WELLS FARGO & COMPANY/MN
Form 10-Q
May 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

Commission file number **001-2979**

WELLS FARGO & COMPANY

(Exact name of registrant as specified in its charter)

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

420 Montgomery Street, San Francisco, California 94163

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: **1-866-249-3302**

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

Yes þ No ¨

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

Yes þ No ¨

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

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

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

Yes ¨ No þ

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

	Shares Outstanding
	April 30, 2012
Common stock, $1-2/3 par value	5,313,919,450

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PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW

Summary Financial Data

($ in millions, except per share amounts)		Mar. 31, 2012	Dec. 31, 2011	Quarter ended Mar. 31, 2011	% Change Mar. 31, 2012 from Dec. 31, 2011	Mar. 31, 2011
For the Period						
Wells Fargo net income	$	**4,248**	4,107	3,759	3 %	13
Wells Fargo net income applicable to common stock		**4,022**	3,888	3,570	3	13
Diluted earnings per common share		**0.75**	0.73	0.67	3	12
Profitability ratios (annualized):						
Wells Fargo net income to average assets (ROA)		**1.31 %**	1.25	1.23	5	7
Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders equity (ROE)		**12.14**	11.97	11.98	1	1
Efficiency ratio (1)		**60.1**	60.7	62.6	(1)	(4)
Total revenue	$	**21,636**	20,605	20,329	5	6
Pre-tax pre-provision profit (PTPP) (2)		**8,643**	8,097	7,596	7	14
Dividends declared per common share		**0.22**	0.12	0.12	83	83
Average common shares outstanding		**5,282.6**	5,271.9	5,278.8	-	-
Diluted average common shares outstanding		**5,337.8**	5,317.6	5,333.1	-	-
Average loans	$	**768,582**	768,563	754,077	-	2
Average assets		**1,302,921**	1,306,728	1,241,176	-	5
Average core deposits (3)		**870,516**	864,928	796,826	1	9
Average retail core deposits (4)		**616,569**	606,810	584,100	2	6
Net interest margin		**3.91 %**	3.89	4.05	1	(3)
At Period End						
Securities available for sale	$	**230,266**	222,613	167,906	3	37
Loans		**766,521**	769,631	751,155	-	2
Allowance for loan losses		**18,852**	19,372	21,983	(3)	(14)
Goodwill		**25,140**	25,115	24,777	-	1
Assets		**1,333,799**	1,313,867	1,244,666	2	7
Core deposits (3)		**888,711**	872,629	795,038	2	12
Wells Fargo stockholders equity		**145,516**	140,241	133,471	4	9
Total equity		**146,849**	141,687	134,943	4	9
Tier 1 capital (5)		**117,444**	113,952	110,761	3	6
Total capital (5)		**150,788**	148,469	147,311	2	2
Capital ratios:						
Total equity to assets		**11.01 %**	10.78	10.84	2	2
Risk-based capital (5):						
Tier 1 capital		**11.78**	11.33	11.50	4	2
Total capital		**15.13**	14.76	15.30	3	(1)
Tier 1 leverage (5)		**9.35**	9.03	9.27	4	1
Tier 1 common equity (6)		**9.98**	9.46	8.93	5	12
Common shares outstanding		**5,301.5**	5,262.6	5,300.9	1	-
Book value per common share	$	**25.45**	24.64	23.18	3	10
Common stock price:						
High		**34.59**	27.97	34.25	24	1
Low		**27.94**	22.61	29.82	24	(6)
Period end		**34.14**	27.56	31.71	24	8
Team members (active, full-time equivalent)		**264,900**	264,200	270,200	-	(2)

(1) The efficiency ratio is noninterest expense divided by total revenue (net interest income and noninterest income).
(2) Pre-tax pre-provision profit (PTPP) is total revenue less noninterest expense. Management believes that PTPP is a useful financial measure because it enables investors and others to assess the Company s ability to generate capital to cover credit losses through a credit cycle.
(3) Core deposits are noninterest-bearing deposits, interest-bearing checking, savings certificates, certain market rate and other savings, and certain foreign deposits (Eurodollar sweep balances).
(4) Retail core deposits are total core deposits excluding Wholesale Banking core deposits and retail mortgage escrow deposits.
(5) See Note 20 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report for additional information.
(6) See the Capital Management section in this Report for additional information.

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This Quarterly Report, including the Financial Review and the Financial Statements and related Notes, contains forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results may differ materially from our forward-looking statements due to several factors. Factors that could cause our actual results to differ materially from our forward-looking statements are described in this Report, including in the Forward-Looking Statements section, and the Risk Factors and Regulation and Supervision sections of our Annual Report on Form 10-K for the year ended December 31, 2011 (2011 Form 10-K).

When we refer to Wells Fargo, the Company, we, our or us in this Report, we mean Wells Fargo & Company and Subsidiaries (consolidated). When we refer to the Parent, we mean Wells Fargo & Company. When we refer to legacy Wells Fargo, we mean Wells Fargo excluding Wachovia Corporation (Wachovia). See the Glossary of Acronyms at the end of this Report for terms used throughout this Report.

Financial Review

Overview

Wells Fargo & Company is a diversified financial services company with $1.3 trillion in assets. Founded in 1852 and headquartered in San Francisco, we provide banking, insurance, trust and investments, mortgage banking, investment banking, retail banking, brokerage services and consumer and commercial finance through more than 9,000 stores, 12,000 ATMs, the internet and other distribution channels to individuals, businesses and institutions across North America and internationally. With approximately 265,000 active, full-time equivalent team members, we serve one in three households in America and ranked No. 23 on *Fortune s* 2011 rankings of America s largest corporations. We ranked fourth in assets and first in the market value of our common stock among all U.S. banks at March 31, 2012.

Our vision is to satisfy all our customers financial needs, help them succeed financially, be recognized as the premier financial services company in our markets and be one of America s great companies. Our primary strategy to achieve this vision is to increase the number of our products our customers utilize and to offer them all of the financial products that fulfill their needs. Our cross-sell strategy, diversified business model and the breadth of our geographic reach facilitate growth in both strong and weak economic cycles, as we can grow by expanding the number of products our current customers have with us, gain new customers in our extended markets, and increase market share in many businesses. Our retail bank household cross-sell increased each quarter during 2011 and in February 2012 was 5.98 products per household, up from 5.76 in February 2011. We believe there is more opportunity for cross-sell as we continue to earn more business from our customers. Our goal is eight products per customer, which is approximately half of our estimate of potential demand for an average U.S. household. Currently, one of every four of our retail banking households has eight or more products.

Our pursuit of growth and earnings performance is influenced by our belief that it is important to maintain a well controlled operating environment. We manage our credit risk by establishing what we believe are sound credit policies for underwriting new business, while monitoring and reviewing the performance of our loan portfolio. We manage the interest rate

and market risks inherent in our asset and liability balances within established ranges, while ensuring adequate liquidity and funding. We maintain strong capital levels to facilitate future growth.

Expense management is also important to us, but our efforts are intended to not adversely affect revenue. Our current company-wide expense management initiative, which we publicly announced with our second quarter 2011 results, is focused on removing unnecessary complexity and eliminating duplication as a way to improve our customers experience and the work process of our team members. With this initiative and the completion of Wachovia merger integration activities, we are targeting fourth quarter 2012 noninterest expense to be approximately $11.25 billion. We initially stated a target of $11 billion for fourth quarter 2012 noninterest expense, but have increased our target to reflect higher than originally assumed revenue growth, a driver of noninterest expense, as a result of higher mortgage banking and acquisition-related revenues. First quarter 2012 noninterest expense remained elevated as expected because of seasonally higher personnel expenses and our final quarter of Wachovia integration expenses, partially offset by continued gains from efficiency and cost save initiatives. We expect noninterest expense to decline $500 million to $700 million in second quarter 2012, driven by the elimination of merger integration expenses and lower personnel-related expenses and we expect expenses to continue to decline over the remainder of the year, driven by lower mortgage volume-related costs, personnel expense including lower severance-related costs, and lower legal costs. However, we will continue to invest in our businesses and add team members where appropriate.

Financial Performance

We reported strong financial results in first quarter 2012. Wells Fargo net income was $4.2 billion and diluted earnings per common share were $0.75, up 13% and 12%, respectively, from the prior year. First quarter 2012 was our ninth consecutive quarter of earnings per share growth. Total revenue was $21.6 billion in first quarter 2012, up 6% from the prior year. We experienced improved credit quality with lower net charge-offs and improved delinquency trends. Our return on assets of 1.31%

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Overview ***(continued)***

was up 8 basis points from the prior year and our return on equity of 12.14% was up 16 basis points. Noninterest expense of $13.0 billion was elevated as expected and up 2% from first quarter 2011, but our efficiency ratio of 60.1% improved by 250 basis points from a year ago.

Our net income growth from first quarter 2011 was primarily driven by higher noninterest income and net interest income and a lower provision for credit losses, all of which more than offset higher noninterest expense and income taxes.

On a year-over-year basis, revenue was up 6% in first quarter 2012, predominantly reflecting increased mortgage banking net gains on mortgage loan origination/sales activities due to the continued low interest rate environment which contributed to higher loan applications and higher margins. As a result of increased mortgage loan applications our unclosed mortgage loan pipeline of $79 billion was up $7 billion from December 31, 2011.

Our balance sheet continued to strengthen in first quarter 2012 with solid core loan and deposit growth. Our non-strategic/liquidating loan portfolios decreased $4.1 billion during the quarter and, excluding the planned runoff of these loans, our core loan portfolios increased $984 million. Included in our core loan growth was $858 million of commercial asset-based loans acquired during the quarter from the Bank of Ireland in connection with our acquisition of Burdale Financial Holdings Limited (Burdale) and the portfolio of Burdale Capital Finance Inc. In first quarter 2012, we announced the acquisition of BNP Paribas s North American energy lending business, which closed in April 2012 and included approximately $3.5 billion of loans outstanding. Our securities portfolios grew $7.7 billion during the quarter as we continued to deploy cash into longer-term investments and benefited from strong deposit growth, with deposit balances up $10.2 billion. Our average core deposits were up $5.6 billion from fourth quarter 2011 and up $73.7 billion, or 9%, from a year ago. We have grown deposits while reducing our deposit costs for six consecutive quarters.

Credit Quality

Most of our key credit quality indicators continued to improve during the first quarter of 2012. Net charge-offs of $2.4 billion were 1.25% (annualized) of average loans, down 48 basis points from a year ago and was our lowest charge-off rate since 2007. Loans 90 days or more past due and still accruing (excluding government insured/guaranteed loans) decreased to $1.6 billion from $2.0 billion at December 31, 2011. Nonperforming assets increased by $678 million to $26.6 billion at March 31, 2012, from $26.0 billion at December 31, 2011. This increase, however, was entirely due to reclassifying $1.7 billion of real estate 1-4 family junior lien mortgages to nonaccrual status at quarter end in accordance with junior lien mortgage industry guidance issued by bank regulators during the quarter. Excluding the impact of the supervisory guidance, nonaccrual loans declined in all portfolios and were down $948 million from December 31, 2011. The improvement in our credit portfolio was due in part to the continued decline in balances in our non-strategic/liquidating loan portfolios, which decreased $4.1 billion during the quarter, and $82.6 billion in total since the beginning of 2009, to $108.2 billion at March 31, 2012.

With the continued credit performance improvement in our loan portfolios, our $2.0 billion provision for credit losses this quarter was $215 million less than a year ago. This provision resulted in releasing $400 million from the allowance for credit losses (the amount by which net charge-offs exceeded the provision) as compared with a release of $1.0 billion a year ago. Absent significant deterioration in the economy, we continue to expect future allowance releases in 2012.

Capital

We continued to build capital this quarter, increasing total equity by $5.2 billion to $146.8 billion at March 31, 2012. Our Tier 1 common equity ratio grew 52 basis points during the quarter to 9.98% of risk-weighted assets under Basel I, reflecting strong internal capital generation. Based on our interpretation of current Basel III capital proposals, we estimate that our Tier 1 common equity ratio was 7.84% at the end of this quarter, up 34 basis points from December 31, 2011. Our other regulatory capital ratios remained strong with an increase in the Tier 1 capital ratio to 11.78% and Tier 1 leverage ratio to 9.35% from 11.33% and 9.03%, respectively, at December 31, 2011. See the Capital Management section in this Report for more information regarding our capital, including Tier 1 common equity.

We repurchased approximately 8 million shares of our common stock this quarter, primarily through a forward repurchase transaction entered into during fourth quarter 2011. Also, in the first quarter, we issued notice to redeem $875 million of 6.38% trust preferred securities that carried a higher cost than other funding sources available to us. These securities were redeemed in April 2012. In first quarter 2012, we also increased our quarterly common stock dividend rate by 83% to $0.22 per share.

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Earnings Performance

Wells Fargo net income for first quarter 2012 was $4.2 billion ($0.75 diluted earnings per common share) compared with $3.8 billion ($0.67 diluted earnings per common share) for first quarter 2011. Our first quarter 2012 earnings reflected strong execution of our business strategy. The key drivers of our financial performance in first quarter 2012 were improved credit quality, continued strong mortgage banking results, diversified sources of fee income, balanced net interest and fee income, and a diversified loan portfolio.

Revenue, the sum of net interest income and noninterest income, was $21.6 billion in first quarter 2012, compared with $20.3 billion in first quarter 2011. The increase in revenue was due to growth in noninterest income, including mortgage banking and market sensitive revenues (i.e. net gains from trading activities, net gains (losses) on debt securities available for sale and net gains from equity investments). Net interest income was $10.9 billion in first quarter 2012, representing 50% of revenue, compared with $10.7 billion (52%) in first quarter 2011. Continued success in generating low-cost deposits enabled us to grow assets by funding loans and securities growth while reducing higher cost long-term debt.

Noninterest income was $10.7 billion in first quarter 2012, representing 50% of revenue, compared with $9.7 billion (48%) in first quarter 2011. The increase in noninterest income in first quarter 2012 was driven by increases in net gains on mortgage loan origination/sales activities as well as service charges on deposit accounts.

Noninterest expense was $13.0 billion in first quarter 2012, compared with $12.7 billion in first quarter 2011. The increase in noninterest expense was primarily due to higher employee benefits expense and higher commissions and incentive compensation, offset by lower merger-related integration expense. Despite the increase in noninterest expense, our efficiency ratio was 60.1% in first quarter 2012 down from 62.6% in first quarter 2011.

Net Interest Income

Net interest income is the interest earned on debt securities, loans (including yield-related loan fees) and other interest-earning assets minus the interest paid for deposits, short-term borrowings and long-term debt. The net interest margin is the average yield on earning assets minus the average interest rate paid for deposits and our other sources of funding. Net interest income and the net interest margin are presented on a taxable-equivalent basis in Table 1 to consistently reflect income from taxable and tax-exempt loans and securities based on a 35% federal statutory tax rate.

Net interest income and the net interest margin are significantly influenced by the mix and overall size of our earning asset portfolio and the cost of funding those assets. In addition, some sources of interest income, such as loan prepayment fees and collection of interest on nonaccrual loans, can vary from period to period. Net interest income on a taxable-equivalent basis was $11.1 billion in first quarter 2012, compared with $10.8 billion in first quarter 2011. The net interest margin was 3.91% in first quarter 2012, down 14 basis points from

4.05% in first quarter 2011. The increase in net interest income was largely driven by a reduction in funding costs resulting from disciplined deposit pricing, debt maturities, and redemptions of higher cost trust preferred securities. In addition, net interest income increased due to loan growth and the redeployment of short-term investments into long-term securities which partially offset the impact of higher yielding loan and investment runoff. Continued runoff of higher yielding assets was the primary driver of the decline in net interest margin in first quarter 2012 compared with first quarter 2011. We expect continued pressure on our net interest margin as a result of the current interest rate environment.

Average earning assets increased $59.8 billion in first quarter 2012 from first quarter 2011 as average securities available for sale increased $58.9 billion. In addition, strong commercial loan demand since first quarter 2011 offset the impact of liquidating certain loan portfolios, resulting in $14.5 billion higher average loans in first quarter 2012 compared with a year ago. These increases in average securities available for sale and average loans were partially offset by a $27.4 billion decline in average short-term investments from first quarter 2011.

Core deposits are an important low-cost source of funding and affect both net interest income and the net interest margin. Core deposits include noninterest-bearing deposits, interest-bearing checking, savings certificates, market rate and other savings, and certain foreign deposits (Eurodollar sweep balances). Average core deposits rose to $870.5 billion in first quarter 2012 compared with $796.8 billion in first quarter 2011 and funded 113% and 106% of average loans, respectively. Average core deposits increased to 77% of average earning assets in first quarter

2012 compared with 74% a year ago. The cost of these deposits has continued to decline due to continued low interest rates and a shift in our deposit mix from higher cost certificates of deposit to lower yielding checking and savings products. About 93% of our average core deposits are in checking and savings deposits, one of the highest percentages in the industry.

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Earnings Performance *(continued)*

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

					Quarter ended March 31,			
				2012				2011
(in millions)		**Average balance**	**Yields/ rates**		**Interest income/ expense**	Average balance	Yields/ rates		Interest income/ expense
Earning assets								
Federal funds sold, securities purchased under resale agreements and other short-term investments	$	**56,020**	**0.52 %**	$	**73**	83,386	0.35 %	$ 72
Trading assets		**43,766**	**3.50**		**383**	37,403	3.81	356
Securities available for sale (3):								
Securities of U.S. Treasury and federal agencies		**5,797**	**0.97**		**14**	1,545	2.87	11
Securities of U.S. states and political subdivisions		**32,595**	**4.52**		**368**	19,890	5.45	270
Mortgage-backed securities:								
Federal agencies		**91,300**	**3.49**		**797**	70,418	4.72	832
Residential and commercial		**34,531**	**6.80**		**587**	30,229	9.68	732
Total mortgage-backed securities		**125,831**	**4.40**		**1,384**	100,647	6.21	1,564
Other debt and equity securities		**50,402**	**3.82**		**480**	33,601	5.55	465
Total securities available for sale		**214,625**	**4.19**		**2,246**	155,683	5.94	2,310
Mortgages held for sale (4)		**46,908**	**3.91**		**459**	38,742	4.51	437
Loans held for sale (4)		**748**	**5.09**		**9**	975	4.88	12
Loans:								
Commercial:								
Commercial and industrial		**166,782**	**4.18**		**1,733**	150,047	4.65	1,723
Real estate mortgage		**105,990**	**4.07**		**1,072**	99,797	3.92	967
Real estate construction		**18,730**	**4.79**		**223**	24,281	4.26	255
Lease financing		**13,129**	**8.89**		**292**	13,020	7.83	255
Foreign		**41,167**	**2.52**		**258**	33,638	2.83	235
Total commercial		**345,798**	**4.16**		**3,578**	320,783	4.33	3,435
Consumer:								
Real estate 1-4 family first mortgage		**229,653**	**4.69**		**2,688**	229,570	5.01	2,867
Real estate 1-4 family junior lien mortgage		**84,718**	**4.27**		**900**	94,708	4.35	1,018
Credit card		**22,129**	**12.93**		**711**	21,509	13.18	709
Other revolving credit and installment		**86,284**	**6.19**		**1,329**	87,507	6.36	1,371
Total consumer		**422,784**	**5.34**		**5,628**	433,294	5.54	5,965
Total loans (4)		**768,582**	**4.81**		**9,206**	754,077	5.03	9,400
Other		**4,604**	**4.42**		**51**	5,228	3.90	50
Total earning assets	$	**1,135,253**	**4.39 %**	$	**12,427**	1,075,494	4.73 %	$ 12,637
Funding sources								
Deposits:								
Interest-bearing checking	$	**32,158**	**0.05%**	$	**4**	58,503	0.10 %	$ 14

Market rate and other savings	**496,027**	**0.12**	**153**	443,586	0.22	237
Savings certificates	**62,689**	**1.36**	**213**	74,371	1.39	255
Other time deposits	**12,651**	**1.93**	**61**	13,850	2.24	76
Deposits in foreign offices	**64,847**	**0.16**	**26**	57,473	0.23	33
Total interest-bearing deposits	**668,372**	**0.27**	**457**	647,783	0.38	615
Short-term borrowings	**48,382**	**0.15**	**18**	54,751	0.22	30
Long-term debt	**127,537**	**2.60**	**830**	150,144	2.95	1,104
Other liabilities	**9,803**	**2.63**	**64**	9,472	3.24	76
Total interest-bearing liabilities	**854,094**	**0.64**	**1,369**	862,150	0.85	1,825
Portion of noninterest-bearing funding sources	**281,159**	**-**	**-**	213,344	-	-
Total funding sources	**$ 1,135,253**	**0.48**	**1,369**	1,075,494	0.68	1,825
Net interest margin and net interest income on a taxable-equivalent basis (5)		**3.91 %**	**$ 11,058**		4.05 %	$ 10,812
Noninterest-earning assets						
Cash and due from banks	**$ 16,974**			17,360		
Goodwill	**25,128**			24,775		
Other	**125,566**			123,547		
Total noninterest-earning assets	**$ 167,668**			165,682		
Noninterest-bearing funding sources						
Deposits	**$ 246,614**			193,100		
Other liabilities	**57,201**			55,316		
Total equity	**145,012**			130,610		
Noninterest-bearing funding sources used to fund earning assets	**(281,159)**			(213,344)		
Net noninterest-bearing funding sources	**$ 167,668**			165,682		
Total assets	**$ 1,302,921**			1,241,176		

(1) Our average prime rate was 3.25% for the quarters ended March 31, 2012 and 2011. The average three-month London Interbank Offered Rate (LIBOR) was 0.51% and 0.31% for the same quarters, respectively.
(2) Yield/rates and amounts include the effects of hedge and risk management activities associated with the respective asset and liability categories.
(3) Yields and rates are based on interest income/expense amounts for the period, annualized based on the accrual basis for the respective accounts. The average balance amounts represent amortized cost for the periods presented.
(4) Nonaccrual loans and related income are included in their respective loan categories.
(5) Includes taxable-equivalent adjustments of $170 million and $161 million for the quarters ended March 31, 2012 and 2011, respectively, primarily related to tax-exempt income on certain loans and securities. The federal statutory tax rate was 35% for the periods presented.

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Noninterest Income

Table 2: Noninterest Income

(in millions)		Quarter ended March 31, **2012**	2011	% Change
Service charges on deposit accounts	$	**1,084**	1,012	7%
Trust and investment fees:				
Trust, investment and IRA fees		**1,024**	1,060	(3)
Commissions and all other fees		**1,815**	1,856	(2)
Total trust and investment fees		**2,839**	2,916	(3)
Card fees		**654**	957	(32)
Other fees:				
Cash network fees		**118**	81	46
Charges and fees on loans		**445**	397	12
Processing and all other fees		**532**	511	4
Total other fees		**1,095**	989	11
Mortgage banking:				
Servicing income, net		**252**	866	(71)
Net gains on mortgage loan origination/sales activities		**2,618**	1,150	128
Total mortgage banking		**2,870**	2,016	42
Insurance		**519**	503	3
Net gains from trading activities		**640**	612	5
Net losses on debt securities available for sale		**(7)**	(166)	(96)
Net gains from equity investments		**364**	353	3
Operating leases		**59**	77	(23)
All other		**631**	409	54
Total	$	**10,748**	9,678	11

Noninterest income was $10.7 billion for first quarter 2012, compared with $9.7 billion for first quarter 2011, representing 50% and 48% of revenue for both periods, respectively. The increase in total noninterest income from March 31, 2011, was due predominantly to higher net gains on mortgage loan origination/sales activities.

Our service charges on deposit accounts increased in first quarter by $72 million, or 7%, from a year ago. This increase was predominantly due to product and account changes, continued customer adoption of overdraft services and customer account growth.

We earn trust, investment and IRA (Individual Retirement Account) fees from managing and administering assets, including mutual funds, corporate trust, personal trust, employee benefit trust and agency assets. These assets totaled $2.2 trillion at both March 31, 2012, and 2011. Trust, investment and IRA fees are largely based on a tiered scale relative to the market value of the assets under management or administration. These fees decreased 3% to $1.0 billion in first quarter 2012, from $1.1 billion a year ago.

We receive commissions and other fees for providing services to full-service and discount brokerage customers as well as from investment banking activities including equity and bond underwriting. These fees decreased to $1.8 billion in first quarter 2012 from $1.9 billion a year ago. Our commission and other fees include transactional commissions, which are based on the number of transactions executed at the customer s direction, and

asset-based fees, which are based on the market value of the customer s assets. Brokerage client assets totaled $1.2 trillion at March 31, 2012, flat compared with the same amount a year ago.

Card fees were $654 million in first quarter 2012, compared with $957 million a year ago. Card fees decreased because of lower debit card interchange rates resulting from the final Federal Reserve Board (FRB) rules implementing the Durbin Amendment to the Dodd-Frank Act, which became effective in fourth quarter 2011 and placed limits on debit card interchange rates. The reduction in debit card interchange rates was partially offset by growth in purchase volume and new accounts.

Mortgage banking noninterest income, consisting of net servicing income and net gains on loan origination/sales activities, totaled $2.9 billion in first quarter 2012, compared with $2.0 billion a year ago. The increase in mortgage banking noninterest income was primarily driven by increased net gains on mortgage loan origination/sales activities.

Net mortgage loan servicing income includes amortization of commercial mortgage servicing rights (MSRs), changes in the fair value of residential MSRs during the period as well as changes in the value of derivatives (economic hedges) used to hedge the residential MSRs. Net servicing income for first quarter 2012 included a $58 million net MSR valuation loss ($158 million decrease in the fair value of the MSRs offset by a $100 million hedge gain). The $158 million decrease in fair value for first quarter 2012 included the effect of a discount rate increase reflecting increased capital return requirements from market participants, partially offset by an increase in the valuation due to an increase in market interest rates. First quarter 2011 included a $379 million net MSR valuation gain ($499 million increase in the fair value of MSRs offset by a $120 million hedge loss) driven by an increase in market interest rates. The valuation of our MSRs for both first quarter 2012 and 2011 reflected our assessment of expected future amounts of servicing and foreclosure costs. Our portfolio of loans serviced for others was $1.89 trillion at March 31, 2012, and $1.85 trillion at December 31, 2011. At March 31, 2012, the ratio of MSRs to related loans serviced for others was 0.77%, compared with 0.76% at December 31, 2011. See the Risk Management Mortgage Banking Interest Rate and Market Risk section of this Report for additional information regarding our MSRs risks and hedging approach and the Risk Management Credit Risk Management Risks Relating to Servicing Activities section in this Report for information on the regulatory consent orders that we entered into relating to our mortgage servicing and foreclosure practices.

Income from mortgage loan origination/sale activities was $2.6 billion in first quarter 2012 compared with $1.2 billion a year ago. The increase was driven by higher loan origination volume and margins. Residential real estate originations were $129 billion in first quarter 2012, compared with $84 billion a year ago, and mortgage applications were $188 billion in first quarter 2012, compared with $102 billion a year ago. The 1-4 family first mortgage unclosed pipeline was $79 billion at March 31, 2012, and $45 billion at March 31, 2011. For additional information about our mortgage banking activities and results, see the Risk Management Mortgage Banking Interest Rate and Market Risk section and Note 8 (Mortgage Banking Activities) and Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.

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Earnings Performance ***(continued)***

Net gains on mortgage loan origination/sales activities include the cost of any additions to the mortgage repurchase liability. Mortgage loans are repurchased from third parties based on standard representations and warranties, and early payment default clauses in mortgage sale contracts. Additions to the mortgage repurchase liability that were charged against net gains on mortgage loan origination/sales activities during first quarter 2012 totaled $430 million (compared with $249 million for first quarter 2011), of which $368 million ($214 million for first quarter 2011) was for subsequent increases in estimated losses on prior year s loan sales. For additional information about mortgage loan repurchases, see the Risk Management Credit Risk Management Liability for Mortgage Loan Repurchase Losses section and Note 8 (Mortgage Banking Activities) to Financial Statements in this Report.

Net gains from trading activities, which reflect unrealized changes in fair value of our trading positions and realized gains and losses, were $640 million in first quarter 2012 compared with $612 million in first quarter 2011. The year-over-year increase was driven by higher gains on deferred compensation plan investments (offset entirely in employee benefits expense). Net gains from trading activities do not include interest income and other fees earned from related activities. Those amounts are reported within interest income from trading assets and other noninterest income, respectively, in the income statement. Net gains from trading activities are primarily from trading conducted on behalf of or driven by the needs of our customers (customer accommodation trading) and also include the results of certain economic hedging and proprietary trading activity. Net gains from proprietary trading totaled $15 million and $14 million in first quarter 2012 and 2011, respectively. Proprietary trading results also included interest and fees reported in their corresponding income statement line items. Proprietary trading activities are not significant to our client-focused business model. Our trading activities, customer accommodation, economic hedging and proprietary trading are further discussed in the Asset/Liability Management Market Risk Trading Activities section in this Report.

Net gains on debt and equity securities totaled $357 million for first quarter 2012 and $187 million for first quarter 2011, after other-than-temporary impairment (OTTI) write-downs of $65 million for first quarter 2012 and $121 million for first quarter 2011.

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Noninterest Expense

Table 3: Noninterest Expense

(in millions)		Quarter ended Mar. 31, 2012	2011	% Change
Salaries	$	**3,601**	3,454	4%
Commission and incentive compensation		**2,417**	2,347	3
Employee benefits		**1,608**	1,392	16
Equipment		**557**	632	(12)
Net occupancy		**704**	752	(6)
Core deposit and other intangibles		**419**	483	(13)
FDIC and other deposit assessments		**357**	305	17
Outside professional services		**594**	580	2
Contract services		**303**	369	(18)
Foreclosed assets		**304**	408	(25)
Operating losses		**477**	472	1
Postage, stationery and supplies		**216**	235	(8)
Outside data processing		**216**	220	(2)
Travel and entertainment		**202**	206	(2)
Advertising and promotion		**122**	116	5
Telecommunications		**124**	134	(7)
Insurance		**157**	133	18
Operating leases		**28**	24	17
All other		**587**	471	25
Total	$	**12,993**	12,733	2

Noninterest expense was $13.0 billion in first quarter 2012, up 2% from $12.7 billion a year ago, primarily driven by higher personnel expense ($7.6 billion, up from $7.2 billion in first quarter 2011) and partially offset by lower merger costs ($218 million, down from $440 million a year ago).

Personnel expenses were up 6% in first quarter 2012 compared with the same quarter last year, primarily due to annual salary increases and related salary taxes (partially offset by fewer team members), expenses generated by businesses with revenue-based compensation such as mortgage and higher deferred compensation expense, which was offset entirely in trading income.

The completion of Wachovia integration activities in first quarter 2012 significantly contributed to year-over-year reductions in equipment, occupancy, outside professional services, contract services, and postage, stationery and supplies.

In addition to the impact of winding down integration activity, equipment expense in first quarter 2012 also declined compared with the same quarter last year due to lower annual software license fees and savings in equipment purchases and maintenance. Likewise, contract services expense in first quarter 2012 was also lower compared with the same quarter last year due to reductions in the use of technology-related contractors.

Foreclosed assets expense of $304 million in first quarter 2012 was down from $408 million in first quarter 2011 mainly due to improved delinquency rates for mortgage loans and sales of non-performing loans.

All other expenses of $587 million in first quarter 2012 were up from $471 million in first quarter 2011, primarily due to higher mortgage origination-related expenses and a business termination fee.

We are targeting $11.25 billion of noninterest expense for fourth quarter 2012, and we expect noninterest expenses to decline $500 million to $700 million in second quarter 2012 and to continue to decline over the remainder of 2012, driven by the completion of integration activities, the benefit of ongoing cost save initiatives, and lower severance-related expense, mortgage volume-related costs, personnel expense and legal costs.

Income Tax Expense

Our effective tax rate was 35.4% and 29.5% for the first quarter 2012 and 2011, respectively. The lower tax rate in the first quarter of 2011 reflected tax benefits from the realization for tax purposes of a previously written down investment.

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Earnings Performance ***(continued)***

Operating Segment Results

We are organized for management reporting purposes into three operating segments: Community Banking; Wholesale Banking; and Wealth, Brokerage and Retirement. These segments are defined by product type and customer segment and their results are based on our management accounting process, for which there is no comprehensive, authoritative financial accounting guidance equivalent to generally accepted accounting principles

(GAAP). In the first quarter 2012, we modified internal funds transfer rates and the allocation of funding. The prior periods have been revised to reflect these changes. Table 4 and the following discussion present our results by operating segment. For a more complete description of our operating segments, including additional financial information and the underlying management accounting process, see Note 18 (Operating Segments) to Financial Statements in this Report.

Table 4: Operating Segment Results Highlights

		Community Banking		Wholesale Banking		Wealth, Brokerage and Retirement	
(in billions)		**2012**	2011	**2012**	2011	**2012**	2011
Quarter ended March 31,							
Revenue	$	**13.4**	12.7	**6.0**	5.4	**3.1**	3.2
Net income		**2.3**	2.2	**1.9**	1.6	**0.3**	0.3
Average loans		**486.1**	508.4	**268.6**	234.7	**42.5**	42.7
Average core deposits		**575.2**	548.1	**220.9**	184.8	**135.6**	125.4

Community Banking offers a complete line of diversified financial products and services for consumers and small businesses including investment, insurance and trust services in 39 states and D.C., and mortgage and home equity loans in all 50 states and D.C. through its Regional Banking and Wells Fargo Home Mortgage business units.

Community Banking reported net income of $2.3 billion, up $168 million, or 8%, from first quarter 2011. Revenue of $13.4 billion increased $764 million, or 6%, from first quarter 2011 as a result of higher volume-related mortgage banking income, invested funds from deposit growth, and higher equity sales gains, partially offset by runoff of non-strategic loan balances and lower debit card revenue due to regulatory changes affecting debit card interchange fees that became effective in October 2011. Average core deposits increased $27.1 billion, or 5%, from first quarter 2011, primarily in non-interest bearing deposits. The number of consumer checking accounts grew 2.5% from February 2011 to February 2012. Noninterest expense increased $203 million, or 3%, from first quarter 2011, largely the result of higher mortgage volume-related expenses. The provision for credit losses decreased $183 million from first quarter 2011. Charge-offs decreased $733 million from first quarter 2011, showing improvement primarily in the home equity, credit card, and small business lending portfolios. Additionally, we released $300 million from the allowance for credit losses in first quarter 2012, compared with $850 million released in first quarter 2011.

Wholesale Banking provides financial solutions to businesses across the United States and globally with annual sales generally in excess of $20 million. Products and business segments include Middle Market Commercial Banking, Government and Institutional Banking, Corporate Banking, Commercial Real Estate, Treasury Management, Wells Fargo Capital Finance, Insurance, International, Real Estate Capital Markets, Commercial Mortgage Servicing, Corporate Trust, Equipment Finance, Wells Fargo Securities, Principal Investments, Asset Backed Finance, and Asset Management.

Wholesale Banking reported net income of $1.9 billion, up $233 million, or 14%, from first quarter 2011 driven by quarterly revenues of $6.0 billion. Revenue increased $611 million, or 11%, from the prior year primarily driven by broad based loan growth and increased deposits to fund our assets. Average loans of $268.6 billion increased 14% and average total assets of $467.8 billion increased 17% from first quarter 2011 driven by growth across nearly all portfolios. Average core deposits of $220.9 billion grew 20% from first quarter 2011 reflecting continued strong customer liquidity. Noninterest expense increased $265 million, or 10%, from the prior year related to higher operating losses and personnel expenses. Total provision for credit losses of $95 million declined $39 million, or 29%, from first quarter 2011. The decrease was driven by lower net loan charge-offs and improvement in credit quality. The provision for credit losses also reflected a smaller release of $100 million of allowance for credit losses in first quarter 2012 compared with $150 million released in first quarter 2011.

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

Wealth, Brokerage and Retirement reported net income of $296 million in first quarter 2012, down $47 million from first quarter 2011. Revenue was down 3% from first quarter 2011 due to lower brokerage transaction revenue and reduced securities gains in the brokerage business, partially offset by higher gains

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on deferred compensation investments (offset in expense) and growth in managed account fee revenue. Noninterest expense was flat with first quarter 2011 driven by a decline in personnel

costs largely due to decreased broker commissions on lower production levels, offset by higher deferred compensation expense.

Balance Sheet Analysis

At March 31, 2012, our total assets and core deposits were up, while our total loans were down slightly from December 31, 2011. At March 31, 2012, core deposits totaled 116% of the loan portfolio, and we have the capacity to add higher yielding earning assets to generate future revenue and earnings growth. The strength of our business model produced record earnings and high rates of internal capital generation in first quarter 2012 as reflected in our improved capital ratios. Tier 1 capital increased to 11.78% as a percentage of total risk-weighted assets, total capital to 15.13%, Tier 1 leverage to 9.35%, and

Tier 1 common equity to 9.98% at March 31, 2012, up from 11.33%, 14.76%, 9.03%, and 9.46%, respectively, at December 31, 2011. For additional information about our capital requirements, see Note 20 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report.

The following discussion provides additional information about the major components of our balance sheet. Information regarding our capital and changes in our asset mix is included in the Earnings Performance Net Interest Income and Capital Management sections of this Report.

Securities Available for Sale

Table 5: Securities Available for Sale Summary

(in millions)		March 31, 2012 Cost	Net unrealized gain	Fair value	December 31, 2011 Cost	Net unrealized gain	Fair value
Debt securities available for sale	$	**218,840**	**8,273**	**227,113**	212,642	6,554	219,196
Marketable equity securities		**2,735**	**418**	**3,153**	2,929	488	3,417
Total securities available for sale	$	**221,575**	**8,691**	**230,266**	215,571	7,042	222,613

Table 5 presents a summary of our securities available-for-sale portfolio, which consists of both debt and marketable equity securities. We hold debt securities available for sale primarily for liquidity, interest rate risk management and long-term yield enhancement. Accordingly, this portfolio consists primarily of liquid, high quality federal agency debt and privately issued mortgage-backed securities (MBS). The total net unrealized gains on securities available for sale were $8.7 billion at March 31, 2012, up from net unrealized gains of $7.0 billion at December 31, 2011, primarily due to tightening of credit spreads.

We analyze securities for OTTI quarterly or more often if a potential loss-triggering event occurs. Of the $65 million OTTI write-downs in first quarter 2012, $50 million related to debt securities. There was $1 million in OTTI write-downs for marketable equity securities and $14 million in OTTI write-downs related to nonmarketable equity securities. For a discussion of our OTTI accounting policies and underlying considerations and analysis see Note 1 (Summary of Significant Accounting Policies Securities) in our 2011 Form 10-K and Note 4 (Securities Available for Sale) to Financial Statements in this Report.

At March 31, 2012, debt securities available for sale included $34.2 billion of municipal bonds, of which 79% were rated A- or better, based on external and, in some cases internal, ratings. Additionally, some of the securities in our total municipal bond portfolio are guaranteed against loss by bond insurers. These guaranteed bonds are predominantly investment grade and were generally underwritten in accordance with our own investment standards prior to the determination to purchase, without relying on the bond insurer s guarantee in

making the investment decision. Our municipal bond holdings are monitored as part of our ongoing impairment analysis of our securities available for sale.

The weighted-average expected maturity of debt securities available for sale was 5.3 years at March 31, 2012. Because 61% of this portfolio is MBS, the expected remaining maturity may differ from contractual maturity because borrowers generally have the right to prepay obligations before the underlying mortgages mature. The estimated effect of a 200 basis point increase or decrease in interest rates on the fair value and the expected remaining maturity of the MBS available for sale are shown in Table 6.

Table 6: Mortgage-Backed Securities

(in billions)		Fair value	Net unrealized gain (loss)	Expected remaining maturity (in years)
At March 31, 2012	$			
Actual		139.2	6.5	4.0
Assuming a 200 basis point:				
Increase in interest rates		127.9	(4.8)	5.7
Decrease in interest rates		144.0	11.3	3.0

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

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Balance Sheet Analysis *(continued)*

Loan Portfolio

Total loans were $766.5 billion at March 31, 2012, down $3.1 billion from December 31, 2011. Table 7 provides a summary of total outstanding loans for our commercial and consumer loan portfolios. Excluding expected runoff in the non-strategic/liquidating portfolio of $4.1 billion, loans in the core portfolio grew $984 million in the first quarter. Included in our core loan growth was $858 million of commercial asset-based loans acquired with the acquisition of Burdale during the quarter. Loan growth occurred across commercial and

industrial, consumer auto lending and private student lending. This growth was offset by seasonally lower credit card balances, a decline in commercial real estate, and continued runoff in the home equity portfolio. In first quarter 2012, the Company announced the acquisition of BNP Paribas s North American energy lending business. The transaction closed in April 2012 and included approximately $3.5 billion of loans outstanding. Additional information on the non-strategic and liquidating loan portfolios is included in Table 11 in the Credit Risk Management section of this Report.

Table 7: Loan Portfolios Summary

		March 31, 2012			December 31, 2011	
(in millions)	**Core**	**Liquidating**	**Total**	Core	Liquidating	Total
Commercial	**$ 340,536**	**5,213**	**345,749**	339,755	5,695	345,450
Consumer	**317,753**	**103,019**	**420,772**	317,550	106,631	424,181
Total loans	**$ 658,289**	**108,232**	**766,521**	657,305	112,326	769,631

A discussion of the impact on net interest income and a comparative detail of average loan balances is included in Earnings Performance Net Interest Income and Table 1 earlier in this Report. Additional information on total loans outstanding by portfolio segment and class of financing receivable is included in the Credit Risk Management section in this Report. Period-end balances and other loan related information are in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Deposits

Deposits totaled $930.3 billion at March 31, 2012, compared with $920.1 billion at December 31, 2011. Table 8 provides additional detail regarding deposits. A discussion of the impact of deposits on net interest income and a comparative detail of average deposit balances is provided in Earnings Performance Net Interest Income and Table 1 earlier in this Report. Total core deposits were $888.7 billion at March 31, 2012, up $16.1 billion from $872.6 billion at December 31, 2011.

Table 8: Deposits

(in millions)	March 31, 2012	% of total deposits	December 31, 2011	% of total deposits	% Change
Noninterest-bearing	**$ 255,011**	**27 %**	$ 243,961	26 %	5
Interest-bearing checking	**32,440**	**4**	37,027	4	(12)
Market rate and other savings	**498,538**	**54**	485,534	53	3
Savings certificates	**61,653**	**7**	63,617	7	(3)
Foreign deposits (1)	**41,069**	**4**	42,490	5	(3)
Core deposits	**888,711**	**96**	872,629	95	2
Other time and savings deposits	**20,072**	**2**	20,745	2	(3)
Other foreign deposits	**21,484**	**2**	26,696	3	(20)
Total deposits	**$ 930,267**	**100 %**	$ 920,070	100 %	1

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

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Fair Valuation of Financial Instruments

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. See our 2011 Form 10-K for a description of our critical accounting policy related to fair valuation of financial instruments.

We may use independent pricing services and brokers (collectively, pricing vendors) to obtain fair values (vendor prices) which are used to either record the price of an instrument or to corroborate internally developed prices. For certain securities, we may use internal traders to price instruments. Where vendor prices are utilized for recording the price of an instrument, we determine the most appropriate and relevant pricing vendor for each security class and obtain a price from that particular pricing vendor for each security.

Determination of the fair value of financial instruments using either vendor prices or internally developed prices are both subject to our internal price validation procedures, which include, but are not limited to, one or a combination of the following procedures:

- comparison to pricing vendors (for internally developed prices) or to other pricing vendors (for vendor developed prices);
- variance analysis of prices;
- corroboration of pricing by reference to other independent market data such as secondary broker quotes and relevant benchmark indices;
- review of pricing by Company personnel familiar with market liquidity and other market-related conditions; and
- investigation of prices on a specific instrument-by-instrument basis.

For instruments where we utilize vendor prices to record the price of an instrument, we perform additional procedures. We evaluate pricing vendors by comparing prices from one vendor to prices of other vendors for identical or similar instruments and evaluate the consistency of prices to known market transactions when determining the level of reliance to be placed on a particular pricing vendor. Methodologies employed and inputs used by third party pricing vendors are subject to additional review when such services are provided. This review may consist of, in part, obtaining and evaluating control reports issued and pricing methodology materials distributed.

Table 9 presents the summary of the fair value of financial instruments recorded at fair value on a recurring basis, and the amounts measured using significant Level 3 inputs (before derivative netting adjustments). The fair value of the remaining assets and liabilities were measured using valuation methodologies involving market-based or market-derived information (collectively, Level 1 and 2 measurements).

Table 9: Fair Value Level 3 Summary

		March 31, 2012		December 31, 2011
($ in billions)	**Total balance**	**Level 3** (1)	Total balance	Level 3 (1)
Assets carried at fair value	**$ 371.4**	**55.6**	373.0	53.3
As a percentage of total assets	**28 %**	**4**	28	4
Liabilities carried at fair value	**$ 24.5**	**4.5**	26.4	4.6
As a percentage of total liabilities	**2 %**	*****	2	*

* Less than 1%

(1) Before derivative netting adjustments.

See Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report for additional information on our use of fair valuation of financial instruments, our related measurement techniques and the impact to our financial statements.

Off-Balance Sheet Arrangements

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

Off-Balance Sheet Transactions with Unconsolidated Entities

We routinely enter into various types of on- and off-balance sheet transactions with special purpose entities (SPEs), which are corporations, trusts or partnerships that are established for

a limited purpose. Historically, the majority of SPEs were formed in connection with securitization transactions. For more information on securitizations, including sales proceeds and cash flows from securitizations, see Note 7 (Securitizations and Variable Interest Entities) to Financial Statements in this Report.

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Risk Management

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

For more information about how we manage these risks, see the Risk Management section in our 2011 Form 10-K. The discussion that follows provides an update regarding these risks.

Credit Risk Management

Loans represent the largest component of our balance sheet and their related credit risk is among the most significant risks we manage. We define credit risk as the risk of loss associated with a borrower or counterparty default (failure to meet obligations in accordance with agreed upon terms). Table 10 presents our total loans outstanding by portfolio segment and class of financing receivable.

Table 10: Total Loans Outstanding by Portfolio Segment and Class of Financing Receivable

(in millions)		Mar. 31, 2012	Dec. 31, 2011
Commercial:			
Commercial and industrial	$	**168,546**	167,216
Real estate mortgage		**105,874**	105,975
Real estate construction		**18,549**	19,382
Lease financing		**13,143**	13,117
Foreign (1)		**39,637**	39,760
Total commercial		**345,749**	345,450
Consumer:			
Real estate 1-4 family first mortgage		**228,885**	228,894
Real estate 1-4 family junior lien mortgage		**83,173**	85,991
Credit card		**21,998**	22,836
Other revolving credit and installment		**86,716**	86,460
Total consumer		**420,772**	424,181
Total loans	$	**766,521**	769,631

(1) Substantially all of our foreign loan portfolio is commercial loans. Loans are classified as foreign if the borrower s primary address is outside of the United States.

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Non-Strategic and Liquidating Loan Portfolios We continually evaluate and modify our credit policies to address appropriate levels of risk. We may designate certain portfolios and loan products as non-strategic or liquidating to cease their continued origination as we actively work to limit losses and reduce our exposures.

Table 11 identifies our non-strategic and liquidating loan portfolios. They consist primarily of the Pick-a-Pay mortgage portfolio and other PCI loans acquired from Wachovia as well as some portfolios from legacy Wells Fargo Home Equity and Wells Fargo Financial. Effective first quarter 2011, we added our education finance government guaranteed loan portfolio to the non-strategic and liquidating loan portfolios as there ceased to be a U.S. Government guaranteed student loan program

available to private financial institutions pursuant to legislation enacted in 2010. The total of outstanding balances on non-strategic and liquidating loan portfolios has decreased 43% since the merger with Wachovia at December 31, 2008, and decreased 4% from the end of 2011.

The home equity portfolio of loans generated through third party channels was designated as liquidating in fourth quarter 2007. This portfolio is discussed in more detail in the Credit Risk Management Home Equity Portfolios section of this Report.

Information about the liquidating PCI and Pick-a-Pay loan portfolios is provided in the discussion of loan portfolios that follows.

Table 11: Non-Strategic and Liquidating Loan Portfolios

					Outstanding balance	
(in millions)		**Mar. 31, 2012**	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
Commercial:						
Legacy Wachovia commercial and industrial, CRE and foreign PCI loans (1)	$	**5,213**	5,695	7,935	12,988	18,704
Total commercial		**5,213**	5,695	7,935	12,988	18,704
Consumer:						
Pick-a-Pay mortgage (1)		**63,983**	65,652	74,815	85,238	95,315
Liquidating home equity		**5,456**	5,710	6,904	8,429	10,309
Legacy Wells Fargo Financial indirect auto		**1,907**	2,455	6,002	11,253	18,221
Legacy Wells Fargo Financial debt consolidation		**16,013**	16,542	19,020	22,364	25,299
Education Finance - government guaranteed		**14,800**	15,376	17,510	21,150	20,465
Legacy Wachovia other PCI loans (1)		**860**	896	1,118	1,688	2,478
Total consumer		**103,019**	106,631	125,369	150,122	172,087
Total non-strategic and liquidating loan portfolios	$	**108,232**	112,326	133,304	163,110	190,791

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

PURCHASED CREDIT-IMPAIRED (PCI) LOANS Loans acquired with evidence of credit deterioration since their origination and where it is probable that we will not collect all contractually required principal and interest payments are accounted for using the measurement provisions for PCI loans. PCI loans are recorded at fair value at the date of acquisition, and the historical allowance for credit losses related to these loans is not carried over. Such loans are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments. Substantially all of our PCI loans were acquired in the Wachovia acquisition on December 31, 2008. For additional information on PCI loans, see the Risk Management Credit Risk Management Purchased Credit-Impaired Loans section in our 2011

Form 10-K.

During first quarter 2012, we recognized in income $28 million released from the nonaccretable difference related to commercial PCI loans due to payoffs and other resolutions. We also transferred $235 million from the nonaccretable difference to the accretable yield for PCI loans with improving credit-related cash flows and absorbed $569 million of losses in the nonaccretable difference from loan resolutions and write-downs. Table 12 provides an analysis of changes in the nonaccretable difference.

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Risk Management Credit Risk Management *(continued)*

Table 12: Changes in Nonaccretable Difference for PCI Loans

(in millions)	Commercial	Pick-a-Pay	Other consumer	Total
Balance at December 31, 2008	$ 10,410	26,485	4,069	40,964
Addition of nonaccretable difference due to acquisitions	188	-	-	188
Release of nonaccretable difference due to:				
Loans resolved by settlement with borrower (1)	(1,345)	-	-	(1,345)
Loans resolved by sales to third parties (2)	(299)	-	(85)	(384)
Reclassification to accretable yield for loans with improving credit-related cash flows (3)	(1,216)	(2,383)	(614)	(4,213)
Use of nonaccretable difference due to:				
Losses from loan resolutions and write-downs (4)	(6,809)	(14,976)	(2,718)	(24,503)
Balance at December 31, 2011	**929**	**9,126**	**652**	**10,707**
Addition of nonaccretable difference due to acquisitions	**-**	**-**	**-**	**-**
Release of nonaccretable difference due to:				
Loans resolved by settlement with borrower (1)	**(28)**	**-**	**-**	**(28)**
Loans resolved by sales to third parties (2)	**-**	**-**	**-**	**-**
Reclassification to accretable yield for loans with improving credit-related cash flows (3)	**(108)**	**-**	**(127)**	**(235**