**4,721**	4,062
Government National Mortgage Association (GNMA) pool buy-outs	**2,336**	2,815
Interest receivable	**1,139**	1,284
Interest-earning deposits	**352**	206
Foreclosed assets	**201**	171
Certain identifiable intangible assets	**116**	119
Due from customers on acceptances	**110**	104
Other	**6,581**	5,418
Total and other assets	**$30,929**	$23,545

Trading assets consist predominantly of securities, including corporate debt, U.S. government agency obligations and the fair value of derivative instruments held for customer accommodation purposes. Interest income from trading assets was $169 million, $114 million and $98 million in 2002, 2001 and 2000, respectively. Noninterest income from trading assets, included in the "other" category, was $321 million, $400 million and $238 million in 2002, 2001 and 2000, respectively.

Net (losses) gains from nonmarketable equity investments were $(202) million, $(566) million and $353 million for 2002, 2001 and 2000, respectively, and included other-than-temporary impairment of $318 million, $744 million and $63 million for the same periods, respectively.

GNMA pool buy-outs are advances made to GNMA mortgage pools that are guaranteed by the Federal Housing Administration or by the Department of Veterans Affairs (collectively, "the guarantors"). These advances are made to buy out government agency-guaranteed delinquent loans, pursuant to the Company's servicing agreements. The Company undertakes the collection and foreclosure process on behalf of the guarantors. After the foreclosure process is complete, the Company is reimbursed for substantially all costs incurred, including the advances.

Note 7: Intangible Assets

The gross carrying amount of intangible assets and the associated accumulated amortization at December 31, 2002 and 2001 is presented in the following table.

(in millions)	December 31, 2002 Gross carrying amount	December 31, 2002 Accumulated amortization	December 31, 2001 Gross carrying amount	December 31, 2001 Accumulated amortization
Amortized intangible assets:				
Mortgage servicing rights, before valuation allowance [1]	$11,528	$4,851	$10,194	$2,829
Core deposit intangibles	2,415	1,547	2,406	1,393
Other	374	254	352	228
Total	$14,317	$6,652	$12,952	$4,450
Unamortized intangible asset (trademark)	$ 14		$ 14	

(1) The valuation allowance was $2,188 million at December 31, 2002 and $1,124 million at December 31, 2001. The carrying value of mortgage servicing rights was $4,489 million at December 31, 2002 and $6,241 million at December 31, 2001.

The projections of amortization expense shown below for mortgage servicing rights are based on asset balances and the interest rate environment as of December 31, 2002. Future amortization expense may be significantly different depending upon changes in the mortgage servicing portfolio, mortgage interest rates and market conditions.

The following table shows the current year and estimated future amortization expense for amortized intangible assets:

(in millions)	Mortgage servicing rights	Core deposit intangibles	Other	Total
Year ended December 31, 2002	$1,942	$155	$29	$2,126
Estimate for year ended December 31,				
2003	2,625	142	22	2,789
2004	1,659	131	20	1,810
2005	972	120	15	1,107
2006	569	108	13	690
2007	341	99	11	451

Note 8: Goodwill

The following table summarizes the changes in 2002 in the carrying amount of goodwill as allocated to the Company's operating segments for the purpose of goodwill impairment analysis.

(in millions)	Community Banking	Wholesale Banking	Wells Fargo Financial	Consolidated Company
Balance December 31, 2001	$6,265	$2,655	$607	$9,527
Goodwill from business combinations	637	19	7	663
Transitional goodwill impairment charge	—	(133)	(271)	(404)
Goodwill written off related to divested businesses	(33)	—	—	(33)
Balance December 31, 2002	$6,869	$2,541	$343	$9,753

During the first quarter of 2002, the Company completed its initial goodwill impairment testing under FAS 142, *Goodwill and Other Intangible Assets*. For goodwill impairment testing, enterprise-level goodwill acquired in business combinations is allocated to reporting units based on the relative fair value of assets acquired and recorded in the Company's respective reporting units. Through this allocation, the Company assigned enterprise-level goodwill to the reporting units that are expected to benefit from the synergies of the combination. All reporting units were evaluated using discounted estimated future net cash flows. The process resulted in a $276 million (after tax), $404 million (before tax), transitional impairment charge reported as a cumulative effect of a change in accounting principle. The transitional impairment resulted from a change in the method of testing for goodwill impairment under FAS 142, as well as a change in business strategies, reflecting the economic outlook, for certain reporting units in Wholesale Banking and Wells Fargo Financial, primarily Island Finance, a Puerto Rico-based consumer finance company acquired in 1995.

In 2002, the Company completed its annual goodwill impairment assessment and determined that no additional impairment was required.

Goodwill amounts allocated to the operating segments for goodwill impairment analysis differ from amounts allocated to the Company's operating segments for management reporting discussed in Note 20. At December 31, 2002, for management reporting, the balance of goodwill for Community Banking, Wholesale Banking and Wells Fargo Financial was $2.89 billion, $591 million and $343 million, respectively, with $5.93 billion recorded at the enterprise level.

Note 9: Deposits

The total of time certificates of deposit and other time deposits issued by domestic offices was $31,637 million and $26,454 million at December 31, 2002 and 2001, respectively. Substantially all of those deposits were interest bearing. The contractual maturities of those deposits are shown in the following table.

(in millions)	December 31, 2002
2003	$23,786
2004	4,029
2005	1,660
2006	896
2007	731
Thereafter	535
Total	$31,637

Of the total above, the amount of time deposits with a denomination of $100,000 or more was $15,403 million and $6,427 million at December 31, 2002 and 2001, respectively.

The contractual maturities of these deposits are shown in the following table.

(in millions)	December 31, 2002
Three months or less	$10,444
After three months through six months	1,313
After six months through twelve months	1,328
After twelve months	2,318
Total	$15,403

Time certificates of deposit and other time deposits issued by foreign offices with a denomination of $100,000 or more represent substantially all of the foreign deposit liabilities of $9,454 million and $4,132 million at December 31, 2002 and 2001, respectively.

Demand deposit overdrafts that have been reclassified as loan balances were $564 million and $638 million at December 31, 2002 and 2001, respectively.

Note 10: Short-Term Borrowings

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

(in millions)	2002		2001		2000	
	Amount	**Rate**	Amount	Rate	Amount	Rate
As of December 31,						
Commercial paper and other short-term borrowings	**$11,109**	**1.57%**	$13,965	2.01%	$ 15,844	6.64%
Federal funds purchased and securities sold under agreements to repurchase	**22,337**	**1.08**	23,817	1.53	13,145	5.81
Total	**$33,446**	**1.24**	$37,782	1.71	$ 28,989	6.26
Year ended December 31,						
Average daily balance						
Commercial paper and other short-term borrowings	**$13,048**	**1.84%**	$13,561	4.12%	$14,375	6.43%
Federal funds purchased and securities sold under agreements to repurchase	**20,230**	**1.47**	20,324	3.51	13,847	6.03
Total	**$33,278**	**1.61**	$33,885	3.76	$ 28,222	6.23
Maximum month-end balance						
Commercial paper and other short-term borrowings (1)	**$17,323**	**N/A**	$19,818	N/A	$ 17,730	N/A
Federal funds purchased and securities sold under agreements to repurchase (2)	**33,647**	**N/A**	26,346	N/A	16,535	N/A

N/A – Not applicable.
(1) Highest month-end balance in each of the last three years appeared in January 2002, October 2001 and January 2000.
(2) Highest month-end balance in each of the last three years appeared in January 2002, September 2001 and August 2000.

At December 31, 2002, the Company had available lines of credit totaling $2.25 billion, of which $254 million was obtained through a subsidiary, Wells Fargo Financial, Inc. The remaining $2.0 billion was in the form of a revolving credit facility. A portion of these financing arrangements require the maintenance of compensating balances or payment of fees, which are not material.

Note 11: Long-Term Debt

The following is a summary of long-term debt (reflecting unamortized debt discounts and premiums, where applicable) owed by the Parent and its subsidiaries:

(in millions)	Maturity date(s)	Interest rate(s)	2002	2001
Wells Fargo & Company (Parent only)				
Senior				
Global Notes [1]	2003-2007	3.75-7.25%	**$ 6,545**	$ 4,996
Global Notes	2004	Various	**2,000**	1,250
Medium-Term Notes [1]	2003-2006	4.80-6.875%	**1,847**	1,596
Medium-Term Notes	2003-2027	3.375-7.65%	**1,546**	1,670
Floating-Rate Medium-Term Notes	2003-2005	Various	**2,150**	2,300
Extendable Notes [2]	2004	Various	**2,998**	1,497
Equity Linked Notes [1][3]	2008	2.778-2.836%	**79**	—
Notes	2004	6.00%	**1**	1
Total senior debt			**17,166**	13,310
Subordinated				
Global Notes [1]	2011-2014	5.00-6.375%	**1,588**	748
Global Notes	2012	4.00-5.125%	**795**	—
Notes [1]	2003	6.625%	**200**	200
Debentures	2023	6.65%	**198**	198
Total subordinated debt			**2,781**	1,146
Total long-term debt – Parent			**19,947**	14,456
WFC Holdings Corporation				
Senior				
Medium-Term Notes [1]	2002	10.00%	**—**	2
Medium-Term Notes	2002	9.04-10.00%	**—**	2
Total senior debt			**—**	4
Subordinated				
Medium-Term Notes [1][4]	2013	6.50%	**25**	50
Medium-Term Notes	2002	9.375%	**—**	30
Notes [1]	2003	6.125-6.875%	**399**	732
Notes [1]	2004-2006	6.875-9.125%	**933**	933
Notes [1][4]	2008	6.25%	**199**	199
Total subordinated debt			**1,556**	1,944
Total long-term debt – WFC Holdings			**1,556**	1,948
Wells Fargo Financial, Inc. and its subsidiaries (WFFI) [5]				
Senior				
Medium-Term Notes	2003-2012	5.10-7.47%	**956**	801
Floating-Rate Notes	2003-2005	Various	**1,100**	950
Notes	2003-2015	4.875-8.56%	**6,678**	6,395
Total long-term debt – WFFI			**8,734**	8,146
First Security Corporation and its subsidiaries (FSCO)				
Senior				
Medium-Term Notes	2003	6.40%	**15**	15
Floating-Rate Euro Medium-Term Notes [6]	2002	Various	**—**	300
Floating-Rate Euro Medium-Term Notes	2003	Various	**285**	285
Federal Home Loan Bank (FHLB) Notes and Advances [7]	2003-2010	3.00-6.47%	**151**	351
Floating-Rate FHLB Advances [7]	2003	Various	**100**	—
Notes	2003-2006	5.875-6.875%	**474**	473
Other notes [8]	2002-2007		**—**	3
Total senior debt			**1,025**	1,427
Subordinated				
Notes [1]	2005-2006	7.00-7.31%	**159**	234
Total subordinated debt			**159**	234
Total long-term debt – FSCO			**$ 1,184**	$ 1,661

(1) The Company entered into interest rate swap agreements for substantially all of these notes, whereby the Company receives fixed-rate interest payments approximately equal to interest on the notes and makes interest payments based on an average three-month or six-month LIBOR rate.
(2) The extendable notes are a floating rate security with an initial maturity of 13 months, which can be extended on a rolling basis, at the investor's option to a final maturity of 5 years.
(3) Zero coupon notes linked to the S&P 500 and Nasdaq-100 indices.
(4) The interest rate swap agreement for these notes is callable by the counterparty prior to the maturity of the notes.
(5) On October 22, 2002, WFFI announced that it will no longer issue term debt securities and the Parent issued a full and unconditional guarantee of all outstanding debt of WFFI.
(6) The Company entered into an interest rate swap agreement for these notes, whereby the Company receives interest payments based on an average three-month LIBOR rate and makes fixed-rate interest payments ranging from 5.625% to 5.65%.
(7) The maturities of the FHLB advances are determined quarterly, based on the outstanding balance, the then current LIBOR rate, and the maximum life of the advance. Advances maturing within the next year are expected to be refinanced, extending the maturity of such borrowings beyond one year.
(8) The notes are tied to low-income housing funding.

(continued on following page)

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(in millions)	Maturity date(s)	Interest rate(s)	2002	2001
Wells Fargo Bank, N.A. (WFB, N.A.)				
Senior				
Floating-Rate Bank Notes	2003	Various	**$ 4,005**	$ 1,525
Floating-Rate Notes [9]	2007	Various	**1,250**	—
Notes payable by subsidiaries	2003-2009	8.25-17.87%	**49**	52
Other notes	2002-2007		**—**	3
Obligations of subsidiaries under capital leases (Note 6)			**7**	8
Total senior debt			**5,311**	1,588
Subordinated				
FixFloat Notes (callable 6/15/2005) [1]	2010	7.8% through 2005, various	**997**	997
Notes [1]	2010-2011	6.45-7.55%	**2,497**	2,496
Total subordinated debt			**3,494**	3,493
Total long-term debt – WFB, N.A.			**8,805**	5,081
Other consolidated subsidiaries				
Senior				
FHLB Notes and Advances [7]	2003-2027	3.15-8.38%	**2,780**	2,211
Floating-Rate FHLB Advances [7]	2003-2011	Various	**4,065**	2,334
Other notes and debentures	2003-2015	3.00-12.00%	**150**	239
Capital lease obligations (Note 6)			**14**	19
Total senior debt			**7,009**	4,803
Subordinated				
Other notes and debentures [10]	2005	7.55%	**85**	—
Total subordinated debt			**85**	—
Total long-term debt - other consolidated subsidiaries			**7,094**	4,803
Total consolidated long-term debt			**$47,320**	$36,095

(9) Callable by either the Company or the investor upon 30 days notice.
(10) Callable by the Company upon 30 days notice.

At December 31, 2002, the principal payments, including sinking fund payments, on long-term debt are due as noted in the following table.

(in millions)	Parent	Company
2003	$ 3,440	$13,656
2004	7,040	9,378
2005	2,490	5,025
2006	1,622	3,434
2007	2,497	5,266
Thereafter	2,858	10,561
Total	$19,947	$47,320

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

As part of its long-term and short-term borrowing arrangements, the Company was subject to various financial and operational covenants. Certain of the agreements under which debt has been issued contain provisions that may limit the merger or sale of certain subsidiary banks and the issuance of capital stock or convertible securities by certain subsidiary banks. At December 31, 2002, the Company was in compliance with all the covenants.

Note 12: Guaranteed Preferred Beneficial Interests In Company's Subordinated Debentures

The special purpose trusts, identified in the table below, were established to issue trust preferred securities and related common securities of the trust. The proceeds from such issuances were used by the trusts to purchase junior subordinated debentures (debentures) of the Parent or the debentures of the applicable holding company subsidiary, which are the sole assets of each trust. Concurrently with the issuance of the trust preferred securities, the Parent or the holding company subsidiary, as applicable, issued guarantees for the benefit of the holders of the trust preferred securities. The Company treats the trust preferred securities as Tier 1 capital.

The debentures issued by the Parent (for the 2002 and 2001 trusts) or the debentures issued by a holding company subsidiary, as applicable, are the sole assets of these special purpose trusts. The Parent and the holding company subsidiaries own all of the common securities of their related trusts. The trust preferred securities issued by the trusts rank senior to the common securities. The common securities and debentures, along with the related income effects, are eliminated within the Company's consolidated financial statements. The respective obligations of the Parent and the holding company subsidiaries under the debentures, indentures, the trust agreements, and the guarantees relating to the trusts in each case constitute the full and unconditional guarantee by the Parent or the holding company subsidiary, as applicable, of the obligations of the trusts under the trust preferred securities and rank subordinate and junior in right of payment to all of their other liabilities. The Parent guaranteed the obligations previously issued by the former Wells Fargo & Company and assumed by WFC Holdings.

The trust preferred securities are subject to mandatory redemption at the stated maturity date of the debentures, upon repayment of the debentures, or earlier, under the terms of the trust agreements.The table below summarizes the outstanding preferred securities issued by each special purpose trust and the debentures issued by the Parent or the holding company subsidiary to each trust as of December 31, 2002:

(in millions)

	Trust preferred securities		Principal	Trust preferred securities and debentures			
Trust name	Issuance date	Amount	balance of debentures	Stated maturity	Redeemable beginning	Annualized coupon rate	Interest payable[3]
Wells Fargo Capital A [1]	November 1996	$ 85	$ 88	December 2026	December 2006	8.13%	Semi-annual
Wells Fargo Capital B [1]	November 1996	153	157	December 2026	December 2006	7.95%	Semi-annual
Wells Fargo Capital C [1]	November 1996	186	192	December 2026	December 2006	7.73%	Semi-annual
Wells Fargo Capital I [1]	December 1996	212	218	December 2026	December 2006	7.96%	Semi-annual
First Security Capital I	December 1996	150	155	December 2026	December 2006	8.41%	Semi-annual
Wells Fargo Capital II [1]	January 1997	149	155	January 2027	January 2007	LIBOR +.5%	Quarterly
Wells Fargo Capital IV [2]	August 2001	1,300	1,340	September 2031	August 2006	7.00%	Quarterly
Wells Fargo Capital V [2]	December 2001	200	206	December 2031	December 2006	7.00%	Quarterly
Wells Fargo Capital VI [2]	March 2002	450	464	April 2032	April 2007	6.95%	Quarterly
	Total	$2,885					

(1) Established by WFC Holdings (the former Wells Fargo).
(2) Established by the Parent. The Parent may extend the stated maturity dates of the debentures for a period of up to 19 years.
(3) All distributions are cumulative.

The trust preferred securities and the corresponding debentures may be redeemed before the stated redemption date at the option of the Parent or the applicable holding company subsidiary. The trust preferred securities will be redeemed, if certain events occur that would have a negative tax effect on the Parent, the holding company subsidiaries or their applicable trusts, would cause the trust preferred securities to no longer qualify as Tier 1 capital, or would result in a trust being treated as an investment company. The ability of each trust to pay timely distributions on its trust preferred securities depends upon the Parent or the applicable holding company subsidiary making the related payment on the debentures when due. The Parent or the holding company subsidiaries can defer interest payments on the debentures and, therefore, distributions on the trust preferred securities for up to five years.

Note 13: Preferred Stock

The Company is authorized to issue 20 million shares of preferred stock and 4 million shares of preference stock, both without par value. All preferred shares outstanding rank senior to common shares both as to dividends and liquidation preference but have no general voting rights. No preference shares have been issued under this authorization.

The following table is a summary of preferred stock:

	Shares issued and outstanding December 31,		Carrying amount (in millions) December 31,		Adjustable dividend rate		Dividends declared (in millions) Year ended December 31,		
	2002	2001	**2002**	2001	Minimum	Maximum	**2002**	2001	2000
Adjustable-Rate Cumulative, Series B [1]	**1,460,000**	1,460,000	**$ 73**	$ 73	5.50%	10.50%	**$ 4**	$ 4	$ 4
Adjustable-Rate Noncumulative Preferred Stock, Series H [2]	**—**	—	**—**	—	7.00	13.00	**—**	10	13
2002 ESOP Cumulative Convertible [3]	**64,049**	—	**64**	—	10.50	11.50	**—**	—	—
2001 ESOP Cumulative Convertible [3]	**46,126**	61,800	**46**	62	10.50	11.50	**—**	—	—
2000 ESOP Cumulative Convertible [3]	**34,742**	39,962	**35**	40	11.50	12.50	**—**	—	—
1999 ESOP Cumulative Convertible [3]	**13,222**	15,552	**13**	15	10.30	11.30	**—**	—	—
1998 ESOP Cumulative Convertible [3]	**5,095**	6,145	**5**	6	10.75	11.75	**—**	—	—
1997 ESOP Cumulative Convertible [3]	**5,876**	7,576	**6**	8	9.50	10.50	**—**	—	—
1996 ESOP Cumulative Convertible [3]	**5,407**	7,707	**6**	8	8.50	9.50	**—**	—	—
1995 ESOP Cumulative Convertible [3]	**3,043**	5,543	**3**	5	10.00	10.00	**—**	—	—
ESOP Cumulative Convertible [3]	**—**	1,002	**—**	1	9.00	9.00	**—**	—	—
Unearned ESOP shares [4]	**—**	—	**(190)**	(154)	—	—	**—**	—	—
Total	**1,637,560**	1,605,287	**$ 61**	$ 64			**$ 4**	$ 14	$ 17

(1) Liquidation preference $50.
(2) On October 1, 2001 all shares were redeemed at the stated liquidation price of $50 plus accrued dividends.
(3) Liquidation preference $1,000.
(4) In accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans,* the Company recorded a corresponding charge to unearned ESOP shares in connection with the issuance of the ESOP Preferred Stock. The unearned ESOP shares are reduced as shares of the ESOP Preferred Stock are committed to be released. For information on dividends paid, see Note 14.

ADJUSTABLE-RATE CUMULATIVE PREFERRED STOCK, SERIES B

These shares are redeemable at the option of the Company at $50 per share plus accrued and unpaid dividends. Dividends are cumulative and payable quarterly on the 15th of February, May, August and November. For each quarterly period, the dividend rate is 76% of the highest of the three-month Treasury bill discount rate, 10-year constant maturity Treasury security yield or 20-year constant maturity Treasury bond yield, but limited to a minimum of 5.5% and a maximum of 10.5% per year. The average dividend rate was 5.5% during 2002, 2001 and 2000.

ESOP CUMULATIVE CONVERTIBLE PREFERRED STOCK

All shares of the Company's 2002, 2001, 2000, 1999, 1998, 1997, 1996 and 1995 ESOP Cumulative Convertible Preferred Stock and ESOP Cumulative Convertible Preferred Stock (collectively, ESOP Preferred Stock) were issued to a trustee acting on behalf of the Wells Fargo & Company 401(k) Plan (formerly known as the Norwest Corporation Savings Investment Plan). Dividends on the ESOP Preferred Stock are cumulative from the date of initial issuance and are payable quarterly at annual rates ranging from 8.50 percent to 12.50 percent, depending upon the year of issuance.

Each share of ESOP Preferred Stock released from the unallocated reserve of the Plan is converted into shares of common stock of the Company based on the stated value of the ESOP Preferred Stock and the then current market price of the Company's common stock. The ESOP Preferred Stock is also convertible at the option of the holder at any time, unless previously redeemed. The ESOP Preferred Stock may be redeemed at any time, in whole or in part, at the option of the Company at a redemption price per share equal to the higher of (a) $1,000 per share plus accrued and unpaid dividends or (b) the fair market value, as defined in the Certificates of Designation of the ESOP Preferred Stock.

Note 14: Common Stock and Stock Plans

Common Stock

The following table summarizes common stock reserved, issued and authorized as of December 31, 2002:

	Number of shares
Convertible subordinated debentures	20,400
Acquisition contingencies	138,161
Dividend reinvestment and common stock purchase plans	2,174,766
Director plans	1,294,604
Stock plans (1)	254,233,517
Total shares reserved	257,861,448
Shares issued	1,736,381,025
Shares not reserved	4,005,757,527
Total shares authorized	6,000,000,000

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

The preferred share purchase rights issued under the Company's rights plan and included with the Company's common stock expired as of the close of business on August 12, 2002. Prior to their expiration, the rights entitled the holders thereof, upon the occurrence of certain events, to purchase shares of the Company's Series C Junior Participating Preferred Stock. On October 16, 2002, the Company filed a Certificate Eliminating the Certificate of Designations for the Company's Series C Junior Participating Preferred Stock.

Dividend Reinvestment and Common Stock Purchase Plans

The Company's dividend reinvestment and common stock direct purchase plans permit participants to purchase at fair market value shares of the Company's common stock by reinvestment of dividends and/or optional cash payments, subject to the terms of the plan.

Director Plans

Under the Company's director plans, non-employee directors receive a stock award as part of their annual retainer. Annual grants of options to purchase common stock are also provided to each non-employee director elected or re-elected at the annual meeting of stockholders. Options granted become exercisable after six months and may be exercised until the tenth anniversary of the date of grant.

Employee Stock Plans

LONG-TERM INCENTIVE PLANS The Company's stock incentive plans provide for awards of incentive and nonqualified stock options, stock appreciation rights, restricted shares, restricted share rights, performance awards and stock awards without restrictions. Employee stock options can be granted with exercise prices at or above the fair market value (as defined in the plan) of the stock at the date of grant and with terms of up to ten years. The options generally become fully exercisable over three years from the date of grant. Except as otherwise permitted under the plan, upon termination of employment for reasons other than retirement, permanent disability or death, the option period is reduced or the options are canceled. Options also 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. No compensation expense was recorded for the options granted under the plans, as the exercise price was equal to the quoted market price of the stock at the date of grant. The total number of shares of common stock available for grant under the plans as of December 31, 2002 was 79,865,035.

Holders of restricted shares and restricted share rights are entitled at no cost to the related shares of common stock generally over three to five years after the restricted shares or restricted share rights were granted. Holders of restricted shares generally are entitled to receive cash dividends paid on the shares. Holders of restricted share rights generally are entitled to receive cash payments equal to the cash dividends that would have been paid had the restricted share rights been issued and outstanding shares of common stock. Except in limited circumstances, restricted shares and restricted share rights are canceled upon termination of employment. In 2002, 2001 and 2000, 81,380, 107,000 and 56,636 restricted shares and restricted share rights were granted, respectively, with a weighted-average grant-date per share fair value of $45.47, $46.73 and $40.61, respectively. As of December 31, 2002, 2001 and 2000, there were 656,124, 888,234 and 1,450,074 restricted shares and restricted share rights outstanding, respectively. The compensation expense for the restricted shares and restricted share rights equals the quoted market price of the related stock at the date of grant and is accrued over the vesting period. The total compensation expense recognized for the restricted shares and restricted share rights was $5 million in 2002 and $6 million in 2001 and 2000.

In connection with various acquisitions and mergers since 1992, the Company converted employee and director stock options of acquired or merged companies into stock options to purchase the Company's common stock based on the terms of the original stock option plan and the agreed-upon exchange ratio.

BROAD-BASED PLANS In 1996, the Company adopted the *PartnerShares*® Stock Option Plan, a broad-based employee stock option plan covering full- and part-time employees who were not participants in the long-term incentive plans described above. The total number of shares of common stock authorized for issuance under the plan since inception through December 31, 2002 was 74,000,000, including 14,013,931 shares available for grant. Options granted under the *PartnerShares* Plan have an exercise date that generally is the earlier of five years after the date of grant or when the quoted market price of the stock reaches a predetermined price. Those options generally expire ten years after the date of grant. Because the exercise price of each *PartnerShares* grant has been equal to or higher than the quoted market price of the Company's common stock at the date of grant, no compensation expense is recognized.

The following table summarizes the Company's stock option activity and related information for the three years ended December 31, 2002. The fair value of each option grant is estimated based on the date of grant using a Black-Scholes option-pricing model. The following weighted-average assumptions were used in 2002, 2001 and 2000: expected dividend yield ranging from 2.3% to 2.6%; expected volatility ranging from 29% to 42%; risk-free interest rates ranging from 2.5% to 6.6% and expected life ranging from .1 to 6.0 years.

	Director Plans		Long-Term Incentive Plans		Broad-Based Plans	
	Number	Weighted-average exercise price	Number	Weighted-average exercise price	Number	Weighted-average exercise price
Options outstanding as of December 31, 1999	525,098	$ 23.24	66,607,125	$ 29.53	32,514,300	$ 33.72
2000:						
Granted	28,080[1]	42.75	23,183,070[2]	35.63	23,160,800[3]	46.50
Canceled	(5,005)	25.04	(1,896,001)	35.74	(4,827,800)	36.81
Exercised	(115,495)	12.94	(13,906,642)	22.93	(390,695)	18.19
Acquisitions	—	—	797,076	20.43	—	—
Options outstanding as of December 31, 2000	432,678	27.23	74,784,628	32.39	50,456,605	39.41
2001:						
Granted	49,635[1]	47.55	19,930,772[2]	49.52	353,600[3]	41.84
Canceled	—	—	(1,797,865)	43.21	(5,212,550)	41.81
Exercised	(169,397)	19.42	(10,988,267)	25.61	(191,440)	21.43
Options outstanding as of December 31, 2001	312,916	34.69	81,929,268	37.23	45,406,215	39.23
2002:						
Granted	**44,786[1]**	**50.22**	**23,790,286[2]**	**46.99**	**18,014,475[3]**	**50.46**
Canceled	**—**	**—**	**(1,539,244)**	**45.36**	**(10,092,056)**	**42.15**
Exercised	**(8,594)**	**30.56**	**(10,873,465)**	**30.62**	**(3,249,213)**	**30.54**
Acquisitions	**—**	**—**	**72,892**	**31.33**	**—**	**—**
Options outstanding as of December 31, 2002	**349,108**	**$36.78**	**93,379,737**	**$40.35**	**50,079,421**	**$43.25**
Outstanding options exercisable as of:						
December 31, 2000	432,678	$ 27.23	44,893,948	$30.36	1,309,005	$18.33
December 31, 2001	312,916	34.69	46,937,295	33.44	1,264,015	20.29
December 31, 2002	**349,108**	**36.78**	**54,429,329**	**36.94**	**9,174,196**	**31.35**

(1) The weighted-average per share fair value of options granted was $13.45, $13.87 and $12.60 for 2002, 2001 and 2000, respectively.
(2) The weighted-average per share fair value of options granted was $12.34, $14.16 and $10.13 for 2002, 2001 and 2000, respectively. Includes 2,860,926, 1,791,852 and 2,029,063 reload grants at December 31, 2002, 2001 and 2000, respectively.
(3) The weighted-average per share fair value of options granted was $15.62, $12.42 and $13.30 for 2002, 2001 and 2000, respectively.

The following table is a summary of selected information for the Company's stock option plans described on the preceding page:

	December 31, 2002		
	Weighted-average remaining contractual life (in yrs.)	Number	Weighted-average exercise price
RANGE OF EXERCISE PRICES			
Director Plans			
$.10			
Options outstanding/exercisable	2.01	2,390	$ .10
$7.84-$13.48			
Options outstanding/exercisable	1.36	8,210	11.49
$13.49-$16.00			
Options outstanding/exercisable	2.27	30,940	15.10
$16.01-$25.04			
Options outstanding/exercisable	2.98	61,194	22.10
$25.05-$38.29			
Options outstanding/exercisable	4.88	69,620	33.14
$38.30-$69.01			
Options outstanding/exercisable	7.68	176,754	48.76
Long-Term Incentive Plans			
$3.37-$5.06			
Options outstanding/exercisable	5.16	75,900	4.35
$5.07-$7.60			
Options outstanding/exercisable	3.99	25,476	7.22
$7.61-$11.41			
Options outstanding/exercisable	.98	213,900	10.67
$11.42-$17.13			
Options outstanding	1.99	2,355,591	14.11
Options exercisable	1.94	2,214,963	14.00
$17.14-$25.71			
Options outstanding	1.76	1,976,202	19.52
Options exercisable	1.77	1,935,772	19.55
$25.72-$38.58			
Options outstanding	5.81	39,155,259	33.88
Options exercisable	5.55	32,656,708	33.85
$38.59-$71.30			
Options outstanding	7.94	49,577,409	47.73
Options exercisable	6.33	17,306,610	48.17
Broad-Based Plans			
$16.56			
Options outstanding/exercisable	3.56	779,316	16.56
$24.85-$37.81			
Options outstanding	5.38	17,548,605	35.09
Options exercisable	4.80	7,870,605	31.75
$37.82-$46.50			
Options outstanding	7.85	16,429,025	46.46
Options exercisable	7.85	418,675	46.49
$46.51-$51.15			
Options outstanding	9.22	15,322,475	50.50
Options exercisable	9.22	105,600	50.50

EMPLOYEE STOCK OWNERSHIP PLAN The Wells Fargo & Company 401(k) Plan (the 401(k) Plan) is a defined contribution employee stock ownership plan (ESOP) under which the 401(k) Plan may borrow money to purchase the Company's common or preferred stock. Beginning in 1994, the Company has loaned money to the 401(k) Plan which has been used to purchase shares of the Company's ESOP Preferred Stock. As ESOP Preferred Stock is released and converted into common shares, compensation expense is recorded equal to the current market price of the common shares. Dividends on the common shares allocated as a result of the release and conversion of the ESOP Preferred Stock are recorded as a reduction of retained earnings and the shares are considered outstanding for computing earnings per share. Dividends on the unallocated ESOP Preferred Stock are not recorded as a reduction of retained earnings, and the shares are not considered to be common stock equivalents for computing earnings per share. Loan principal and interest payments are made from the Company's contributions to the 401(k) Plan, along with dividends paid on the ESOP Preferred Stock. With each principal and interest payment, a portion of the ESOP Preferred Stock is released and, after conversion of the ESOP Preferred Stock into common shares, allocated to the 401(k) Plan participants.

Total dividends paid to the 401(k) Plan on ESOP shares were as follows:

(in millions)	Year ended December 31,		
	2002	2001	2000
ESOP Preferred Stock:			
Common dividends	**$21**	$15	$11
Preferred dividends	**24**	19	14
1989 ESOP shares:			
Common dividends	**10**	11	11
Total	**$55**	$45	$36

The ESOP shares as of December 31, 2002, 2001 and 2000 were as follows:

	December 31,		
	2002	2001	2000
ESOP Preferred Stock:			
Allocated shares (common)	**21,447,490**	17,233,798	13,716,692
Unreleased shares (preferred)	**177,560**	145,287	111,804
1989 ESOP shares:			
Allocated shares	**7,974,031**	9,809,875	10,988,083
Unreleased shares	**—**	3,042	39,558
Fair value of unearned ESOP shares (in millions)	**$178**	$145	$112

Deferred Compensation Plan for Independent Sales Agents

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

Note 15: Employee Benefits and Other Expenses

Employee Benefits

The Company sponsors noncontributory qualified defined benefit retirement plans including the Cash Balance Plan and the First Security Corporation Retirement Plan (FSCO Retirement Plan). The Cash Balance Plan is an active plan and it covers eligible employees of the Company except certain subsidiaries. The FSCO Retirement Plan is an inactive plan, which provides benefits to eligible employees of the former First Security. All benefits under the FSCO Retirement Plan were frozen effective December 31, 2000.

Under the Cash Balance Plan, eligible employees' Cash Balance Plan accounts are allocated a compensation credit based on a certain percentage of their certified compensation. The compensation credit percentage is based on age and years of credited service. In addition, participants are allocated at the end of each quarter investment credits on their accumulated balances. Employees become vested in their Cash Balance Plan accounts after completion of five years of vesting service or reaching age 65, if earlier. Pension benefits accrued before the conversion to the Cash Balance Plan are guaranteed. In addition, certain employees are eligible for a special transition benefit comparison.

In 2002, the Company contributed $626 million in total to the Cash Balance Plan and FSCO Retirement Plan. The Company funded the maximum amount deductible under the current Internal Revenue Service regulations. The Company also provides unfunded nonqualified pension plans for certain employees.

The Company sponsors defined contribution retirement plans including the 401(k) Plan and the First Security Incentive Savings Plan and Trust (FSCO 401(k) Plan). Under the 401(k) Plan, eligible employees who have completed one month of service are eligible to contribute up to 25% of their pretax certified compensation, although a lower limit may be applied to certain highly compensated employees in order to maintain the qualified status of the 401(k) Plan. Eligible employees who complete one year of service are eligible for matching company contributions, which are generally a 100% match up to 6% of an employee's certified compensation. The Company's matching contributions are generally subject to a four-year vesting schedule.

Under the FSCO 401(k) Plan, eligible employees who were 21 or older with one year of service were eligible to contribute up to 17% of their pretax certified compensation, although a lower limit may be applied to certain employees in order to maintain the qualified status of the FSCO 401(k) Plan. Eligible employees were eligible for matching company contributions, which are generally equal to 50% of the first 6% of an employee's certified compensation. The Company's matching contributions were fully vested upon enrollment. The FSCO 401(k) Plan was merged into the Wells Fargo 401(k) Plan effective January 1, 2001.

Expenses for defined contribution retirement plans were $248 million, $206 million and $169 million in 2002, 2001 and 2000, respectively.

The Company provides health care and life insurance benefits for certain retired employees and reserves the right to terminate or amend any of the benefits described above at any time.

In 2002, the Company changed the measurement date of its pension and postretirement health care plans from September 30 to November 30. This change in measurement date has been accounted for as a change in accounting principle and did not have a material cumulative effect on retirement benefit expense for the current or prior periods. The Company believes this method is preferable to the method previously employed.

The change in measurement date was made to allow pension cost measurements and future pension plan funding decisions to be based on information closer to the financial statement date of December 31. Also, the new measurement date is more closely aligned with the timing of the Company's annual budgeting and planning process.

The following table shows the changes in the benefit obligation and the fair value of plan assets during 2002 and 2001 and the amounts included in the Company's Consolidated Balance Sheet as of December 31, 2002 and 2001 for the Company's qualified and nonqualified defined benefit pension and other postretirement benefit plans:

(in millions)	2002			December 31, 2001		
	Pension benefits			Pension benefits		
	Qualified	Non-qualified	Other benefits	Qualified	Non-qualified	Other benefits
Change in benefit obligation						
Benefit obligation at beginning of year	$2,781	$ 153	$ 546	$ 2,502	$ 154	$ 578
Service cost	154	20	14	146	15	16
Interest cost	202	12	40	181	10	42
Plan participants' contributions	—	—	13	—	—	12
Amendments	—	—	—	(36)	(11)	—
Plan mergers	4	—	—	—	—	(10)
Actuarial gain (loss)	109	18	66	175	(10)	(28)
Benefits paid	(195)	(15)	(60)	(187)	(5)	(64)
Benefit obligation at end of year	$3,055	$ 188	$ 619	$ 2,781	$ 153	$ 546
Change in plan assets						
Fair value of plan assets at beginning of year	$2,761	$ —	$ 226	$ 3,270	$ —	$ 236
Actual return on plan assets	(117)	—	(10)	(331)	—	(12)
Employer contribution	641	15	44	9	5	54
Plan participants' contributions	—	—	13	—	—	12
Benefits paid	(195)	(15)	(60)	(187)	(5)	(64)
Fair value of plan assets at end of year	$3,090	$ —	$ 213	$ 2,761	$ —	$ 226
Funded status	$ 35	$ (188)	$(406)	$ (21)	$ (154)	$ (319)
Employer contributions in December	—	—	7	—	—	—
Unrecognized net actuarial loss (gain)	660	45	66	188	40	(23)
Unrecognized net transition asset	(1)	—	4	1	—	4
Unrecognized prior service cost	(15)	(8)	(11)	(13)	(14)	(12)
Accrued benefit income (cost)	$ 679	$ (151)	$(340)	$ 155	$ (128)	$ (350)
Amounts recognized in the balance sheet consist of:						
Prepaid benefit cost	$ 679	$ —	$ —	$ 156	$ —	$ —
Accrued benefit liability	(2)	(151)	(340)	(50)	(147)	(350)
Intangible asset	2	—	—	—	—	—
Accumulated other comprehensive income	—	—	—	49	19	—
Accrued benefit income (cost)	$ 679	$ (151)	$(340)	$ 155	$ (128)	$ (350)

The following table sets forth the components of net periodic benefit (income) cost for 2002, 2001 and 2000:

(in millions)	Year ended December 31,								
	2002			2001			2000		
	Pension benefits			Pension benefits			Pension benefits		
	Qualified	**Non-qualified**	**Other benefits**	Qualified	Non-qualified	Other benefits	Qualified	Non-qualified	Other benefits
Service cost	**$ 154**	**$20**	**$ 14**	$ 146	$15	$ 16	$ 142	$12	$ 16
Interest cost	**202**	**12**	**40**	181	10	42	176	10	43
Expected return on plan assets	**(244)**	**—**	**(19)**	(287)	—	(20)	(249)	—	(18)
Recognized net actuarial loss (gain) [1]	**2**	**7**	**(7)**	(120)	8	(2)	(54)	8	(1)
Amortization of prior service cost	**(1)**	**(1)**	**(1)**	—	—	(1)	2	—	—
Amortization of unrecognized transition asset	**(1)**	**—**	**—**	(1)	—	—	(2)	—	—
Settlement	**—**	**—**	**—**	(1)	—	—	—	4	—
Net periodic benefit (income) cost	**$ 112**	**$38**	**$ 27**	$ (82)	$33	$ 35	$ 15	$34	$ 40

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

The weighted-average assumptions used were:

	Year ended December 31,					
	2002		2001		2000	
	Pension benefits[1]	**Other benefits**	Pension benefits[1]	Other benefits	Pension benefits[1]	Other benefits
Discount rate	**7.0%**	**7.0%**	7.5%	7.5%	7.5%	7.5%
Expected return on plan assets	**9.0%**	**9.0%**	9.0%	9.0%	9.0%	9.0%
Rate of compensation increase	**4.0%**	**—%**	5.0%	—%	4.5-5.0%	—%

(1) Includes both qualified and nonqualified pension benefits.

Accounting for postretirement health care plans uses a health care cost trend rate to recognize the effect of expected changes in future health care costs due to medical inflation, utilization changes, technological changes, regulatory requirements and Medicare cost shifting. Average annual increases of 10.5% for HMOs and for all other types of coverage in the per capita cost of covered health care benefits were assumed for 2003. By 2008 and thereafter, rates were assumed at 5.5% for HMOs and for all other types of coverage. Increasing the assumed health care trend by one percentage point in each year would increase the benefit obligation as of December 31, 2002 by $49 million and the aggregate of the interest cost and service cost components of the net periodic benefit cost for 2002 by $4 million. Decreasing the assumed health care trend by one percentage point in each year would decrease the benefit obligation as of December 31, 2002 by $44 million and the aggregate of the interest cost and service cost components of the net periodic benefit cost for 2002 by $4 million.

Other Expenses

The following table shows expenses which exceeded 1% of total interest income and noninterest income and which are not otherwise shown separately in the financial statements or notes thereto.

(in millions)	Year ended December 31,		
	2002	2001	2000
Outside professional services	**$565**	$486	$447
Contract services	**385**	472	536
Outside data processing	**350**	319	343
Telecommunications	**347**	355	303
Travel and entertainment	**337**	286	287
Advertising and promotion	**327**	276	316

Note 16: Income Taxes

The following is a summary of the components of income tax expense applicable to income before income taxes:

(in millions)	Year ended December 31,		
	2002	2001	2000
Current:			
Federal	**$2,529**	$2,329	$1,446
State and local	**273**	282	158
Foreign	**37**	34	46
	2,839	2,645	1,650
Deferred:			
Federal	**268**	(518)	783
State and local	**37**	(71)	90
	305	(589)	873
Total	**$3,144**	$2,056	$2,523

The Company's tax benefit related to the exercise of employee stock options recorded in stockholders' equity was $73 million, $88 million and $112 million for 2002, 2001 and 2000, respectively.

The Company had a net deferred tax liability of $2,907 million and $2,614 million at December 31, 2002 and 2001, respectively. The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities at December 31, 2002 and 2001 are presented in the table to the right.

The Company has determined that a valuation reserve is not required for any of the deferred tax assets since it is more likely than not that these assets will be realized principally through carry-back to taxable income in prior years, and future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income and tax planning strategies. The Company's conclusion that it is "more likely than not" that the deferred tax assets will be realized is based on federal taxable income in excess of $13 billion in the carry-back period, substantial state taxable income in the carry-back period, as well as a history of growth in earnings and the prospects for continued earnings growth.

(in millions)	Year ended December 31,	
	2002	2001
Deferred Tax Assets		
Allowance for loan losses	**$ 1,468**	$ 1,429
Net tax-deferred expenses	**677**	907
Other	**242**	168
Total deferred tax assets	**2,387**	2,504
Deferred Tax Liabilities		
Core deposit intangible	**298**	338
Leasing	**2,186**	2,061
Mark to market	**296**	307
Mortgage servicing	**1,612**	1,838
FAS 115 adjustment	**611**	312
FAS 133 adjustment	**(17)**	162
Other	**308**	100
Total deferred tax liabilities	**5,294**	5,118
Net Deferred Tax Liability	**$(2,907)**	$(2,614)

The deferred tax liability related to 2002, 2001 or 2000 unrealized gains and losses on securities available for sale along with the deferred tax liability related to derivatives and hedging activities for 2002, had no impact on income tax expense as these gains and losses, net of taxes, were recorded in cumulative other comprehensive income.

The table below is a reconciliation of the statutory federal income tax expense and rate to the effective income tax expense and rate:

(in millions)	Year ended December 31,					
	2002		2001		2000	
	Amount	**%**	Amount	%	Amount	%
Statutory federal income tax expense and rate	**$3,100**	**35.0%**	$1,918	35.0%	$2,292	35.0%
Change in tax rate resulting from:						
State and local taxes on income, net of federal income tax benefit	**201**	**2.3**	137	2.5	161	2.5
Amortization of goodwill not deductible for tax return purposes	**—**	**—**	196	3.6	165	2.5
Tax-exempt income	**(68)**	**(.8)**	(87)	(1.6)	(76)	(1.2)
Other	**(89)**	**(1.0)**	(108)	(2.0)	(19)	(.3)
Effective income tax expense and rate	**$3,144**	**35.5%**	$2,056	37.5%	$2,523	38.5%

Note 17: Earnings Per Common Share

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

(in millions, except per share amounts)	Year ended December 31,		
	2002	2001	2000
Net income before effect of change in accounting principle	**$ 5,710**	$ 3,423	$ 4,026
Less: Preferred stock dividends	**4**	14	17
Net income applicable to common stock before effect of change in accounting principle (numerator)	**5,706**	3,409	4,009
Cumulative effect of change in accounting principle (numerator)	**(276)**	—	—
Net income applicable to common stock (numerator)	**$ 5,430**	$ 3,409	$ 4,009
EARNINGS PER COMMON SHARE			
Average common shares outstanding (denominator)	**1,701.1**	1,709.5	1,699.5
Per share before effect of change in accounting principle	**$ 3.35**	$ 1.99	$ 2.36
Per share effect of change in accounting principle	**(.16)**	—	—
Per share	**$ 3.19**	$ 1.99	$ 2.36
DILUTED EARNINGS PER COMMON SHARE			
Average common shares outstanding	**1,701.1**	1,709.5	1,699.5
Add: Stock options	**16.6**	16.8	17.7
Restricted share rights	**.3**	.6	1.2
Diluted average common shares outstanding (denominator)	**1,718.0**	1,726.9	1,718.4
Per share before effect of change in accounting principle	**$ 3.32**	$ 1.97	$ 2.33
Per share effect of change in accounting principle	**(.16)**	—	—
Per share	**$ 3.16**	$ 1.97	$ 2.33

In 2002, 2001 and 2000, options to purchase 35.9 million, 39.9 million and 28.6 million shares, respectively, were outstanding but not included in the computation of earnings per share because the exercise price was higher than the market price, and therefore they were antidilutive.

Note 18: "Adjusted" Earnings – FAS 142 Transitional Disclosure

Under FAS 142, effective January 1, 2002 amortization of goodwill was discontinued. For comparability, the table below reconciles the Company's reported earnings to "adjusted" earnings, which exclude goodwill amortization.

(in millions, except per share amounts)	Year ended December 31,	
	2001	2000
NET INCOME		
Reported net income	$3,423	$4,026
Goodwill amortization, net of tax	571	496
Adjusted net income	$3,994	$4,522
EARNINGS PER COMMON SHARE		
Reported earnings per common share	$ 1.99	$ 2.36
Goodwill amortization, net of tax	.34	.29
Adjusted earnings per common share	$ 2.33	$ 2.65
DILUTED EARNINGS PER COMMON SHARE		
Reported diluted earnings per common share	$ 1.97	$ 2.33
Goodwill amortization, net of tax	.33	.29
Adjusted diluted earnings per common share	$ 2.30	$ 2.62

Note 19: Other Comprehensive Income

The following table presents the components of other comprehensive income and the related tax effect allocated to each component:

(in millions)	Before tax amount	Tax effect	Net of tax
2000:			
Translation adjustments	$ (3)	$ (1)	$ (2)
Securities available for sale:			
Net unrealized losses arising during the year	(232)	(88)	(144)
Reclassification of net gains included in net income	(145)	(55)	(90)
Net unrealized losses arising during the year	(377)	(143)	(234)
Other comprehensive income	$ (380)	$ (144)	$ (236)
2001:			
Translation adjustments	$ (5)	$ (2)	$ (3)
Minimum pension liability adjustment	(68)	(26)	(42)
Securities available for sale and other retained interests:			
Net unrealized losses arising during the year	(574)	(211)	(363)
Reclassification of net losses included in net income	601	228	373
Net unrealized gains arising during the year	27	17	10
Cumulative effect of the change in accounting principle for derivatives and hedging activities	109	38	71
Derivatives and hedging activities:			
Net unrealized gains arising during the year	196	80	116
Reclassification of net losses on cash flow hedges included in net income	120	44	76
Net unrealized gains arising during the year	316	124	192
Other comprehensive income	$ 379	$ 151	$ 228
2002:			
Translation adjustments	**$ 1**	**$ —**	**$ 1**
Minimum pension liability adjustment	**68**	**26**	**42**
Securities available for sale and other retained interests:			
Net unrealized gains arising during the year	**414**	**159**	**255**
Reclassification of net losses included in net income	**369**	**140**	**229**
Net unrealized gains arising during the year	**783**	**299**	**484**
Derivatives and hedging activities:			
Net unrealized losses arising during the year	**(800)**	**(297)**	**(503)**
Reclassification of net losses on cash flow hedges included in net income	**318**	**118**	**200**
Net unrealized losses arising during the year	**(482)**	**(179)**	**(303)**
Other comprehensive income	**$ 370**	**$ 146**	**$ 224**

The following table presents cumulative other comprehensive income balances:

(in millions)	Translation adjustments	Minimum pension liability adjustment	Net unrealized gains (losses) on securities and other retained interests	Net unrealized gains (losses) on derivatives and other hedging activities	Cumulative other comprehensive income
Balance, December 31, 1999	$(10)	$ —	$ 770	$ —	$ 760
Net change	(2)	—	(234)	—	(236)
Balance, December 31, 2000	(12)	—	536	—	524
Net change	(3)	(42)	10	263	228
Balance, December 31, 2001	(15)	(42)	546	263	752
Net change	**1**	**42**	**484**	**(303)**	**224**
Balance, December 31, 2002	**$(14)**	**$ —**	**$ 1,030**	**$ (40)**	**$ 976**

Note 20: Operating Segments

The Company has 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 the Company's 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 the Company's management structure and is not necessarily comparable with similar information for other financial services companies. The Company's operating segments are defined by product type and customer segments. Changes in management structure and/or the allocation process may result in changes in allocations, transfers and assignments. In that case, results for prior periods would be (and have been) restated for comparability. Results for 2001 and 2000 have been restated to eliminate goodwill amortization from the operating segments and results for 2001 have been restated to reflect changes in transfer pricing methodology applied in first quarter 2002.

The Community Banking Group offers a complete line of diversified financial products and services to individual consumers and small businesses with annual sales predominantly up to $10 million in which the owner is also the principal financial decision maker. Community Banking also offers investment management and other services to retail customers and high net worth individuals, insurance and securities brokerage through affiliates. These products and services include *Wells Fargo Funds*®, a family of mutual funds, as well as personal trust, employee benefit trust and agency assets. Loan products include lines of credit, equity lines and loans, equipment and transportation (auto, recreational vehicle and marine) loans, education loans, origination and purchase of residential mortgage loans for sale to investors and servicing of mortgage loans. 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, medical 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) and time deposits.

Community Banking provides access to customers through a wide range of channels, which encompass a network of traditional banking stores, banking centers, in-store banking centers, business centers and ATMs. Additionally, 24-hour telephone service is provided by *PhoneBank*℠ centers and the National Business Banking Center. 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 predominantly with annual sales 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, online/electronic products, insurance and insurance brokerage services, and investment banking services. 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 loans to consumers and purchase sales finance contracts from retail merchants from offices throughout the United States and Canada and in the Caribbean. Automobile finance operations specialize in purchasing sales finance contracts directly from automobile dealers and making loans secured by automobiles in the United States and Puerto Rico. Wells Fargo Financial also provides credit cards, and lease and other commercial financing.

The Reconciliation Column includes all amortization of goodwill for 2001 and 2000, the net impact of transfer pricing loan and deposit balances, the cost of external debt, and any residual effects of unallocated systems and other support groups. It also includes the impact of asset/liability strategies the Company has put in place to manage interest rate sensitivity at the consolidated level.

Operating Segments

(income/expense in millions, average balances in billions)	Community Banking	Wholesale Banking	Wells Fargo Financial	Reconciliation Column[4]	Consolidated Company
2002					
Net interest income [1]	**$10,727**	**$2,293**	**$1,866**	**$ (31)**	**$14,855**
Provision for loan losses	**914**	**278**	**541**	**—**	**1,733**
Noninterest income	**6,762**	**2,513**	**354**	**12**	**9,641**
Noninterest expense	**10,235**	**2,573**	**1,099**	**2**	**13,909**
Income (loss) before income tax expense (benefit) and effect of change in accounting principle	**6,340**	**1,955**	**580**	**(21)**	**8,854**
Income tax expense (benefit) [2]	**2,252**	**696**	**220**	**(24)**	**3,144**
Net income before effect of change in accounting principle	**4,088**	**1,259**	**360**	**3**	**5,710**
Cumulative effect of change in accounting principle	**—**	**(98)**	**(178)**	**—**	**(276)**
Net income	**$ 4,088**	**$1,161**	**$ 182**	**$ 3**	**$ 5,434**
2001					
Net interest income [1]	$ 8,696	$ 2,164	$ 1,679	$ (79)	$ 12,460
Provision for loan losses	1,015	278	487	—	1,780
Noninterest income	5,188	2,117	371	14	7,690
Noninterest expense	8,937	2,300	1,028	626	12,891
Income (loss) before income tax expense (benefit)	3,932	1,703	535	(691)	5,479
Income tax expense (benefit) [2]	1,332	610	201	(87)	2,056
Net income (loss)	2,600	1,093	334	(604)	3,423
Less: Impairment and other special charges (after tax) [3]	(1,089)	(62)	—	(6)	(1,157)
Net income (loss) excluding impairment and other special charges	$ 3,689	$ 1,155	$ 334	$ (598)	$ 4,580
2000					
Net interest income [1]	$ 7,586	$ 1,949	$ 1,424	$ (94)	$ 10,865
Provision for loan losses	849	151	329	—	1,329
Noninterest income	6,685	1,768	304	86	8,843
Noninterest expense	8,405	1,920	945	560	11,830
Income (loss) before income tax expense (benefit)	5,017	1,646	454	(568)	6,549
Income tax expense (benefit) [2]	1,783	622	168	(50)	2,523
Net income (loss)	$ 3,234	$ 1,024	$ 286	$(518)	$ 4,026
2002					
Average loans	**$ 115**	**$ 49**	**$ 15**	**$ —**	**$ 179**
Average assets	**228**	**71**	**17**	**6**	**322**
Average core deposits	**166**	**18**	**—**	**—**	**184**
2001					
Average loans	$ 100	$ 50	$ 13	$ —	$ 163
Average assets	198	66	15	6	285
Average core deposits	152	16	—	—	168

(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 actual 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 the other segments.

(2) Taxes vary by geographic concentration of revenue generation. Taxes as presented may differ from the consolidated Company's effective tax rate as a result of taxable-equivalent adjustments that primarily relate to income on certain loans and securities that is exempt from federal and applicable state income taxes. The offsets for these adjustments are in the reconciliation column.

(3) Impairment and other special charges in the second quarter of 2001, which are included in noninterest income, mainly related to impairment of publicly-traded and private equity securities, primarily in the venture capital portfolio.

(4) The material items in the reconciliation column for revenue (i.e., net interest income plus noninterest income) and net income consist of Treasury activities and unallocated items. Revenue includes Treasury activities of $7 million, $28 million and $63 million; and unallocated items of $(26) million, $(93) million, and $(71) million for 2002, 2001 and 2000, respectively. Net income includes Treasury activities of $2 million, $15 million and $38 million; and unallocated items of $1 million, $(619) million and $(556) million for 2002, 2001 and 2000, respectively. The material item in the reconciliation column for noninterest expense is amortization of goodwill of $610 million and $530 million for 2001 and 2000, respectively. The material item in the reconciliation column for average assets is unallocated goodwill of $6 billion for both periods presented. Results for 2001 and 2000 have been restated to reclassify goodwill amortization from the three operating segments to the reconciliation column for comparability.

Note 21: Securitizations

The Company routinely originates, securitizes and sells mortgage loans and, from time to time, other financial assets, including student loans, auto receivables and securities, into the secondary market. As a result, the Company typically retains the servicing rights and may retain other beneficial interests from the sales. These securitizations are usually structured without recourse to the Company and without restrictions on the retained interests. The retained interests do not contain significant credit risks.

The Company recognized gains of $100 million from sales of financial assets in securitizations in 2002, compared with $623 million in 2001. Additionally, the Company had the following cash flows with securitization trusts:

(in millions)	Year ended December 31,			
	2002		2001	
	Mortgage loans	**Other financial assets**	Mortgage loans	Other financial assets
Sales proceeds from securitizations	**$15,718**	**$102**	$16,410	$3,024
Servicing fees	**78**	**16**	65	42
Cash flows on other retained interests	**146**	**26**	144	112

In the normal course of creating securities to sell to investors, the Company may sponsor the special-purpose entities which hold, for the benefit of the investors, financial instruments that are the source of payment to the investors. Those special-purpose entities are consolidated unless they meet the criteria for a qualifying special-purpose entity in accordance with FASB Statement No. 140 (FAS 140), *Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, or were not required to be consolidated under then existing accounting guidance.

The key economic assumptions used in determining the fair value of mortgage servicing rights and other retained interests at the date of securitization resulting from securitizations completed in 2002 and 2001 were as follows:

	Mortgage servicing rights		Other retained interests	
	2002	2001	**2002**	2001
Prepayment speed (annual CPR [1])	**12.7%**	13.4%	**16.0%**	15.9%
Weighted-average life (in years)	**6.8**	7.1	**6.0**	6.1
Discount rates [2]	**8.9%**	8.9%	**14.6%**	11.3%

(1) Constant prepayment rate
(2) Discount rates and prepayment speeds represent weighted averages for all retained interests resulting from securitizations completed in 2002 and 2001.

At December 31, 2002, key economic assumptions and the sensitivity of the current fair value of mortgage servicing rights, both purchased and retained, and other retained interests related to residential mortgage loan securitizations to immediate 10% and 25% adverse changes in those assumptions are presented in the table below.

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

($ in millions)	Mortgage servicing rights	Other retained interests
Fair value of retained interests	$4,494	$ 398
Expected weighted-average life (in years)	2.1	2.0
Prepayment speed assumption (annual CPR)	36.8%	35.8%
Decrease in fair value from 10% adverse change	$ 255	$ 39
Decrease in fair value from 25% adverse change	577	83
Discount rate assumption	10.6%	11.9%
Decrease in fair value from 100 basis point adverse change	$ 78	$ 6
Decrease in fair value from 200 basis point adverse change	153	13

The following table presents information about the principal balances of managed and securitized loans.

(in millions)	December 31, Total loans[1]		December 31, Delinquent loans[2]		Year ended December 31, Net charge-offs	
	2002	2001	**2002**	2001	**2002**	2001
Commercial	**$ 47,292**	$ 47,547	**$ 888**	$ 887	**$ 554**	$ 596
Real estate 1-4 family first mortgage	**147,953**	159,890	**340**	370	**23**	26
Other real estate mortgage	**31,478**	30,241	**214**	250	**14**	11
Real estate construction	**7,804**	7,806	**104**	192	**21**	34
Consumer:						
Real estate 1-4 family junior lien mortgage	**35,927**	25,530	**140**	80	**53**	36
Credit card	**7,455**	6,700	**131**	117	**360**	381
Other revolving credit and monthly payment	**34,330**	31,298	**377**	376	**590**	638
Total consumer	**77,712**	63,528	**648**	573	**1,003**	1,055
Lease financing	**8,241**	9,420	**79**	163	**77**	69
Foreign	**2,075**	1,786	**5**	9	**70**	64
Total loans managed and securitized	**$322,555**	$320,218	**$ 2,278**	$2,444	**$1,762**	$1,855
Less:						
Sold or securitized loans	**68,102**	112,569				
Mortgages held for sale	**51,154**	30,405				
Loans held for sale	**6,665**	4,745				
Total loans held	**$196,634**	$172,499				

(1) Represents loans on the balance sheet or that have been securitized, but excludes securitized loans that the Company continues to service but as to which it has no other continuing involvement.
(2) Includes nonaccrual loans and loans 90 days past due and still accruing.

The Company believes that it is reasonably possible that it could be a significant or majority variable interest holder in certain special-purpose entities formed to securitize high-yield corporate debt, commercial mortgage-backed and real estate investment trust securities. At inception of these entities, the Company was not required to consolidate them under then existing authoritative accounting guidance. 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 aggregate amount of assets in these entities at December 31, 2002 was approximately $1.2 billion and the Company estimates that its maximum exposure to loss as a result of its involvement with these entities to be $45 million, which approximated the book value of the Company's variable interests in these entities at December 31, 2002.

Note 22: Mortgage Banking Activities

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

The following table presents the components of mortgage banking noninterest income:

(in millions)	Year ended December 31,		
	2002	2001	2000
Origination and other closing fees	**$1,048**	$ 737	$ 350
Servicing fees, net of amortization and provision for impairment[1]	**(737)**	(260)	665
Net gains on securities available for sale	**—**	134	—
Net gains on sales of mortgage servicing rights	**—**	—	159
Net gains on mortgage loan origination/sales activities	**1,038**	705	38
All other	**364**	355	232
Total mortgage banking noninterest income	**$1,713**	$1,671	$1,444

(1) Includes impairment write-downs on other retained interests of $567 million, $27 million and nil for 2002, 2001 and 2000, respectively.

The managed mortgage servicing portfolio totaled $613 billion at December 31, 2002, $525 billion at December 31, 2001 and $468 billion at December 31, 2000, and included loans subserviced for others of $36 billion, $63 billion and $85 billion, respectively.

Net of valuation allowance, mortgage servicing rights totaled $4.5 billion (.92% of the total mortgage servicing portfolio) at December 31, 2002, compared with $6.2 billion (1.54% of the total mortgage servicing portfolio) at December 31, 2001. In 2002, the Company determined that a portion of the asset was not recoverable and reduced both the asset and the previously designated valuation allowance by $1,071 million reflecting the write-down.

The following table summarizes the changes in mortgage servicing rights:

(in millions)	Year ended December 31,		
	2002	2001	2000
Balance, beginning of year	**$ 7,365**	$5,609	$4,652
Originations[1]	**2,408**	1,883	702
Purchases[1]	**1,474**	962	1,212
Sales	**—**	—	(58)
Amortization	**(1,942)**	(914)	(554)
Write-down	**(1,071)**	—	—
Other (includes changes in mortgage servicing rights due to hedging)	**(1,557)**	(175)	(345)
Balance before valuation allowance	**6,677**	7,365	5,609
Less: Valuation allowance	**2,188**	1,124	—
Balance, end of year	**$ 4,489**	$6,241	$5,609

(1) Based on December 31, 2002 assumptions, the weighted-average amortization period for mortgage servicing rights added during the year was 6.8 years.

Each quarter, the Company evaluates the possible impairment of mortgage servicing rights based on the difference between the carrying amount and current fair value of the mortgage servicing rights, in accordance with FAS 140. If a temporary impairment exists, a valuation allowance is established for any excess of amortized cost, as adjusted for hedge accounting, over the current fair value through a charge to income. The Company has a policy of reviewing mortgage servicing rights assets for other-than-temporary impairment each quarter and recognizes a direct write-down when the recoverability of a recorded valuation allowance is determined to be remote. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the mortgage servicing rights asset and the valuation allowance, precluding subsequent reversals. (See Note 1 – Transfer and Servicing of Financial Assets for additional discussion of the Company's policy for valuation of mortgage servicing rights.)

The following table summarizes the changes in the valuation allowance for mortgage servicing rights:

(in millions)	December 31,	
	2002	2001
Balance, beginning of year	**$ 1,124**	$ —
Provision for mortgage servicing rights in excess of fair value	**2,135**	1,124
Write-down of mortgage servicing rights	**(1,071)**	—
Balance, end of year	**$ 2,188**	$ 1,124

Note 23: Condensed Consolidating Financial Statements

Wells Fargo Financial, Inc. and its Subsidiaries (WFFI)

On October 22, 2002, the Parent issued a full and unconditional guarantee of all outstanding term debt securities and commercial paper of its wholly owned subsidiary, WFFI. WFFI ceased filing periodic reports under the Securities Exchange Act of 1934 and is no longer a separately rated company. The Parent has also guaranteed all outstanding term debt and commercial paper of Wells Fargo Financial Canada Corporation (WFFC), WFFI's wholly owned Canadian subsidiary. WFFC expects to continue to issue term debt and commercial paper in Canada, fully guaranteed by the Parent. Presented below are the Condensed Consolidating Financial Statements:

Condensed Consolidating Statements of Income

(in millions)					December 31, 2002
	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Dividends from subsidiaries:					
Bank	$3,561	$ —	$ —	$(3,561)	$ —
Nonbank	234	—	—	(234)	—
Interest from loans	—	2,295	11,123	—	13,418
Interest income from subsidiaries	365	—	—	(365)	—
Other interest income	78	78	5,270	(12)	5,414
Total interest income	4,238	2,373	16,393	(4,172)	18,832
Short-term borrowings	127	96	347	(34)	536
Long-term debt	457	549	571	(173)	1,404
Other interest expense	—	—	2,037	—	2,037
Total interest expense	584	645	2,955	(207)	3,977
NET INTEREST INCOME	3,654	1,728	13,438	(3,965)	14,855
Provision for loan losses	—	556	1,177	—	1,733
Net interest income after provision for loan losses	3,654	1,172	12,261	(3,965)	13,122
NONINTEREST INCOME					
Fee income—non-affiliates	—	202	6,062	—	6,264
Other	164	222	3,056	(65)	3,377
Total noninterest income	164	424	9,118	(65)	9,641
NONINTEREST EXPENSE					
Salaries and benefits	162	560	6,650	—	7,372
Other	27	466	6,109	(65)	6,537
Total noninterest expense	189	1,026	12,759	(65)	13,909
INCOME BEFORE INCOME TAX (BENEFIT) EXPENSE , EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	3,629	570	8,620	(3,965)	8,854
Income tax (benefit) expense	(222)	210	3,156	—	3,144
Equity in undistributed income of subsidiaries	1,602	—	—	(1,602)	—
NET INCOME BEFORE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	5,453	360	5,464	(5,567)	5,710
Cumulative effect of change in accounting principle	(19)	—	(257)	—	(276)
NET INCOME	$5,434	$ 360	$ 5,207	$(5,567)	$ 5,434

Condensed Consolidating Statements of Income

(in millions)	December 31, 2001				
	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Dividends from subsidiaries:					
Bank	$2,360	$ —	$ —	$(2,360)	$ —
Nonbank	218	—	—	(218)	—
Interest from loans	—	2,136	12,922	(597)	14,461
Interest income from subsidiaries	566	—	—	(566)	—
Other interest income	128	79	5,034	(501)	4,740
Total interest income	3,272	2,215	17,956	(4,242)	19,201
Short-term borrowings	305	187	2,063	(1,282)	1,273
Long-term debt	691	498	777	(140)	1,826
Other interest expense	—	—	3,910	(268)	3,642
Total interest expense	996	685	6,750	(1,690)	6,741
NET INTEREST INCOME	2,276	1,530	11,206	(2,552)	12,460
Provision for loan losses	—	526	1,254	—	1,780
Net interest income after provision for loan losses	2,276	1,004	9,952	(2,552)	10,680
NONINTEREST INCOME					
Fee income–non-affiliates	2	199	5,425	—	5,626
Other	99	208	4,663	(2,906)	2,064
Total noninterest income	101	407	10,088	(2,906)	7,690
NONINTEREST EXPENSE					
Salaries and benefits	(11)	523	5,670	—	6,182
Other	159	465	8,966	(2,881)	6,709
Total noninterest expense	148	988	14,636	(2,881)	12,891
INCOME BEFORE INCOME TAX (BENEFIT) EXPENSE AND EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	2,229	423	5,404	(2,577)	5,479
Income tax (benefit) expense	(230)	159	2,127	—	2,056
Equity in undistributed income of subsidiaries	964	—	—	(964)	—
NET INCOME	$3,423	$ 264	$ 3,277	$(3,541)	$ 3,423

Condensed Consolidating Statements of Income

(in millions)	December 31, 2000				
	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
Dividends from subsidiaries:					
Bank	$2,318	$ —	$ —	$(2,318)	$ —
Nonbank	1,139	—	—	(1,139)	—
Interest from loans	—	1,828	13,074	(456)	14,446
Interest income from subsidiaries	701	—	—	(701)	—
Other interest income	141	78	5,072	(1,012)	4,279
Total interest income	4,299	1,906	18,146	(5,626)	18,725
Short-term borrowings	464	238	2,308	(1,252)	1,758
Long-term debt	739	401	910	(111)	1,939
Other interest expense	—	—	4,420	(257)	4,163
Total interest expense	1,203	639	7,638	(1,620)	7,860
NET INTEREST INCOME	3,096	1,267	10,508	(4,006)	10,865
Provision for loan losses	—	358	971	—	1,329
Net interest income after provision for loan losses	3,096	909	9,537	(4,006)	9,536
NONINTEREST INCOME					
Fee income–non-affiliates	3	150	5,009	—	5,162
Other	270	177	6,339	(3,105)	3,681
Total noninterest income	273	327	11,348	(3,105)	8,843
NONINTEREST EXPENSE					
Salaries and benefits	19	465	5,003	—	5,487
Other	97	391	8,810	(2,955)	6,343
Total noninterest expense	116	856	13,813	(2,955)	11,830
INCOME BEFORE INCOME TAX (BENEFIT) EXPENSE AND EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	3,253	380	7,072	(4,156)	6,549
Income tax (benefit) expense	(114)	139	2,498	—	2,523
Equity in undistributed income of subsidiaries	659	—	—	(659)	—
NET INCOME	$4,026	$ 241	$ 4,574	$(4,815)	$ 4,026

Condensed Consolidating Balance Sheet

(in millions)	December 31, 2002				
	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
ASSETS					
Cash and cash equivalents due from:					
Subsidiary banks	$ 2,919	$ —	$ —	$ (2,919)	$ —
Other subsidiaries and non-affiliates	241	295	20,488	(30)	20,994
Securities available for sale	1,009	1,527	25,417	(6)	27,947
Mortgages and loans held for sale	—	—	57,819	—	57,819
Loans	2	16,247	180,385	—	196,634
Loans to subsidiaries:					
Bank	—	—	—	—	—
Nonbank	15,172	755	—	(15,927)	—
Allowance for loan losses	—	593	3,269	—	3,862
Net loans	15,174	16,409	177,116	(15,927)	192,772
Investments in subsidiaries:					
Bank	31,744	—	—	(31,744)	—
Nonbank	4,273	—	—	(4,273)	—
Other assets	2,434	720	46,784	(211)	49,727
Total assets	$57,794	$18,951	$327,624	$(55,110)	$349,259
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits	$ —	$ 88	$216,964	$ (136)	$216,916
Short-term borrowings	3,550	4,476	29,134	(3,714)	33,446
Accrued expenses and other liabilities	1,297	702	27,078	(10,743)	18,334
Long-term debt	19,947	11,234	19,957	(3,818)	47,320
Indebtedness to subsidiaries	692	—	—	(692)	—
Guaranteed preferred beneficial interests in Company's subordinated debentures	1,950	—	935	—	2,885
Stockholders' equity	30,358	2,451	33,556	(36,007)	30,358
Total liabilities and stockholders' equity	$57,794	$18,951	$327,624	$(55,110)	$349,259

Condensed Consolidating Balance Sheet

(in millions)	December 31, 2001				
	Parent	WFFI	Other consolidating subsidiaries	Eliminations	Consolidated Company
ASSETS					
Cash and cash equivalents due from:					
Subsidiary banks	$ 2,836	$ —	$ 27,570	$(30,406)	$ —
Other subsidiaries and non-affiliates	74	255	19,169	—	19,498
Securities available for sale	1,531	1,377	37,705	(305)	40,308
Mortgages and loans held for sale	—	—	35,150	—	35,150
Loans	2	13,439	159,058	—	172,499
Loans to subsidiaries:					
Bank	200	—	—	(200)	—
Nonbank	10,439	637	2,945	(14,021)	—
Allowance for loan losses	—	522	3,239	—	3,761
Net loans	10,641	13,554	158,764	(14,221)	168,738
Investments in subsidiaries:					
Bank	28,741	—	—	(28,741)	—
Nonbank	4,781	—	—	(4,781)	—
Other assets	2,324	661	48,940	(8,050)	43,875
Total assets	$50,928	$15,847	$327,298	$(86,504)	$307,569
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits	$ —	$ 79	$199,257	$(12,070)	$187,266
Short-term borrowings	4,969	4,148	64,507	(35,842)	37,782
Accrued expenses and other liabilities	1,086	663	15,451	(423)	16,777
Long-term debt	14,456	8,846	16,012	(3,219)	36,095
Indebtedness to subsidiaries	1,703	—	—	(1,703)	—
Guaranteed preferred beneficial interests in Company's subordinated debentures	1,500	—	935	—	2,435
Stockholders' equity	27,214	2,111	31,136	(33,247)	27,214
Total liabilities and stockholders' equity	$50,928	$15,847	$327,298	$(86,504)	$307,569

Condensed Consolidating Statement of Cash Flows

(in millions)	December 31, 2002			
	Parent	WFFI	Other consolidating subsidiaries/ eliminations	Consolidated Company
Cash flows from operating activities:				
Net cash provided (used) by operating activities	$ 4,366	$ 956	$(20,177)	$(14,855)
Cash flows from investing activities:				
Securities available for sale:				
Proceeds from sales	531	769	10,563	11,863
Proceeds from prepayments and maturities	150	143	9,391	9,684
Purchases	(201)	(1,030)	(6,030)	(7,261)
Net cash (paid for) acquired from acquisitions	(589)	(281)	282	(588)
Net increase in banking subsidiaries' loans resulting from originations and collections	—	—	(17,745)	(17,745)
Proceeds from sales (including participations) of banking subsidiaries' loans	—	—	948	948
Purchases (including participations) of loans by banking subsidiaries	—	—	(2,818)	(2,818)
Principal collected on nonbank subsidiaries' loans	—	10,984	412	11,396
Nonbank subsidiaries' loans originated	—	(13,996)	(625)	(14,621)
Net advances to nonbank subsidiaries	(2,728)	—	2,728	—
Capital notes and term loans made to subsidiaries	(2,262)	—	2,262	—
Principal collected on notes/loans of subsidiaries' loans	457	—	(457)	—
Net increase in investment in subsidiaries	507	—	(507)	—
Other, net	—	(179)	(2,757)	(2,936)
Net cash used by investing activities	(4,135)	(3,590)	(4,353)	(12,078)
Cash flows from financing activities:				
Net increase in deposits	—	9	25,041	25,050
Net (decrease) increase in short-term borrowings	(2,444)	329	(3,109)	(5,224)
Proceeds from issuance of long-term debt	8,495	4,126	9,090	21,711
Repayment of long-term debt	(3,150)	(1,745)	(6,007)	(10,902)
Proceeds from issuance of guaranteed preferred beneficial interests in Company's subordinated debentures	450	—	—	450
Proceeds from issuance of common stock	578	—	—	578
Redemption of preferred stock	—	—	—	—
Repurchase of common stock	(2,033)	—	—	(2,033)
Payment of cash dividends on preferred and common stock	(1,877)	(45)	45	(1,877)
Other, net	—	—	32	32
Net cash provided by financing activities	19	2,674	25,092	27,785
Net change in cash and due from banks	250	40	562	852
Cash and due from banks at beginning of year	2,910	255	13,803	16,968
Cash and due from banks at end of year	$ 3,160	$ 295	$ 14,365	$ 17,820

Condensed Consolidating Statement of Cash Flows

(in millions)	December 31, 2001			
	Parent	WFFI	Other consolidating subsidiaries/ eliminations	Consolidated Company
Cash flows from operating activities:				
Net cash provided (used) by operating activities	$ 1,932	$ 903	$(12,454)	$ (9,619)
Cash flows from investing activities:				
Securities available for sale:				
Proceeds from sales	626	445	18,515	19,586
Proceeds from prepayments and maturities	85	150	6,495	6,730
Purchases	(462)	(732)	(27,859)	(29,053)
Net cash paid for acquisitions	(370)	(325)	236	(459)
Net increase in banking subsidiaries' loans resulting from originations and collections	—	—	(11,596)	(11,596)
Proceeds from sales (including participations) of banking subsidiaries' loans	—	—	2,305	2,305
Purchases (including participations) of loans by banking subsidiaries	—	—	(1,104)	(1,104)
Principal collected on nonbank subsidiaries' loans	—	9,677	287	9,964
Nonbank subsidiaries' loans originated	—	(11,395)	(256)	(11,651)
Net advances to nonbank subsidiaries	(722)	—	722	—
Capital notes and term loans made to subsidiaries	(159)	—	159	—
Principal collected on notes/loans made to subsidiaries	1,304	—	(1,304)	—
Net increase in investment in subsidiaries	(609)	—	609	—
Other, net	—	(267)	(3,695)	(3,962)
Net cash used by investing activities	(307)	(2,447)	(16,486)	(19,240)
Cash flows from financing activities:				
Net increase in deposits	—	6	17,701	17,707
Net (decrease) increase in short-term borrowings	(331)	445	8,679	8,793
Proceeds from issuance of long-term debt	4,573	2,904	7,181	14,658
Repayment of long-term debt	(3,066)	(1,736)	(5,823)	(10,625)
Proceeds from issuance of guaranteed preferred beneficial interests in Company's subordinated debentures	1,500	—	—	1,500
Proceeds from issuance of common stock	484	—	—	484
Redemption of preferred stock	(200)	—	—	(200)
Repurchase of common stock	(1,760)	—	—	(1,760)
Payment of cash dividends on preferred and common stock	(1,724)	(125)	125	(1,724)
Other, net	—	130	(114)	16
Net cash (used) provided by financing activities	(524)	1,624	27,749	28,849
Net change in cash and due from banks	1,101	80	(1,191)	(10)
Cash and due from banks at beginning of year	1,809	175	14,994	16,978
Cash and due from banks at end of year	$ 2,910	$ 255	$ 13,803	$ 16,968

Condensed Consolidating Statement of Cash Flows

(in millions)	December 31, 2000			
	Parent	WFFI	Other consolidating subsidiaries/ eliminations	Consolidated Company
Cash flows from operating activities:				
Net cash provided by operating activities	$ 3,680	$ 672	$ 3,018	$ 7,370
Cash flows from investing activities:				
Securities available for sale:				
Proceeds from sales	739	171	22,714	23,624
Proceeds from prepayments and maturities	112	152	5,983	6,247
Purchases	(1,067)	(331)	(18,372)	(19,770)
Net cash (paid for) acquired from acquisitions	(85)	(493)	1,047	469
Net increase in banking subsidiaries' loans resulting from originations and collections	—	—	(36,076)	(36,076)
Proceeds from sales (including participations) of banking subsidiaries' loans	—	—	11,898	11,898
Purchases (including participations) of loans by banking subsidiaries	—	—	(409)	(409)
Principal collected on nonbank subsidiaries' loans	—	7,571	734	8,305
Nonbank subsidiaries' loans originated	—	(9,300)	—	(9,300)
Net advances to nonbank subsidiaries	(2,499)	—	2,499	—
Capital notes and term loans made to subsidiaries	(2,007)	—	2,007	—
Principal collected on notes/loans made to subsidiaries	1,487	—	(1,487)	—
Net increase in investment in subsidiaries	(1,719)	—	1,719	—
Other, net	—	6	(7,563)	(7,557)
Net cash used by investing activities	(5,039)	(2,224)	(15,306)	(22,569)
Cash flows from financing activities:				
Net increase in deposits	—	—	20,745	20,745
Net (decrease) increase in short-term borrowings	(743)	475	(3,243)	(3,511)
Proceeds from issuance of long-term debt	6,590	2,305	6,649	15,544
Repayment of long-term debt	(4,400)	(1,282)	(4,167)	(9,849)
Proceeds from issuance of guaranteed preferred beneficial interests in Company's subordinated debentures	—	—	—	—
Proceeds from issuance of common stock	422	—	—	422
Redemption of preferred stock	—	—	—	—
Repurchase of common stock	(3,235)	—	(3)	(3,238)
Payment of cash dividends on preferred and common stock	(1,586)	(45)	45	(1,586)
Other, net	—	95	(563)	(468)
Net cash (used) provided by financing activities	(2,952)	1,548	19,463	18,059
Net change in cash and due from banks	(4,311)	(4)	7,175	2,860
Cash and due from banks at beginning of year	6,120	179	7,819	14,118
Cash and due from banks at end of year	$ 1,809	$ 175	$14,994	$ 16,978

Note 24: Legal Actions and Other Contingent Commitments

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

The Company enters into indemnification agreements in the ordinary course of business under which the Company agrees to hold third parties harmless from any damages, losses and expenses, including out-of-pocket legal and other expenses incurred in connection with any claims made and legal and other proceedings arising from relationships and/or transactions between the indemnified persons and the Company. These relationships and/or transactions include those arising from service as a director or officer of the Company, one of its subsidiaries, or an entity in which the Company or one of its subsidiaries has an interest, underwriting agreements relating to offers and sales of the Company's securities, acquisition agreements, and various other business transactions or arrangements. Because the extent of the Company's obligations under such indemnification agreements depends entirely upon the occurrence of

future events that may give rise to a claim, the Company is unable to estimate the amount it would be required to pay in connection with any such claim.

The Company has entered into various contingent performance guarantee arrangements with terms ranging from 1 to 30 years. These guarantees have arisen through certain risk participation agreements, lending arrangements or sales of loans. At December 31, 2002, potential payments under these guarantee arrangements were not material to the Company's financial statements.

Note 25: Regulatory and Agency Capital Requirements

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

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

Under the guidelines, capital is compared with the relative risk related to the balance sheet. To derive the risk included in the balance sheet, a risk weighting is applied to each balance sheet and off-balance sheet asset, primarily based on the relative credit risk of the counterparty. For example, claims guaranteed by the U.S. government or one of its agencies are risk-weighted at 0% and certain real estate related loans risk-weighted at 50%. Off-balance sheet items, such as loan commitments and derivative financial instruments, are also applied a risk weight after calculating balance sheet equivalent amounts. A credit conversion factor is assigned to loan commitments based on the likelihood of the off-balance sheet item becoming an asset. For example, certain loan commitments are converted at 50% and then risk-weighted at 100%. Derivative financial instruments are converted to balance sheet equivalents based on notional values, replacement costs and remaining contractual terms. (See Notes 5 and 26 for further discussion of off-balance sheet items.) Effective January 1, 2002, federal banking agencies adopted an amendment to the regulatory capital guidelines regarding the treatment of certain recourse obligations, direct credit substitutes, residual interests in asset securitization, and other securitized transactions that expose institutions primarily to credit risk. The amendment creates greater differentiation in the capital treatment of residual interests. The capital amounts and classification under the guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Management believes that, as of December 31, 2002, the Company and each of the covered subsidiary banks met all capital adequacy requirements to which they are subject.

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

(in billions)	Actual		For capital adequacy purposes		To be well capitalized under the FDICIA prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2002:						
Total capital (to risk-weighted assets)						
Wells Fargo & Company	$32.0	11.31%	≥$22.6	≥8.00%		
Wells Fargo Bank, N.A.	17.9	11.42	≥ 12.5	≥8.00	≥$15.7	≥10.00%
Wells Fargo Bank Minnesota, N.A.	4.0	13.50	≥ 2.3	≥8.00	≥ 2.9	≥10.00
Tier 1 capital (to risk-weighted assets)						
Wells Fargo & Company	$21.5	7.60%	≥$11.3	≥4.00%		
Wells Fargo Bank, N.A.	11.4	7.29	≥ 6.3	≥4.00	≥$ 9.4	≥ 6.00%
Wells Fargo Bank Minnesota, N.A.	3.7	12.53	≥ 1.2	≥4.00	≥ 1.8	≥ 6.00
Tier 1 capital (to average assets) (Leverage ratio)						
Wells Fargo & Company	$21.5	6.58%	≥$13.1	≥4.00%(1)		
Wells Fargo Bank, N.A.	11.4	6.84	≥ 6.7	≥4.00 (1)	≥$ 8.4	≥ 5.00%
Wells Fargo Bank Minnesota, N.A.	3.7	6.66	≥ 2.2	≥4.00 (1)	≥ 2.8	≥ 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.

To remain a seller/servicer in good standing, the Company's mortgage banking affiliate must maintain specified equity levels as required by the United States Department of Housing and Urban Development, Government National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association. The equity requirements are generally based on the size of the loan portfolio being serviced for each investor. At December 31, 2002, the equity requirements for these agencies ranged from $1 million to $190 million. The mortgage banking affiliate had agency capital levels in excess of these requirements.

Note 26: Derivative Financial Instruments

The Company adopted FAS 133 on January 1, 2001. The effect on 2001 net income from the adoption was an increase of $13 million (after tax). The pretax amount of $22 million was recorded as a component of other noninterest income. In accordance with the transition provisions of FAS 133, the Company recorded a transition adjustment of $71 million, net of tax, (increase in equity) in 2001 in other comprehensive income in a manner similar to a cumulative effect of a change in accounting principle. The transition adjustment was the initial amount necessary to adjust the carrying values of certain derivative instruments (that qualified as cash flow hedges) to fair value to the extent that the related hedge transactions had not yet been recognized.

The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings, fair values of assets and liabilities, and cash flows caused by interest rate volatility. The Company's interest rate risk management strategy involves modifying the repricing characteristics of certain assets and liabilities so that changes in interest rates do not have a significant adverse effect on the net interest margin and cash flows. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. In a fair value hedging strategy, the effect of this unrealized appreciation or depreciation will generally be offset by income or loss on the derivative instruments that are linked to the hedged assets and liabilities. In a cash flow hedging strategy, the variability of cash payments due to interest rate fluctuations is managed by the effective use of derivative instruments that are linked to hedged assets and liabilities.

Derivative instruments that the Company uses as part of its interest rate risk management include interest rate swaps and floors, interest rate futures and forward contracts, and options. The Company also offers various derivative contracts, which include interest rate, commodity, equity and foreign exchange contracts to its customers but usually offsets such contracts by purchasing other financial contracts. The customer accommodations are treated as free-standing derivatives. The free-standing derivative instruments also include derivative transactions entered into for risk management purposes that do not otherwise qualify for hedge accounting. To a lesser extent, the Company takes positions based on market expectations or to benefit from price differentials between financial instruments and markets.

By using derivative instruments, the Company is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. If a counterparty fails to perform, credit risk is equal to the fair value gain in a derivative contract. The Company minimizes the credit risk through credit approvals, limits and monitoring procedures. Credit risk related to derivative contracts is

considered and, if material, provided for separately. As the Company generally enters into transactions only with counterparties that carry quality credit ratings, losses associated with counterparty nonperformance on derivative contracts have been immaterial. Further, the Company obtains collateral where appropriate to mitigate risk. To the extent the master netting arrangements meet the requirements of FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, as amended by FASB Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*, amounts are shown net in the balance sheet.

The Company's derivative activities are monitored by the Corporate Asset/Liability Management Committee. The Company's Treasury function, which includes asset/liability management, is responsible for implementing various hedging strategies that are developed through its analysis of data from financial models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Company's overall interest rate risk management and trading strategies.

Fair Value Hedges

The Company uses derivative contracts to manage the risk associated with changes in the fair value of mortgage servicing rights and other retained interests. The change in value of these derivative contracts is included in current period earnings in their entirety. The Company evaluates hedge effectiveness excluding the impacts of changes in value associated with volatility and the passage of time (time value), primarily representing the spread between spot and forward rates priced into these derivative contracts. The changes in value of derivatives excluded from the assessment of hedge effectiveness recorded in earnings amounted to a net gain of $1,201 million in 2002 and a net loss of $181 million in 2001. Also, the Company recognized net gains related to ineffectiveness in these hedging relationships in the amount of $1,125 million in 2002 and $702 million in 2001. The gain in 2002 primarily resulted from increased interest rate volatility. The gains were more than offset by higher valuation provision for impairment and amortization expense on mortgage servicing rights and other retained interests, amounting to $4,935 million in 2002 and $2,716 million in 2001. The gain on the derivative contracts, valuation provision for impairment and amortization expense are included in "Servicing fees, net of provision for impairment and amortization" in Note 22.

The Company also enters into interest rate swaps, designated as fair value hedges, to convert certain of its fixed-rate long-term debt to floating-rate debt. The ineffective portion of these fair value hedges was a net gain of $1 million in 2002 and was a net gain of $11 million in 2001, recorded as an offset to interest expense in the statement of income. For long-term debt, all components of each derivative instrument's gain or loss are included in the assessment of hedge effectiveness.

Beginning in 2002, the Company began using derivative contracts to hedge changes in fair value of its commercial real estate mortgages and franchise loans due to changes in LIBOR interest rates. The Company originates these loans with the intent to sell them. The ineffective portion of these fair value hedges was a net loss of $3 million in 2002, recorded as a component of mortgage banking noninterest income in the statement of income. For the commercial real estate and franchise loan hedges, all components of each derivative instrument's gain or loss are included in the assessment of hedge effectiveness.

As of December 31, 2002, all designated fair value hedges continued to qualify as fair value hedges.

Cash Flow Hedges

The Company enters into derivative contracts to convert floating-rate loans to fixed rates and to hedge forecasted sales of its mortgage loans. The Company recognized a net loss of $311 million in 2002, which represents the total ineffectiveness of cash flow hedges, compared with a net loss of $120 million in 2001. The change was primarily due to growth in mortgages held for sale and increased interest rate volatility. Gains and losses on derivative contracts 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 components of each derivative instrument's gain or loss are included in the assessment of hedge effectiveness, except for time value and volatility of options hedging commercial loans indexed to LIBOR. As of December 31, 2002, all designated cash flow hedges continued to qualify as cash flow hedges.

At December 31, 2002, $125 million of deferred net losses on derivative instruments included in other comprehensive income are expected to be reclassified as earnings during the next twelve months, compared with $110 million of deferred net gains at December 31, 2001. The maximum term for which the Company is hedging its exposure to the variability of future cash flows for all forecasted transactions is two years for hedges converting floating-rate loans to fixed and one year for hedges of forecasted sales of mortgage loans.

Free-Standing Derivative Instruments

The Company enters into various derivative contracts primarily to focus on providing derivative products to customers. To a lesser extent, the Company takes positions based on market expectations or to benefit from price differentials between financial instruments and markets. These derivative contracts 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. They are carried at fair value with changes in fair value recorded as a component of other noninterest income in the statement of income.

Interest rate lock commitments issued on residential mortgage loans intended to be held for resale are considered free-standing derivative instruments. The interest rate exposure on these commitments is economically hedged with options, futures and forwards. The commitments and free-standing derivative instruments are carried at fair value with changes in fair value recorded as a component of mortgage banking noninterest income in the statement of income.

Derivative instruments utilized by the Company and classified as free-standing instruments include swaps, futures, forwards, floors and caps purchased and written, and options purchased and written.

The following table summarizes the aggregate notional or contractual amounts, credit risk amount and estimated net fair value for the Company's derivative financial instruments at December 31, 2002 and 2001.

(in millions)				December 31,		
			2002			2001
	Notional or contractual amount	**Credit risk amount[5]**	**Estimated net fair value**	Notional or contractual amount	Credit risk amount[5]	Estimated net fair value
ASSET/LIABILITY MANAGEMENT HEDGES						
Interest rate contracts:						
Swaps [1]	**$ 24,533**	**$ 2,238**	**$ 2,180**	$ 27,868	$1,594	$1,559
Futures	**16,867**	**—**	**—**	264	—	—
Floors purchased [1]	**500**	**11**	**11**	500	27	27
Options purchased [1][2]	**90,959**	**520**	**520**	263,617	286	286
Options written [3]	**74,589**	**—**	**(236)**	235,813	—	(102)
Forwards [1]	**116,164**	**669**	**156**	113,620	290	(263)
CUSTOMER ACCOMMODATIONS AND TRADING						
Interest rate contracts:						
Swaps [1]	**68,164**	**2,606**	**1**	68,332	1,657	148
Futures	**83,351**	**—**	**—**	22,762	—	—
Floors and caps purchased [1]	**29,381**	**299**	**299**	24,255	440	440
Floors and caps written [3]	**30,400**	**—**	**(274)**	24,309	—	(385)
Options purchased [1]	**5,484**	**108**	**108**	2,435	18	18
Options written [3]	**58,846**	**328**	**280**	23,117	—	(162)
Forwards [1]	**51,088**	**2**	**(383)**	41,837	248	173
Commodity contracts:						
Swaps [1]	**206**	**11**	**1**	66	10	1
Floors and caps purchased [1]	**168**	**17**	**17**	104	8	8
Floors and caps written [3]	**166**	**—**	**(14)**	105	—	(8)
Equity contracts:						
Options purchased [1]	**382**	**29**	**29**	704	33	33
Options written [3]	**389**	**—**	**(49)**	529	—	(29)
Foreign exchange contracts:						
Forwards and spots [1]	**14,596**	**251**	**30**	8,968	227	65
Options purchased [1]	**749**	**20**	**20**	275	18	18
Options written [3]	**735**	**—**	**(20)**	260	—	(17)
Credit contracts:						
Swaps [1][4]	**4,735**	**52**	**(11)**	3,464	13	(2)

(1) The Company anticipates performance by substantially all of the counterparties for these contracts or the underlying financial instruments.
(2) At December 31, 2002 and 2001, the purchased option contracts were predominantly options on futures contracts, which are exchange traded, for which the exchange assumes counterparty risk.
(3) The Company enters into written options to hedge servicing assets and mortgage loan commitments. These options are exercisable by the option holder based on favorable market conditions. At December 31, 2002, the carrying amount of the written options liability was $272 million. Because the Company's ultimate obligation under a written option is based on future market conditions, the Company is unable to estimate the amount of maximum exposure it has related to written options. As part of its risk management strategy, the Company purchases options to minimize its obligations associated with its written options.
(4) The Company enters into credit default swaps. At December 31, 2002, the gross carrying amount of the contracts sold was a $52 million liability. The maximum amount the Company would be required to pay under those swaps in which it sold protection, assuming all reference obligations default at a total loss, without recoveries, was $2.5 billion. The Company has bought protection of $2.2 billion of notional exposure. Almost all of the protection purchases are exact offsets (i.e., use the same reference obligation and maturity) to the contracts in which the Company is providing protection to a counterparty.
(5) Credit risk amounts reflect the replacement cost for those contracts in a gain position in the event of nonperformance by all counterparties.

Note 27: Fair Value of Financial Instruments

FAS 107, *Disclosures about Fair Value of Financial Instruments*, requires that the Company disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions set forth below for the Company's financial instruments are made solely to comply with the requirements of this Statement and should be read in conjunction with the financial statements and notes in this Annual Report. The carrying amounts in the table on page 108 are recorded in the Consolidated Balance Sheet under the indicated captions.

Fair values are based on estimates or calculations using present value techniques in instances where quoted market prices are not available. Because broadly traded markets do not exist for most of the Company's financial instruments, the fair value calculations attempt to incorporate the effect of current market conditions at a specific time. Fair valuations are management's estimates of the values, and they are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the financial instruments and other such factors. These calculations are subjective in nature, involve uncertainties and matters of significant judgment and do not include tax ramifications; therefore, the results cannot be determined with precision, substantiated by comparison to independent markets and may not be realized in an actual sale or immediate settlement of the instruments. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results. The Company has not included certain material items in its disclosure, such as the value of the long-term relationships with the Company's deposit, credit card and trust customers, since these intangibles are not financial instruments. For all of these reasons, the aggregation of the fair value calculations presented herein do not represent, and should not be construed to represent, the underlying value of the Company.

Financial Assets

SHORT-TERM FINANCIAL ASSETS

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

SECURITIES AVAILABLE FOR SALE

Securities available for sale at December 31, 2002 and 2001 are set forth in Note 4.

MORTGAGES HELD FOR SALE

The fair value of mortgages held for sale is based on quoted market prices.

LOANS HELD FOR SALE

The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics.

LOANS

The fair valuation calculation process differentiates loans based on their financial characteristics, such as product classification, loan category, pricing features and remaining maturity. Prepayment estimates are evaluated by product and loan rate.

The fair value of commercial loans, other real estate mortgage loans and real estate construction loans is calculated by discounting contractual cash flows using discount rates that reflect the Company's current pricing for loans with similar characteristics and remaining maturity.

For real estate 1-4 family first and junior lien mortgages, fair value is calculated by discounting contractual cash flows, adjusted for prepayment estimates, using discount rates based on current industry pricing for loans of similar size, type, remaining maturity and repricing characteristics.

For consumer finance and credit card loans, the portfolio's yield is equal to the Company's current pricing and, therefore, the fair value is equal to book value.

For other consumer loans, the fair value is calculated by discounting the contractual cash flows, adjusted for prepayment estimates, based on the current rates offered by the Company for loans with similar characteristics.

For auto lease financing, the fair value is calculated by discounting the contractual cash flows at the Company's current pricing for items with similar remaining terms, not including tax benefits.

Commitments, standby letters of credit and commercial and similar letters of credit not included in the table on page 108 have contractual values of $113.2 billion, $6.3 billion and $719 million, respectively, at December 31, 2002, and $101.3 billion, $5.5 billion and $577 million, respectively, at December 31, 2001. These instruments generate ongoing fees at the Company's current pricing levels. Of the commitments at December 31, 2002, 41% mature within one year.

Trading Assets

Trading assets, which are carried at fair value, are set forth in Note 6.

NONMARKETABLE EQUITY INVESTMENTS

There are generally restrictions on the sale and/or liquidation of the Company's nonmarketable equity investments, including federal bank stock. Federal bank stock carrying value approximates fair value. The Company uses all facts and circumstances available to estimate the fair value of its cost method investments. Typical considerations include: access to and need for capital (including recent or projected financing activity), qualitative assessments of the viability of the investee, and prospects for its future.

Financial Liabilities

DEPOSIT LIABILITIES

FAS 107 states that the fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, interest-bearing checking and market rate and other savings, is equal to the amount payable on demand at the measurement date. Although the FASB's requirement for these categories is not consistent with the market practice of using prevailing interest rates to value these amounts, the amount included for these deposits in the following table is their carrying value at December 31, 2002 and 2001. The fair value of other time deposits is calculated based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for like wholesale deposits with similar remaining maturities.

SHORT-TERM FINANCIAL LIABILITIES

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

LONG-TERM DEBT AND GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES

The discounted cash flow method is used to estimate the fair value of the Company's fixed rate long-term debt and trust preferred securities. Contractual cash flows are discounted using rates currently offered for new notes with similar remaining maturities.

Derivative Financial Instruments

The fair value of derivative financial instruments at December 31, 2002 and 2001 is set forth in Note 26.

Limitations

These fair value disclosures are made solely to comply with the requirements of FAS 107. The calculations represent management's best estimates; however, due to the lack of broad markets and the significant items excluded from this disclosure, the calculations do not represent the underlying value of the Company. The information presented is based on fair value calculations and market quotes as of December 31, 2002 and 2001. These amounts have not been updated since year end; therefore, the valuations may have changed significantly since that point in time.

As discussed above, certain of the Company's asset and liability financial instruments are short-term, and therefore, the carrying amounts in the Consolidated Balance Sheet approximate fair value. Other significant assets and liabilities, which are not considered financial assets or liabilities and for which fair values have not been estimated, include premises and equipment, goodwill and other intangibles, deferred taxes and other liabilities.

The following table presents a summary of the Company's financial instruments, as defined by FAS 107, excluding short-term financial assets and liabilities, for which carrying amounts approximate fair value, trading assets (Note 6), which are carried at fair value, securities available for sale (Note 4) and derivative financial instruments (Note 26).

(in millions)	December 31,			
	2002		2001	
	Carrying amount	**Estimated fair value**	Carrying amount	Estimated fair value
FINANCIAL ASSETS				
Mortgages held for sale	**$ 51,154**	**$ 51,319**	$ 30,405	$ 30,405
Loans held for sale	**6,665**	**6,851**	4,745	4,828
Loans, net [1]	**192,754**	**194,847**	168,725	167,400
Nonmarketable equity investments	**4,721**	**4,872**	4,062	4,239
FINANCIAL LIABILITIES				
Deposits	**$216,916**	**$217,122**	$187,266	$187,520
Long-term debt [2]	**47,299**	**49,771**	36,068	37,610
Guaranteed preferred beneficial interests in Company's subordinated debentures	**2,885**	**3,657**	2,435	2,830

(1) Loans are net of deferred fees on loan commitments and standby letters of credit of $18 million and $13 million at December 31, 2002 and 2001, respectively.
(2) The carrying amount and fair value exclude obligations under capital leases of $21 million and $27 million at December 31, 2002 and 2001, respectively.

Independent Auditors' Report

The Board of Directors and Stockholders of Wells Fargo & Company:

We have audited the accompanying consolidated balance sheet of Wells Fargo & Company and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wells Fargo & Company and Subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1, 8 and 18 to the consolidated financial statements, the Company changed its method of accounting for goodwill in 2002.

KPMG LLP

San Francisco, California
February 25, 2003

Quarterly Financial Data

Condensed Consolidated Statement of Income — Quarterly (Unaudited)

(in millions, except per share amounts)	2002 Quarter ended				2001 Quarter ended			
	Dec. 31	**Sept. 30**	**June 30**	**Mar. 31**	Dec. 31	Sept. 30	June 30	Mar. 31
INTEREST INCOME	**$ 4,826**	**$ 4,699**	**$ 4,627**	**$ 4,681**	$ 4,690	$ 4,816	$ 4,816	$ 4,881
INTEREST EXPENSE	**959**	**1,004**	**988**	**1,026**	1,258	1.615	1,808	2,061
NET INTEREST INCOME	**3,867**	**3,695**	**3,639**	**3,655**	3,432	3,201	3,008	2,820
Provision for loan losses	**438**	**395**	**410**	**490**	536	455	427	361
Net interest income after provision for loan losses	**3,429**	**3,300**	**3,229**	**3,165**	2,896	2,746	2,581	2,459
NONINTEREST INCOME								
Service charges on deposit accounts	**567**	**560**	**547**	**505**	506	470	471	428
Trust and investment fees	**451**	**439**	**451**	**439**	454	424	417	415
Credit card fees	**255**	**242**	**223**	**201**	216	203	196	181
Other fees	**375**	**372**	**326**	**311**	323	303	311	307
Mortgage banking	**515**	**426**	**412**	**359**	394	369	517	391
Insurance	**231**	**234**	**269**	**263**	221	196	210	118
Net gains (losses) on debt securities available for sale	**91**	**121**	**45**	**37**	151	97	(19)	88
Net (losses) gains from equity investments	**(96)**	**(152)**	**(58)**	**(19)**	(61)	(58)	(1,556)	138
Other	**228**	**103**	**163**	**205**	243	279	(2)	348
Total noninterest income	**2,617**	**2,345**	**2,378**	**2,301**	2,447	2,283	545	2,414
NONINTEREST EXPENSE								
Salaries	**1,091**	**1,110**	**1,106**	**1,076**	1,012	1,020	1,018	977
Incentive compensation	**541**	**446**	**362**	**357**	411	315	265	204
Employee benefits	**287**	**304**	**364**	**329**	223	223	236	278
Equipment	**317**	**232**	**228**	**236**	237	217	217	237
Net occupancy	**281**	**278**	**274**	**269**	259	240	239	237
Goodwill	**—**	**—**	**—**	**—**	158	156	152	144
Core deposit intangibles	**38**	**38**	**39**	**41**	40	41	41	43
Net losses (gains) on dispositions of premises and equipment	**26**	**—**	**29**	**(2)**	—	(2)	—	(19)
Other	**1,189**	**999**	**1,003**	**1,022**	1,114	977	1,087	895
Total noninterest expense	**3,770**	**3,407**	**3,405**	**3,328**	3,454	3,187	3,255	2,996
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT) AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	**2,276**	**2,238**	**2,202**	**2,138**	1,889	1,842	(129)	1,877
Income tax expense (benefit)	**810**	**794**	**782**	**759**	708	678	(42)	712
NET INCOME (LOSS) BEFORE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	**1,466**	**1,444**	**1,420**	**1,379**	1,181	1,164	(87)	1,165
Cumulative effect of change in accounting principle	**—**	**—**	**—**	**(276)**	—	—	—	—
NET INCOME (LOSS)	**$ 1,466**	**$ 1,444**	**$ 1,420**	**$ 1,103**	$ 1,181	$ 1,164	$ (87)	$ 1,165
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	**$ 1,465**	**$ 1,443**	**$ 1,419**	**$ 1,102**	$ 1,180	$ 1,160	$ (91)	$ 1,161
EARNINGS (LOSS) PER COMMON SHARE BEFORE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE								
Earnings (loss) per common share	**$ .87**	**$ .85**	**$ .83**	**$ .81**	$ .70	$ .68	$ (.05)	$ .68
Diluted earnings (loss) per common share	**$ .86**	**$ .84**	**$ .82**	**$ .80**	$ .69	$ .67	$ (.05)	$ .67
EARNINGS (LOSS) PER COMMON SHARE								
Earnings (loss) per common share	**$ .87**	**$ .85**	**$ .83**	**$ .65**	$ .70	$ .68	$ (.05)	$ .68
Diluted earnings (loss) per common share	**$ .86**	**$ .84**	**$ .82**	**$ .64**	$ .69	$ .67	$ (.05)	$ .67
DIVIDENDS DECLARED PER COMMON SHARE	**$ .28**	**$ .28**	**$ .28**	**$ .26**	$ .26	$ .26	$ .24	$ .24
Average common shares outstanding	**1,690.4**	**1,700.7**	**1,710.4**	**1,703.0**	1,696.7	1,710.6	1,714.9	1,715.9
Diluted average common shares outstanding	**1,704.0**	**1,717.8**	**1,730.8**	**1,718.9**	1,709.2	1,726.9	1,714.9	1,738.7

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

(in millions)	Quarter ended December 31,					
	2002			2001		
	Average balance	**Yields/ rates**	**Interest income/ expense**	Average balance	Yields/ rates	Interest income/ expense
EARNING ASSETS						
Federal funds sold and securities purchased under resale agreements	**$ 2,762**	**1.53%**	**$ 11**	$ 2,320	2.19%	$ 13
Debt securities available for sale [3]:						
Securities of U.S. Treasury and federal agencies	**1,525**	**5.20**	**19**	2,057	5.97	30
Securities of U.S. states and political subdivisions	**2,075**	**8.53**	**42**	2,055	8.09	39
Mortgage-backed securities:						
Federal agencies	**21,909**	**7.73**	**397**	29,424	7.24	512
Private collateralized mortgage obligations	**2,002**	**7.35**	**35**	2,137	7.23	38
Total mortgage-backed securities	**23,911**	**7.69**	**432**	31,561	7.24	550
Other debt securities [4]	**3,056**	**7.76**	**60**	3,210	7.62	59
Total debt securities available for sale [4]	**30,567**	**7.63**	**553**	38,883	7.25	678
Mortgages held for sale [3]	**57,134**	**5.79**	**828**	33,892	6.36	540
Loans held for sale [3]	**5,808**	**3.96**	**58**	4,875	5.41	66
Loans:						
Commercial	**46,467**	**6.47**	**758**	47,252	6.87	818
Real estate 1-4 family first mortgage	**27,006**	**5.89**	**398**	22,221	6.80	378
Other real estate mortgage	**25,268**	**5.93**	**377**	24,494	7.10	438
Real estate construction	**7,894**	**5.50**	**109**	8,053	6.65	135
Consumer:						
Real estate 1-4 family junior lien mortgage	**34,890**	**7.17**	**630**	24,748	8.29	517
Credit card	**7,150**	**12.12**	**217**	6,392	12.51	199
Other revolving credit and monthly payment	**24,825**	**10.04**	**627**	22,904	10.87	626
Total consumer	**66,865**	**8.76**	**1,474**	54,044	9.88	1,342
Lease financing	**8,410**	**6.89**	**145**	9,537	7.35	176
Foreign	**1,917**	**18.14**	**87**	1,602	20.63	83
Total loans [5]	**183,827**	**7.24**	**3,348**	167,203	8.02	3,370
Other	**6,379**	**3.36**	**53**	4,709	3.79	45
Total earning assets	**$286,477**	**6.78**	**4,851**	$ 251,882	7.50	4,712
FUNDING SOURCES						
Deposits:						
Interest-bearing checking	**$ 2,418**	**.39**	**2**	$ 2,002	.73	4
Market rate and other savings	**97,473**	**.90**	**221**	87,497	1.25	275
Savings certificates	**22,774**	**2.89**	**166**	26,656	4.27	287
Other time deposits	**12,694**	**1.73**	**56**	922	4.21	10
Deposits in foreign offices	**4,438**	**1.34**	**15**	5,578	1.99	28
Total interest-bearing deposits	**139,797**	**1.30**	**460**	122,655	1.95	604
Short-term borrowings	**30,175**	**1.41**	**107**	41,635	2.25	236
Long-term debt	**46,060**	**3.14**	**363**	34,624	4.45	387
Guaranteed preferred beneficial interests in Company's subordinated debentures	**2,885**	**4.08**	**29**	2,291	5.38	31
Total interest-bearing liabilities	**218,917**	**1.74**	**959**	201,205	2.48	1,258
Portion of noninterest-bearing funding sources	**67,560**	**—**	**—**	50,677	—	—
Total funding sources	**$286,477**	**1.34**	**959**	$ 251,882	2.00	1,258
Net interest margin and net interest income on a taxable-equivalent basis [6]		**5.44%**	**$3,892**		5.50%	$3,454
NONINTEREST-EARNING ASSETS						
Cash and due from banks	**$ 14,189**			$ 14,913		
Goodwill	**9,756**			9,583		
Other	**29,836**			27,552		
Total noninterest-earning assets	**$ 53,781**			$ 52,048		
NONINTEREST-BEARING FUNDING SOURCES						
Deposits	**$ 72,185**			$ 59,597		
Other liabilities	**19,045**			16,015		
Preferred stockholders' equity	**57**			62		
Common stockholders' equity	**30,054**			27,051		
Noninterest-bearing funding sources used to fund earning assets	**(67,560)**			(50,677)		
Net noninterest-bearing funding sources	**$ 53,781**			$ 52,048		
TOTAL ASSETS	**$340,258**			$ 303,930		

(1) The average prime rate of the Company was 4.46% and 5.16% for the quarters ended December 31, 2002 and 2001, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 1.55% and 2.15% for the same quarters, respectively.
(2) Interest rates and amounts include the effects of hedge and risk management activities associated with the respective asset and liability categories.
(3) Yields are based on amortized cost balances computed on a settlement date basis.
(4) Includes certain preferred securities.
(5) Nonaccrual loans and related income are included in their respective loan categories.
(6) Includes taxable-equivalent adjustments that primarily relate to income on certain loans and securities that is exempt from federal and applicable state income taxes. The federal statutory tax rate was 35% for both quarters presented.

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Wells Fargo & Company

Stockholder Information

Assets ..... **$349 billion**

Stores ..... **5,600+**

Customers ..... **20 million**

Common Shares Outstanding **1,685,906,507**

Symbol ..... **WFC**

Listings ..... **New York Stock Exchange**
Chicago Stock Exchange

Shareowner Services ..... **Wells Fargo Bank Minnesota, N.A.**
1-877-840-0492

WFC
LISTED
NYSE

Wells Fargo Direct Purchase and Dividend Reinvestment Plan You can buy Wells Fargo stock directly from Wells Fargo, even if you're not a Wells Fargo stockholder, through optional cash payments or automatic monthly deductions from a bank account. You can also have your dividends reinvested automatically. It's a convenient and economical way to increase your Wells Fargo investment. Call 1-800-813-3324 for an enrollment kit including a plan prospectus.

Investor Information For more copies of this report, other Wells Fargo investor materials or the latest Wells Fargo stock price, call 1-888-662-7865.

Annual Stockholders' Meeting 1:00 p.m. Tuesday, April 22, 2003, 420 Montgomery St., San Francisco, Calif. Proxy statement and form of proxy will be mailed to stockholders beginning on or about March 18, 2003.

Copies of Form 10-K **The Company will send the Wells Fargo annual report on Form 10-K for 2002 (including the financial statements filed with the Securities and Exchange Commission) without charge to any stockholder who asks for a copy in writing.** Stockholders also can ask for copies of any exhibit to the Form 10-K. The Company will charge a fee to cover expenses to prepare and send any exhibits. Please send requests to: Corporate Secretary, Wells Fargo & Company, Wells Fargo Center, MAC N9305-173, Sixth and Marquette, Minneapolis, Minnesota 55479.

One Strong Box.

The goal we share with our customers — financial success — doesn't come easily. It takes hard work, ingenuity, a passion for service, and a commitment to the community — attributes all ten of the customers featured on pages 2-13 have in common. We thought you'd like to know more about their stories — stories of the American dream — and their achievements, made possible, in part, through the strength, resources and advice of Wells Fargo.

Wayne and Millie Martin, owners of Vision Ford, Alamogordo, New Mexico and Paradise Ford, Cocoa, Florida; Ford, Lincoln, Mercury dealerships selling and servicing new, used cars. As owner/ operator of Vision Ford, Mr. Martin has been recognized as Minority Dealer of The Year for many years in the Southwest. He serves on the local Wells Fargo Bank Community Advisory Board. Wells Fargo relationship manager: **Mike Cheney**, Regional Banking.

Yong Lee family, Los Angeles, California The founder and owner of BigZoo.com, Corp. (low-cost global long distance phone services, nationwide dial-up internet access, pre-paid long distance phone service purchased with a credit card online) has so much trust in Wells Fargo that we serve the financial needs of three generations of his family including two of his daughters in college. Wells Fargo relationship managers: **Karen Keusayan**, Private Client Services; **Tom Munzig**, Trust; **Jeannette Wright**, Private Banking; **Keith Comrie**, Wells Fargo Home Mortgage.

Cook Inlet Region Inc., Anchorage, Alaska This corporation — formed by the Alaska Native Claims Settlement Act of 1971 (an experimental alternative to reservations) — provides a broad range of non-profit health, housing, education and social service programs. Its mission is to foster economic, social and cultural well-being for thousands of Alaska Natives in remote areas and cities. It's owned by 7,100 Alaska Native shareholders: Athabascan and southeast Indian, Inupiat and Yup'ik Eskimo, and Aleut descent. Wells Fargo relationship manager: **Claire Chan**, Business Banking

Robert W. Thompson, owner of CTL Thompson, Inc., Denver, Colorado This 31-year Wells Fargo customer (175 employees, offices in Colorado, Texas and Wyoming) solves design and construction problems from "the bottom of the foundation to the top of the roof" — including the Denver International Airport terminal, the final link of Interstate 70 in Colorado, and reducing damage from abandoned Wyoming coal mines. Wells Fargo relationship manager: **George Kobilan**, Business Banking.

Leoncio and Sulema Jimenez, owners, Leo's Foods, Inc., Fort Worth, Texas Founded in 1978 with four employees and one production line, this maker of tortilla chips now serves food service, retail and private label customers. The company began its relationship with Wells Fargo in 1989 with a line of credit and the relationship has grown with the company's success. Leo's doubled the size of its plant and upgraded equipment — all with Wells Fargo financing. Wells Fargo also helps finance a Jimenez family joint venture and manages their church's banking deposits. Wells Fargo relationship manager: **Jane Romine**, Business Banking.

Dearden's stores, Los Angeles, California Founded in 1910, Dearden's is the oldest furniture store in the western United States, offering southern California's Hispanic market furniture, electronics, appliances, jewelry and perfume from seven stores in Los Angeles and Orange counties. It also offers travel and free check-cashing services and has received the "Philanthropist of the Year" award from the American Red Cross for community involvement including its college scholarship program and its annual "Para los Niños" golf tournament for at-risk children and their families. Wells Fargo relationship manager: **Anthony Turner**, Los Angeles Regional Commercial Banking Office.

MoDak Dairy, Inc., Goodwin, South Dakota Greg and Jim Moes are fourth generation farmers: proud of their family's history but so high tech you could call their 300-cow operation Silicon Dairy. The brothers use cell phones, hand-held computers (to download cows' production history), transmitters around their cows' necks (triggering small computers that weigh milk, measure annual production, lactation days and income/ feed costs), ultrasound for pregnancy checks, variable speed vacuum pumps that save electricity, electronic bank-prepared checks, and of course, *Wells Fargo Online*® Banking. A few years ago, Farm Progress Companies named this Wells Fargo customer the Best Managed Farm in the USA. Wells Fargo relationship manager: **Pat Wieseler**, Regional Banking.

Michael Buich, Tadich Grill, San Francisco California's oldest restaurant (three years older than Wells Fargo), began as a coffee stand in 1849, using canvas from the sails of merchant ships — and survived earthquakes, fires, and changes of name, locale and ownership. Michael Buich's family bought it in 1929 and through generations of Croatian-American owners it's thrived — with its old wooden walls, white-apron waiters and horseshoe bar — as a San Francisco tradition, calling itself the "original cold-day restaurant." Wells Fargo relationship manager: **Julie Rasmussen**, Regional Banking.

Bill Albers, retired president and CEO, Garden Valley, Inc., Boise, Idaho Bill Albers began banking with First Security – now part of Wells Fargo – when he was in eighth grade in 1956. His bank savings helped him attend college and buy his first car. During his 46 years as a customer of First Security and now Wells Fargo, we've helped him and his wife of 40 years, Pat, finance all their homes and automobiles, build their IRAs, roll over 401(k)s and provided them home-equity loans, lines of credit, private banking, investment counseling, estate planning, and financed trucks, tractors and rolling stock for Albers' company, North America's largest producer of stringless sugar snap peas™, with production fields in the Pacific Northwest, California, Mexico and Guatemala. Wells Fargo relationship managers: **Gary Gribben**, Business Banking; **Jay Combs**, Private Client Services.

Medtronic, Inc., Minneapolis, Minnesota World leader in medical technology, alleviating pain, restoring health and extending life for about four million patients a year. Founded in 1949 by Earl Bakken and Palmer Hermundslie in a garage built with lumber from refrigerator boxes in northeast Minneapolis, it became a pioneer maker of biomedical devices including the first wearable pacemaker. The predecessor of Norwest Venture Capital helped fund it in its formative years. Today it generates $7 billion in annual revenue, employs over 28,000 people worldwide, and serves patients, physicians and clinics in about 120 countries. Wells Fargo relationship manager: **Molly Van Metre**, Corporate Banking.

Page 14: Clockwise from left: David Rogers (Regional Banking), Nick De Porcel (Human Resources), Teddy De Rivera (Human Resources), Lisa Stevens (Regional Banking), Tiffany White (Teller), Heather Gooby (Personal Banker), Lenny Gucciardi (Internet), Gloria So (Private Client Services), Marc Bernstein (Business Banking), David Otsuka (Law Department), Darrell Walker (Mortgage, Home Equity), Luisa Llovet (Wholesale Banking).

Our Vision

We want 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.

Nuestra Vision

Deseamos satisfacer todas las necesidades financieras de nuestros clientes, ayudarlos a tener éxito en el área financiera, ser reconocidos como la compañía de servicios financieros más importante de nuestros mercados y ser reconocidos como una de las grandes compañías de norteamerica.

我們的目標

我們希望能滿足客戶在所有財務方面的需求，幫助他們在財務上發展成功，在我們的市場中被公認為首選的金融財務公司，同時成為美國最佳公司之一。

Where did the strong box come from?

Wells Fargo strong boxes — built of pine, oak edges, iron hasps and braces by master carpenters — carried gold and silver from western mines in the 19th century to the U.S. Mints and, in turn, transported U.S. gold dollars back over the same routes, the basis of the U.S. monetary and payments systems.

The boxes (24 pounds empty and 20"x 12"x10") fit exactly in the front "boot" of the stagecoach — designed to hold as much gold as one person could lift from the ground. Said one 19th century observer, watching the shotgun messenger and driver: "He has the Wells Fargo express box between his feet. Going out it is full of gold bullion, coming in, it is full of gold coin."

On top of the box? That's "Jack," a bulldog puppy circa 1890s, a symbol of the alert, faithful dogs who helped guard the boxes.

WELLS FARGO

Wells Fargo & Company
420 Montgomery Street
San Francisco, California 94163

1-800-411-4932
www.wellsfargo.com