1973 ANNUAL REPORT

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Highlights

FOR THE YEAR (IN THOUSANDS)	1973	1972	CHANGE AMOUNT	CHANGE PER CENT
Income Before Security Gains or Losses	$ 44,119	$ 39,094	$ 5,025	12.9
Security Gains (Losses) Net of Tax	(660)	338	(998)	—
Net Income	$ 43,459	$ 39,432	$ 4,027	10.2
Dividends Declared	$ 17,870	$ 15,910	$ 1,960	12.3
PER SHARE[1]				
Income Before Security Gains or Losses	$2.25	$2.10	$0.15	7.1
Net Income	$2.21	$2.12	$0.09	4.2
Dividends Paid	$0.885	$0.83	$0.055	6.6
AT THE YEAR END (IN THOUSANDS)				
Assets	$11,767,725	$9,003,722	$2,764,003	30.7
Deposits	9,016,894	7,412,081	1,604,813	21.7
Loans	7,014,250	5,470,068	1,544,182	28.2
Investments	1,669,793	1,464,599	205,194	14.0
Book Value Per Share (Excluding Capital Notes)	$19.99	$19.41	$0.58	3.0

[1]Based on average number of shares outstanding of 19,633,968 for 1973 and 18,643,285 for 1972.

To Our Stockholders

During one of the most economically and politically turbulent periods in recent history, Wells Fargo & Company was able to achieve solid gains in earnings in 1973.

Earnings for the year (net income before security transactions) totalled $44,119,000 or $2.25 per share, a 7.1 per cent increase over the 1972 figures of $39,094,000 or $2.10 per share.

In view of Wells Fargo's earnings increases in recent years, the Board of Directors voted on August 21 to increase the dividend payment on common stock. The annual dividend rate is now 96 cents per share.

The Bank's earnings growth in the last half of the year was inhibited by the high interest rates in the Nation's money markets. Strong loan demand in 1973, following a year in which loan commitments had moved up very rapidly, required the Bank to step up its efforts to acquire funds. Consumer savings rates were raised in mid-1973 to attract additional deposits, and sizeable amounts of funds were purchased in money markets, where rates were at record high levels. Consequently, the high cost of funds substantially increased our operating expenses in the latter half of the year.

Reflecting steadily rising loan demand and a sharply increased cost of funds, the prime rate climbed from 6 per cent in January to a record level of 10 per cent in September, and it hovered near that figure for the remainder of the year.

Early in 1973, the U.S. economy was running at a boom pace and concern began to develop that excessive growth would lead to economic problems. In August and September, when most money market rates hit their peaks, the economy began to show welcome signs of slowing moderately. Then, in October, the Middle East War broke out; the Arab nations imposed an oil boycott; and the near-term U.S. economic outlook became a subject of concern.

This was reflected in economic indicators as many industries—notably transportation, recreation and retail sales—began cutting back operations due to reduced fuel allocations. These cutbacks were imposed upon an already slowing economy.

During 1973, the U.S. logged strong economic gains on the international front. In February, the second devaluation of the dollar in less than 14 months helped to make U.S. products significantly more competitive in international markets. This factor, combined with increased grain sales, caused our balance of trade to move into the black for the year. Wells Fargo's International Division and our subsidiaries, affiliates, branches and representative offices abroad achieved solid increases in both deposits and loans.

California's economy closely followed national trends last year. The State's manufacturing industry recovered strongly from the effects of the 1969-70 recession, with the result that commercial loan demand in California was high.

However, housing starts topped off in April 1973 and then headed down with only a brief recovery in August. Wells Fargo's mortgage loan outstandings grew consistently throughout the year as the Bank continued to support the California housing market despite the high cost of funds.

In consumer loans, the Bank benefited from strong spending patterns during much of the year and, at the same time, increased its share of the California consumer lending market.

For 1974, the economic outlook for the U.S. and California is mixed. The national economy may reverse its growth pattern for at least one quarter of the year, but by late summer should be back on an upward path. Housing is expected to begin its recovery by midyear and business investment is likely to remain strong all year. For the year as a whole, both the average unemployment rate and the average inflation rate will be higher than desirable. California's economic trends will, in general, be similar to those for the Nation.

At Wells Fargo & Company and in the Bank, the emphasis in 1973 was on continued measures to reorganize our highly diversified activities in order to provide better customer service, increase our business and achieve operational efficiencies.

As part of that program, the Bank formed a new branch office division effective January 1, 1974, which will develop and pilot innovative banking techniques and services. This new group, named the Frontier Division, will be headquartered in San Mateo and will be comprised of 40 branches previously supervised by the West Bay, East Bay, Peninsula and Valley Divisions.

Wells Fargo opened four new domestic offices in 1973, bringing the statewide total to 300. The Bank is also awaiting approval of the proposed acquisition of Commercial National Bank, Buena Park, with six branches in Orange County in Southern California.

In a complex economic environment, the Bank's staff did an outstanding job in the past year of developing new business while holding expense growth to a minimum. Total number of full-time equivalent employees at the end of 1973 was 10,824, a 5 per cent increase over the previous year.

The Bank expanded its major commitment to programs of corporate responsibility during 1973. The Corporate Responsibility Committee, formed in 1972 with nine members drawn from senior and middle management, works on specific proposals regarding social and environmental issues, such as employment, lending and purchasing policies and, more recently, energy conservation. It meets twice monthly and reports directly to the Executive Office. The Committee developed a five-year Affirmative Action Plan for employment that went into effect January 1, 1974, and calls for increases in numbers of minority and women executives each year through 1978. Performance will be measured against these targets annually, and at the same time, the Plan will be reviewed and new goals set for an additional year.

During the year, specific emphasis was again placed on the hiring, training and promotion of women and minorities. By the end of 1973, minority employees totalled 2,981 or 25.7 per cent of total staff. Minority members comprised 11.4 per cent of total officials, managers and professional staff members, and women represented 33.1 per cent of that category. Among the continuing efforts toward improving the status of disadvantaged minorities is the Bank's job education program, which was started in 1968. In 1973, new career development programs were launched for women and minorities at both the officer and non-officer levels.

In addition to these undertakings, Wells Fargo's Minority Business Loan Program has approved loans of nearly $22 million, and we had 43,000 student loans totalling about $47 million at year end. The Bank has also introduced a special installment loan program for low-income borrowers, known as Low Income Finance Terms (LIFT).

During 1973, Wells Fargo was saddened by the death of two emeritus members of the Board of Directors. They were Wilson Meyer, chairman of Wilson & Geo. Meyer & Co. and a member of the Board since 1940, and Robert S. Odell, chairman of Allied Properties, who had served on the Board since 1957. We were grieved at the death, on January 1, 1974, of George G. Montgomery, retired chairman of Kern County Land Company and director emeritus of Wells Fargo. Mr. Montgomery had been on the Board since 1939. These three gentlemen had contributed greatly to the work of the Board over the years. A new director appointed early in 1973 was Mary E. Lanigar, Partner, Arthur Young & Co.

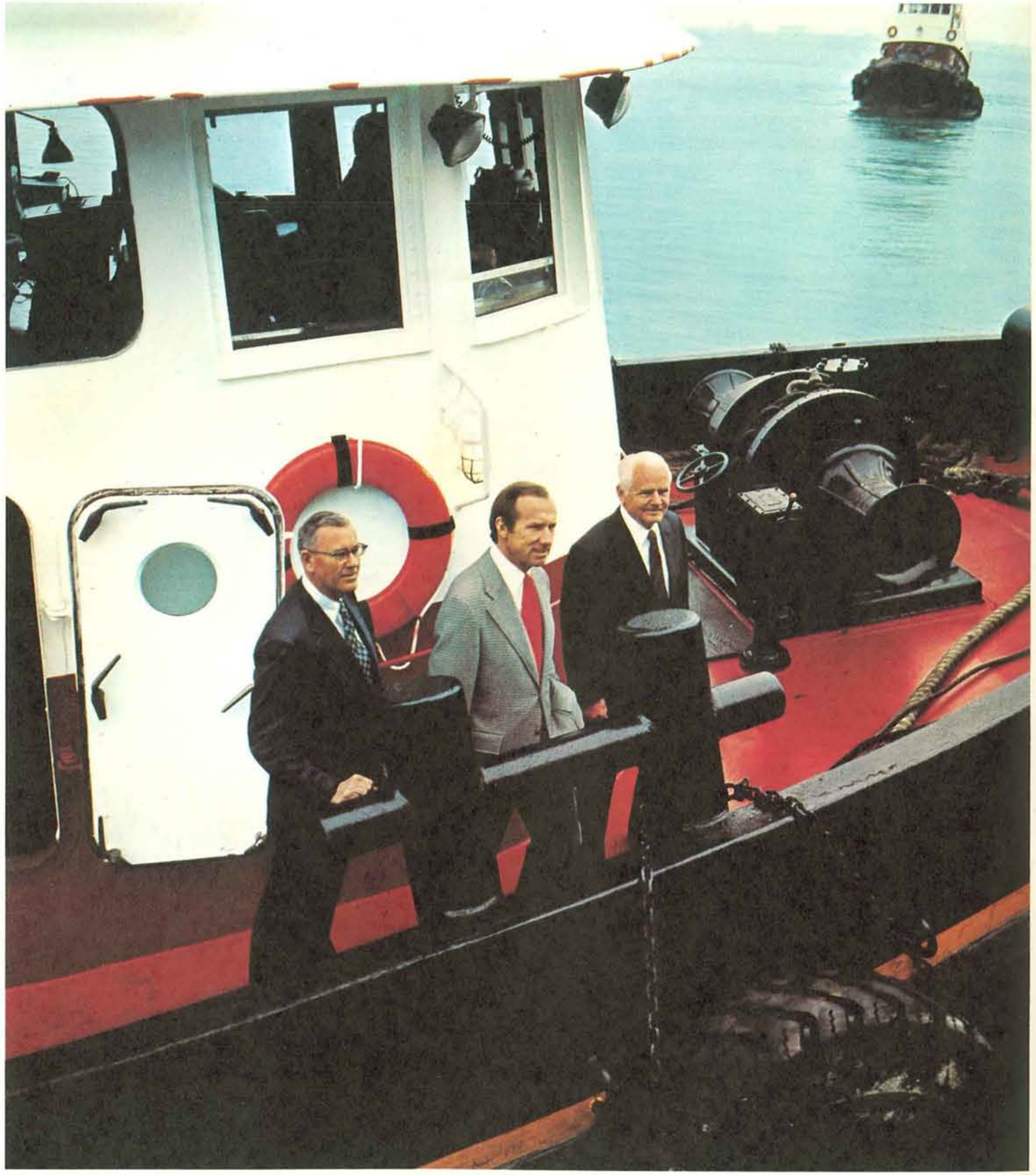
Both the Board of Directors and the staff made continuing and valuable contributions throughout the difficult and challenging year of 1973. All parts of the organization gave important support to the team effort which produced the achievements of the year. We are grateful and proud of the results that each attained.

Ernest C. Arbuckle
Chairman of the Board

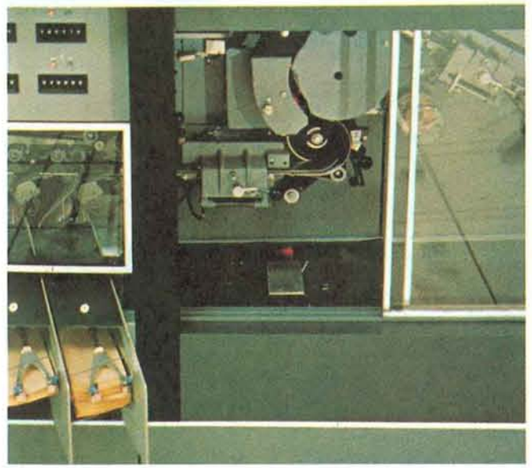
Richard P. Cooley
President and Chief Executive Officer

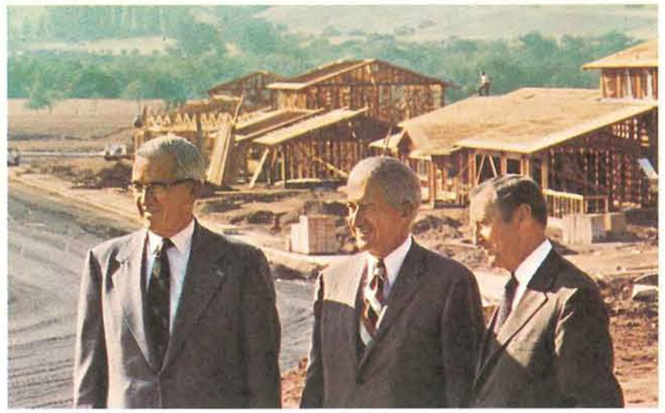
January 17, 1974

Corporate Management



Activities of the non-bank subsidiaries such as Wells Fargo Leasing Corporation received the increasing attention of Wells Fargo & Company's Executive Office. Among the highly diversified leases of the subsidiary is an ocean-going tugboat, exemplified by the vessel above, which was boarded for a recent inspection by Richard P. Cooley, center, president and chief executive officer; Ernest C. Arbuckle, right, chairman; and James K. Dobey, executive vice president. With offices in San Francisco and Los Angeles, the leasing company expanded into New York and Houston in 1973 and plans to enter the Midwest and Southeastern regional markets in 1974.





(Above) The year's major facility relocation involved the move of Wellsco Data Corporation and the Bank's Data Processing Division into several floors of the new, thirty-nine-story Market and First Street Office Building, San Francisco. Viewing the results of the massive four-month transfer of people and machines—including a battery of check sorters (pictured)—are, from left, Thomas A. Bigelow, senior vice president, administration; Carl E. Reichardt, executive vice president, subsidiaries operations; and Robert L. Kemper, executive vice president, who heads finance and planning for both the holding company and the Bank.

(Top right) Multi-national lending activities were heightened with an opportunity to help finance the first nuclear power plant in Mexico. With the U.S. Export Import Bank, Wells Fargo signed a $54,180,000 loan agreement to support a $60.2 million sale of U.S. equipment, materials and services for plant construction. Robert N. Bee, far left, senior vice president, International Division; John R. Breeden, executive vice president, corporate banking; and A. William Barkan, executive vice president, Southern California, examine a model of a similar nuclear power plant with a scientist at the Vallecitos facility of the General Electric Company.

(Bottom right) Throughout 1973, the Bank continued to meet the financial needs of California consumers and the communities in which we operate. This was evidenced by our $721 million of new real estate loans made during the year, which represented a large share of total real estate loans made statewide by the banking community. John F. Holman, from left, executive vice president and senior loan officer; Ralph J. Crawford, Jr., executive vice president, asset management; and Richard D. Jackson, executive vice president and head of statewide branch activities, visit the site of a 4,000-home community financed by the Bank.

Summary of Operations

Wells Fargo Bank's continuing effort to increase profitably its share of the California consumer banking market generally achieved rewarding results in the past year. Looking at the year in retrospect, it becomes quickly apparent that three major developments highlighted the Bank's consumer banking operations during the year.

The first of these was the introduction of the Wells Fargo Gold Account in February. This program, since copied by scores of other banks from California and Washington to New York, offers most consumers, for a single monthly fee, a complete package of every personal banking service they are likely to need. Further national recognition of the service came in September when the Wells Fargo Gold Account won the Bank Marketing Association's Gold Coin Award as the outstanding bank marketing program in the United States during 1973.

This new service has met with unprecedented success. To date, the Bank has received approximately 125,000 applications for Gold Accounts. Striking evidence of the program's consumer acceptance was reflected further in the Bank's net gain of more than 100,000 new Master Charge cardholders—a substantial portion of this total resulting from the Gold Account. Correspondingly, Master Charge outstandings increased at a record pace to $140 million, a gain of 61 per cent over the previous year.

The Gold Account also played a major role in enabling the Bank to achieve a net gain of approximately 50,000 new individual checking accounts in 1973.

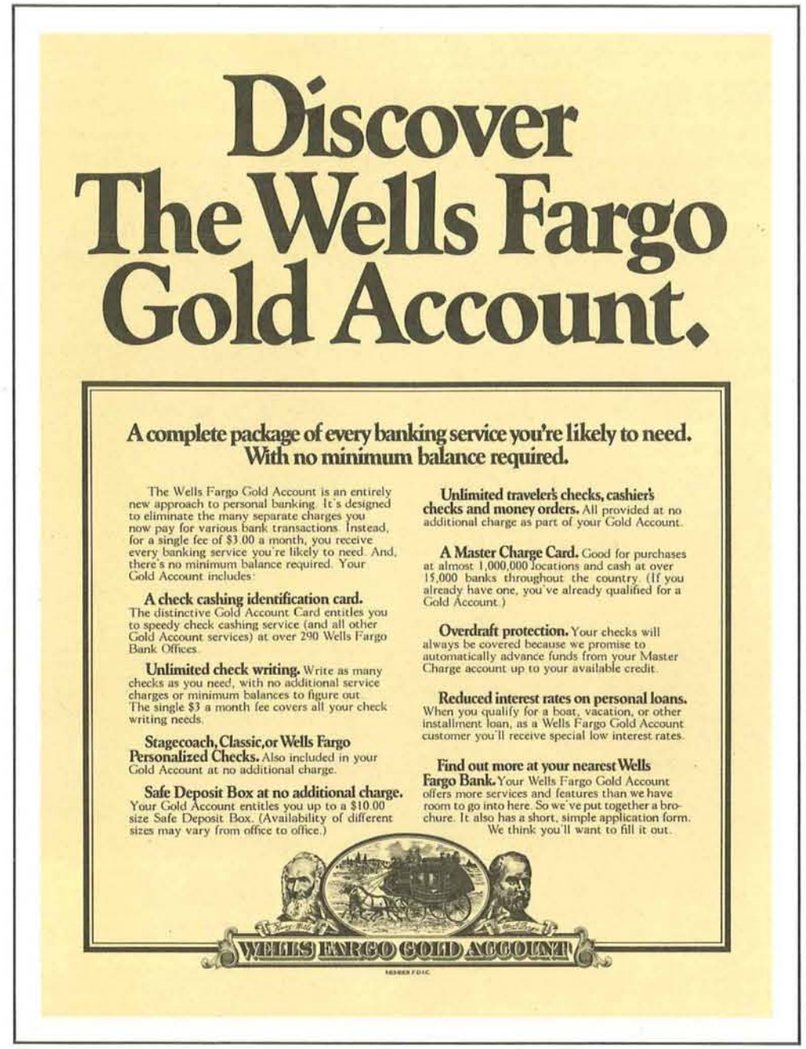
A second significant development in the consumer banking sector occurred in July when the Federal Reserve Board announced changes in Regulation Q which permitted increases in interest rates paid on passbook savings and consumer time deposits. The Bank's response was immediate and on July 1, Wells Fargo became the only bank among California's five largest banks to pay 5 per cent interest on regular passbook savings accounts.

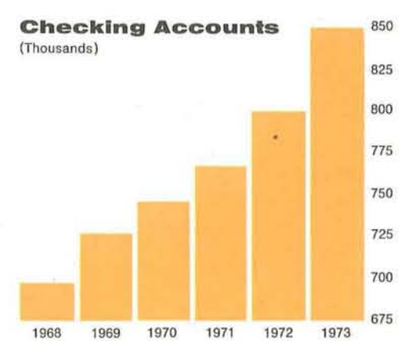
Although this increase from 4.5 per cent was an earnings cost factor in the last two quarters because of higher interest rates paid on already existing deposits, the benefits to consumers represent a sound investment for the future. For the present, the new rate already has resulted in an increase of approximately ¾ of 1 per cent—more than $115 million—in Wells Fargo's share of the $14 billion California passbook savings market.

The third consumer banking development of the year focused on the Bank's continuing commitment to meet the needs of the California communities it serves. This commitment was a principal factor in the Bank's effort to maintain a proper balance in the allocation of scarce and costly loanable funds. Despite higher interest rates available in other sectors—a fact that was underscored by an historic 10 per cent prime rate—Wells Fargo acknowledged its consumer commitment with approximately $721 million in new real estate loans and an increase of $230 million, or 31 per cent, in installment loan outstandings.

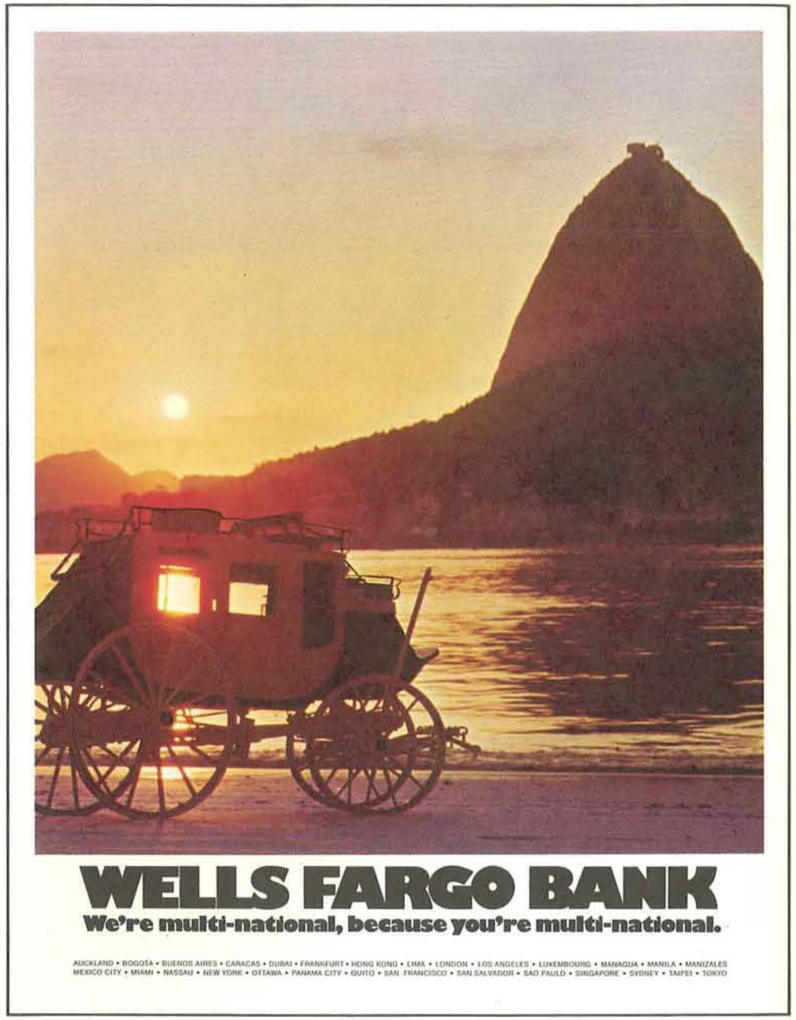
The Bank's effort to penetrate further California's consumer market through branch expansion continued, although at a slower pace. Wells Fargo became more selective in site location in order to meet its established return on investment criteria. One new branch was opened in Northern California at Market and First Street in San Francisco. In Southern California, the region of greatest near-term growth, three new offices were opened—in Los Angeles, Burbank and Marina del Rey.

The Bank announced negotiations to acquire the Commercial National Bank, Buena Park. This $32-million-asset bank has, in addition to its head office, five branches in operation in Anaheim, Westminster, Santa Ana, Garden Grove and Fullerton; a sixth under construction at Fountain Valley; and approval for a seventh at Stanton—all in its Orange County service area, one of the most rapidly-growing areas in California. The approval of this acquisition is currently pending with regulatory authorities.





Corporate Banking



A major facet of Wells Fargo Bank's management reorganization of January, 1973 was the separation of consumer and large corporate banking activities into different groups. The results—better service for customers and greater savings through more efficient operations—have been particularly notable in the Corporate Banking Group.

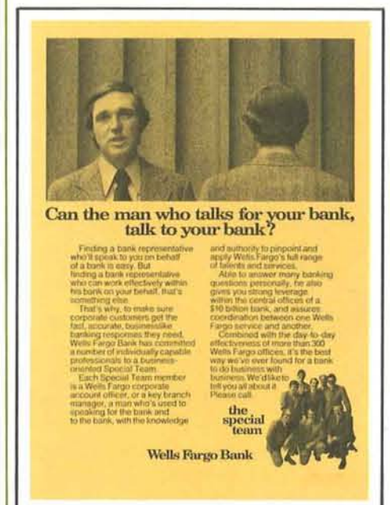
Success in the banking business world increasingly requires a global as well as national effort and, as a result, corporate banking account responsibilities have become more complex. Bringing all corporate banking activities and domestic officers under one administrative group at San Francisco headquarters has more clearly defined areas of responsibility and more effectively utilized the special talents and skills needed to meet corporate financing requirements and increasing competition.

In many respects, the past year tested the resourcefulness of the corporate banking staff as no other year in recent memory. The climate in which they pursued their business was clouded by conflicting pressures. Loan demand in commercial lending—as in all sectors—started the year unusually strong, undeterred by an ever-rising prime rate, and stayed that way until the Fall when commercial loan outstandings began to level off. At the same time, the cost of loanable funds was at a high level and there was more emphasis on ensuring that funds were available for the consumer and small business.

It was against this background that the corporate lending officer in San Francisco and Los Angeles developed business—caught between opposing forces of the strong loan demand and the curbs of internal and external restraints on credit expansion. By April, the Bank's guidelines on loans to national and multi-national customers and prospects throughout the country became more restrictive. As a result, total loan growth was limited, but the essential needs of smaller business customers continued to be met.

Corporate group activities were highlighted by development of a Corporate Account Profitability System, making it possible to measure such data as return on earning assets, loan usage, profits from other services, and a gross return index. A vital management tool, the new automated system will allow the Bank's officers to perform more effectively in a climate where fund resources must be selectively allocated and higher corporate loan yields and returns expected.

The Bank continued to progress satisfactorily with its efforts to penetrate the "middle market" by attracting accounts of corporations whose sales range from $2 million to $20 million. Enhancing this position was the Bank's Business Planning Model, a program offered to medium-size corporations which per-



mits them to utilize Wells Fargo's computer time-share services for more sophisticated financial planning, including cash flow analyses.

For the small businessman in the California market, Wells Fargo introduced Credit Line, a new service which allows a small business to enjoy the same kind of revolving credit facilities heretofore usually reserved exclusively for large businesses. Approximately 175 firms are presently using Credit Line. The growth of the program was slowed early in the year as a result of Wells Fargo's general restraints, reflecting Federal Reserve monetary policy, on credit expansion. The Bank plans to expand the program in the coming year.

A succession of important multi-national and syndicated loan commitments, a new merchant bank in the Far East, and entry in a major way into new markets in Germany and France marked the stepped-up pace of Wells Fargo Bank's expanding international activities.

The Bank's position in Europe was greatly strengthened by a decision in January to join with the Norddeutsche Landesbank, one of Germany's largest financial institutions, in acquiring a controlling interest in the Frankfurt-based Allgemeine Deutsche Credit-Anstalt (ADCA) following merger of the latter bank with the Norddeutsche Kreditbank of Bremen. In late September, the $1.2-billion-asset "New ADCA" with branches in most major cities in Germany, was introduced to the public.

With Wells Fargo Bank as a 25 per cent stockholder, ADCA is expected to become a major factor in the German financial market. To supplement and support ADCA's expanding role in international finance, Wells Fargo also has established its own branch office in Frankfurt, Germany.

A second major step was taken in Europe in November when Wells Fargo Bank agreed in principle to purchase a 15 per cent interest in Credit Chimique, a privately-held French commercial bank in Paris. Major shareholders in Credit Chimique, which has assets of approximately $600 million, include Compagnie Francaise des Petroles, one of the major integrated petroleum companies of the world, and Pechiney Ugine Kuhlmann, with worldwide interests in metals and chemicals. Approval of Wells Fargo's investment is pending with regulatory authorities.

In the Far East, Wells Fargo joined with its Hong Kong affiliate, Shanghai Commercial Bank, and Japan's Mitsui Bank in forming a new merchant bank, WMS Capital Corporation. Wells Fargo has a 40 per cent interest in WMS, which commenced operations in Hong Kong during August.

During 1973, Wells Fargo Bank increased its financing of exports of U.S. manufactured capital equipment. Export financing activities were highlighted by a $54 million loan agreement with Mexico's Comision Federal de Electricidad and the U.S. Export Import Bank financing the sale of U.S. equipment, materials, and services for construction of the first nuclear power plant in Mexico. In November, again with U.S. Export Import Bank participation, Wells Fargo signed a $9 million loan agreement financing the export of U.S. goods and services for the construction of a thermal power plant in Spain.

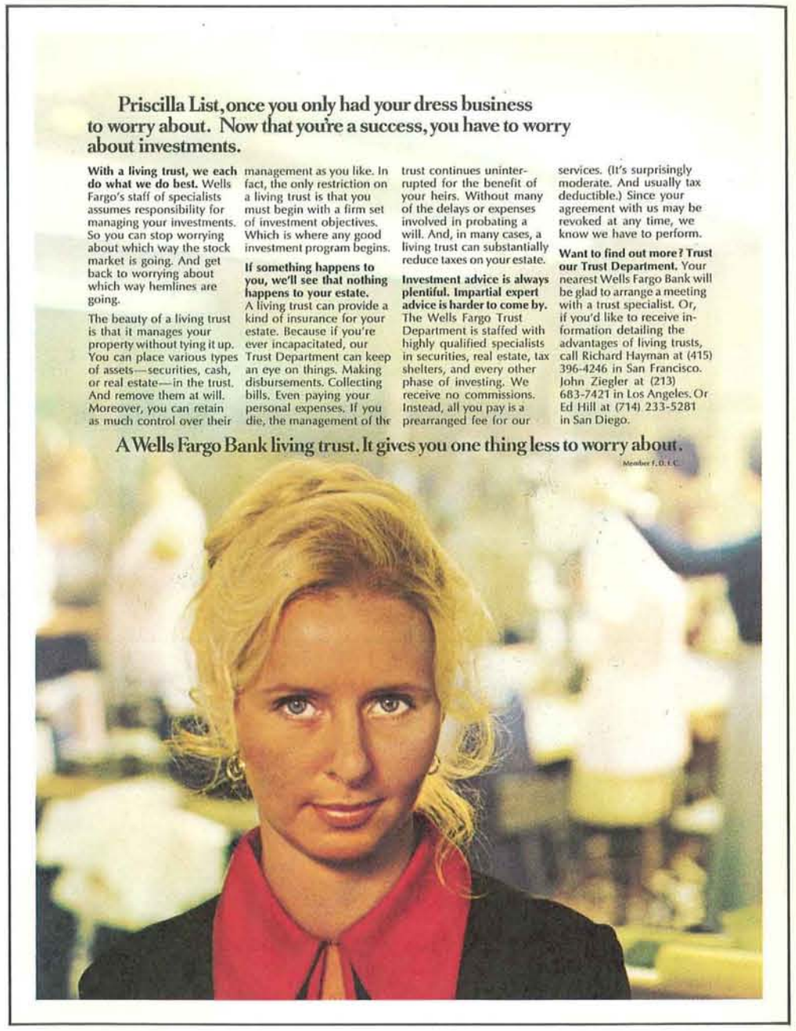
In March, Wells Fargo Bank participated in one of the first two U.S. Export Import Bank credits to the USSR. One of these credits, financing the export of $6.8 million of U.S. equipment for a stainless steel tableware plant, included participation by a group of U.S. commercial banks under the leadership of Wells Fargo.

Other Wells Fargo export financing transactions during 1973 included credits to Poland and Hungary. A second Wells Fargo credit to the USSR, financing the sale of $20 million of U.S. manufactured construction equipment, included $14 million of participations by seven other banks from all regions of the United States.

With its management of loan syndicates, Wells Fargo Limited, the wholly-owned merchant bank in London, became a new force on the international banking scene. During the year, syndicated loans amounting to $300 million were arranged, including such diverse credits as a $100 million loan to the Republic of Peru in April, a $20 million loan to the Companhia Metropolitano de Rio de Janeiro for subway construction, $50 million for the Societe Nationale des Materiaux de Construction of Algeria, $40 million for Cerro Corp., New York, and another $80 million for the Republic of Peru in December.

Pursuant to its expanding international activities, the Bank introduced during 1973 a Wells Fargo Bank International Money Order to be sold through its three hundred domestic banking offices and bank correspondents throughout the United States.

Trust and Financial Analysis



Priscilla List, once you only had your dress business to worry about. Now that you're a success, you have to worry about investments.

With a living trust, we each do what we do best. Wells Fargo's staff of specialists assumes responsibility for managing your investments. So you can stop worrying about which way the stock market is going. And get back to worrying about which way hemlines are going.

The beauty of a living trust is that it manages your property without tying it up. You can place various types of assets—securities, cash, or real estate—in the trust. And remove them at will. Moreover, you can retain as much control over their management as you like. In fact, the only restriction on a living trust is that you must begin with a firm set of investment objectives. Which is where any good investment program begins.

If something happens to you, we'll see that nothing happens to your estate. A living trust can provide a kind of insurance for your estate. Because if you're ever incapacitated, our Trust Department can keep an eye on things. Making disbursements. Collecting bills. Even paying your personal expenses. If you die, the management of the trust continues uninterrupted for the benefit of your heirs. Without many of the delays or expenses involved in probating a will. And, in many cases, a living trust can substantially reduce taxes on your estate.

Investment advice is always plentiful. Impartial expert advice is harder to come by. The Wells Fargo Trust Department is staffed with highly qualified specialists in securities, real estate, tax shelters, and every other phase of investing. We receive no commissions. Instead, all you pay is a prearranged fee for our services. (It's surprisingly moderate. And usually tax deductible.) Since your agreement with us may be revoked at any time, we know we have to perform.

Want to find out more? Trust our Trust Department. Your nearest Wells Fargo Bank will be glad to arrange a meeting with a trust specialist. Or, if you'd like to receive information detailing the advantages of living trusts, call Richard Hayman at (415) 396-4246 in San Francisco. John Ziegler at (213) 683-7421 in Los Angeles. Or Ed Hill at (714) 233-5281 in San Diego.

A Wells Fargo Bank living trust. It gives you one thing less to worry about.

Member F.D.I.C.

Assets under management by the Trust Division and income from fees made substantial gains in 1973. Emphasis on current fee business and development of services and programs to achieve that objective resulted in the division's fee income rising 12 per cent to a new high of $14,984,000 in 1973. The five-year increase in fees earned showed a gain of 48 per cent.

During 1973, the Trust Division conducted a market survey on the needs and desires of today's personal trust customers—how they perceive the trust function and the type of service and performance they expect. Based on this survey and Trust's own research, the division focused on improvement in operational procedures, customer service and business development.

The Trust Division established two new common trust funds for use by qualified pension and profit sharing trusts in 1973. Broadening further the range of investment opportunity available to employee benefit trust customers, a new Real Estate Equity commingled fund was established on July 1. The objective of this fund is long-term growth in asset values through a combination of appreciation of the properties owned and the reinvestment of cash flow.

Major new pension management business was attracted to the Bank during 1973, a result in part of the Financial Analysis Department's innovative work with concepts derived from modern capital market theory. Development of unique and advanced investment techniques have gained the Bank a national reputation in the investment community which in time should importantly assist the growth in the amount of funds under management.

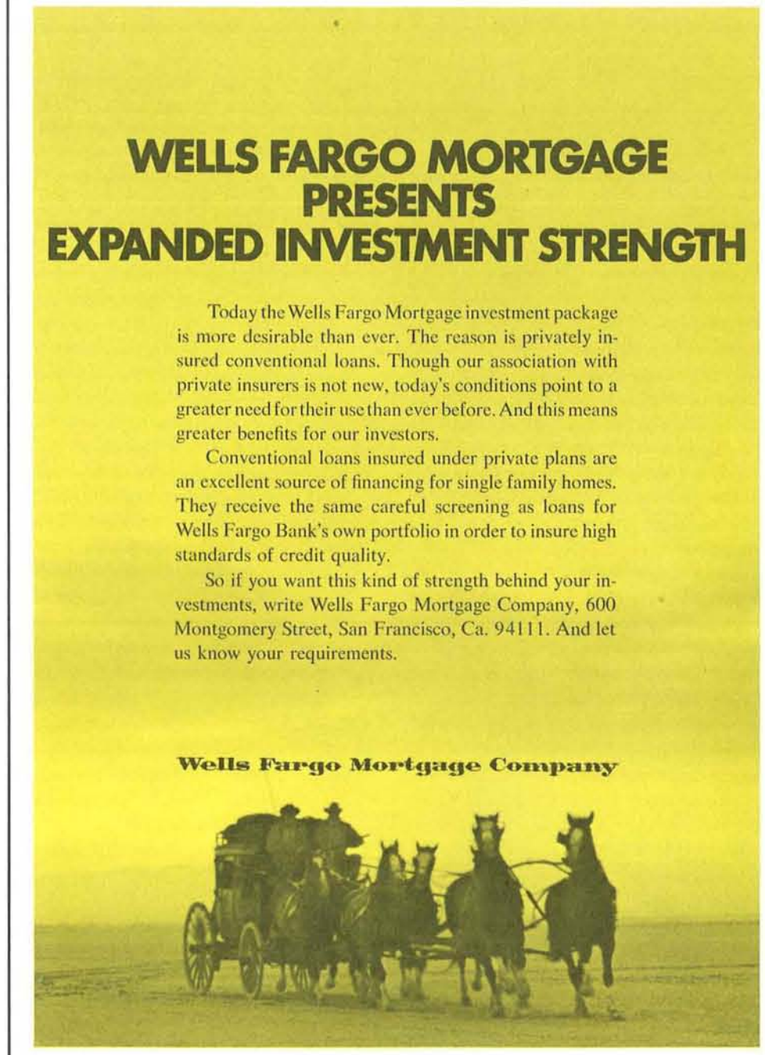
A significant practical application of the Bank's work with modern capital theory is seen in the September 1973 establishment of the Wells Fargo Index Fund for employee benefit trusts. Originally funded with a portion of Wells Fargo Bank's own pension trust assets, this unique investment vehicle makes available to corporate clients Wells Fargo's experience in managing assets through the application of quantitative techniques to produce an investment result approximating that of the Standard & Poor's 500 Index. The new Index Fund provides still another alternative for the investment management of employee benefit trust portfolios.

Another outgrowth of the Financial Analysis Department's research and development activities has led to the introduction of a new Corporate Advisory Service. On a fee basis, this service assists corporate financial officers in answering such vital questions as the true value of a company's equity; what their stock's price-earnings ratio actually reflects; the appropriate price for mergers or acquisitions; how stock options should be priced; and how to evaluate earnings forecasts. It is believed that these techniques, used by Wells Fargo in its own analysis of corporations, can be applied profitably by medium and small-size corporations in their planning, as well as by major firms. Marketing of this new service will expand substantially in 1974.

An example of the increasing recognition of the capabilities of the Trust Division and the Financial Analysis Department was the selection of Wells Fargo to serve as investment advisor for the Northwest Alaska Native Association (NANA), one of 12 regional corporations organized under the Alaska Natives Claims Settlement Act of 1971. Funds will be received by Alaska native regions, villages and individuals as outright Federal payments, and from the State of Alaska as royalties from the development of mineral resources.

Since its inception in late 1971, our Wellsplan service has provided professional financial and special investment advice to an ever-increasing group of individual and corporate clients. The staff, which has in-depth expertise in income tax planning, insurance, estate tax planning, employee benefits and special investments, including such tax-favored investments as real estate and oil and gas exploration, has grown from an initial size of four to the present 11 members. In 1973 the number of clients served more than doubled over the previous year. Investors, on the advice of Wellsplan, acquired over $5 million of investment assets including approximately $1 million in oil and gas interests.

Other Subsidiaries



Excellent growth and expansion marked an eventful year for the principal non-Bank subsidiaries of Wells Fargo & Company.

Wells Fargo Mortgage Company

Wells Fargo Bank's Sonoma Mortgage Company Division devoted much of the year to implementing plans leading to approval and capitalization of the organization as a subsidiary of Wells Fargo & Company. This status was achieved by year end, giving the mortgage company the flexibility to pursue an expanded and aggressive growth plan outside of California.

In anticipation of this spin-off from the Bank, Sonoma took its initial transition step in July with a formal change of name to Wells Fargo Mortgage Company. The better-known Wells Fargo name should be a major advantage as the mortgage organization expands nationally.

In August, the company's headquarters was moved from its Santa Rosa base to San Francisco to bring the administrative staff closer to their investor and money market contacts.

Day-to-day operations of Wells Fargo Mortgage Company, including servicing, processing, closing of loans, and other support efforts, will continue to be carried out at Santa Rosa where the majority of employees are domiciled.

By the end of the year, Wells Fargo Mortgage Company was servicing about 50,000 mortgage loans, totalling approximately $900 million. The company originated approximately $180 million in mortgage loans in 1973, an increase of more than 20 per cent over the previous year.

Future plans call for greater concentration on income properties while maintaining a strong position in residential real estate.

Wells Fargo Realty Advisors

Wells Fargo Realty Advisors contributed in excess of $1.1 million in net profits to its parent, Wells Fargo & Company, in 1973. This subsidiary, which earned a profit in its first year in operation in 1970 and has since maintained a steady growth rate, provides advisory services on a fee basis to Wells Fargo Mortgage Investors, a publicly-held real estate investment trust whose shares of beneficial interest are listed on the New York Stock Exchange. Investment commitments of the trust, managed by the advisors, totalled approximately $375 million at year end, up from $300 million at the close of 1972. Included in the investment portfolio were development and construction loans on single family housing, apartments and office buildings, as well as real estate equity investments.

Wells Fargo Realty Advisors maintains a loan portfolio for its own account for investments not meeting the investment objectives of Wells Fargo Mortgage Investors. At the close of the year this portfolio had total commitments of $79 million compared to $23 million in 1972.

In September, 1973, Wells Fargo Realty Advisors opened a new office in Phoenix in an effort to add to a successful two-year penetration of that Western regional market. The subsidiary also has had an office in Houston since 1972 to serve its Southwestern market.

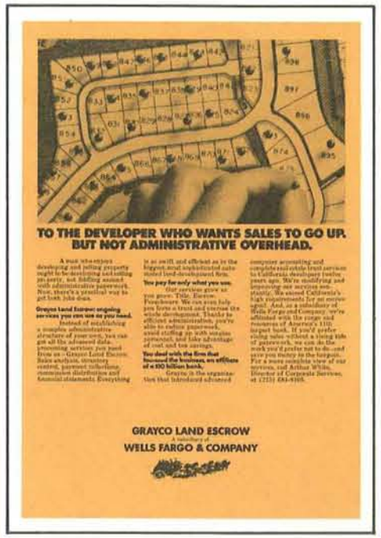
The advisory group will continue in the future to follow its plan of orderly expansion into new regional U. S. markets.

Wells Fargo Leasing Corporation

Wells Fargo Leasing Corporation is expected to become a force in the national general equipment leasing market in the next five years. This subsidiary became functional in February, 1972 and showed a profit by the end of 1972. The corporation's contribution to earnings was approximately $600,000 at the end of 1973.

This year, Wells Fargo Leasing expanded into New York and Houston with new offices and expects to enter the Midwest and Southeastern regional markets in 1974. Immediate future plans

call for a major concentration on medium-size California corporations to meet their needs for general production equipment, including machine tools. This activity will be an extension of the larger Wells Fargo Bank effort to penetrate the "middle market" with the assistance of the Bank's branch office system.



Grayco Land Escrow Ltd.

Grayco Land Escrow Ltd., a subsidiary of Wells Fargo & Company, serves as a corporate trustee and performs specialized data computing services for real estate developers.

Wells Fargo Securities Clearance Corporation

Wells Fargo Securities Clearance Corporation, a subsidiary which opened in New York early in 1969 primarily to handle the securities clearance transactions for Wells Fargo Bank and a number of other major corporate customers, nearly tripled its earnings in 1973. The subsidiary contributed in excess of $500,000 to Wells Fargo & Company earnings this year, compared with $196,905 in 1972.

Atlantic-Pacific Leasing, Inc.

Plans for a proposed acquisition of Atlantic-Pacific Leasing, Inc. by Wells Fargo & Company were approved by the boards of directors of the two firms in July. Atlantic-Pacific is a nine year old, San Jose-headquartered auto lease firm which provides finance lease services to over 900 new car dealers in 20 states. A substantial part of the company's existing fleet is composed of import vehicles with high residual value characteristics. The majority of the leases written by Atlantic-Pacific are "open-ended," which results in the lessee assuming the residual value risk.

Atlantic-Pacific reported after-tax earnings in excess of $900,000 for its fiscal year ending May 31, 1973.

Wells Fargo & Company expects to acquire Atlantic-Pacific for an exchange of stock valued at approximately $8 million. This acquisition is awaiting the approval of regulatory authorities.

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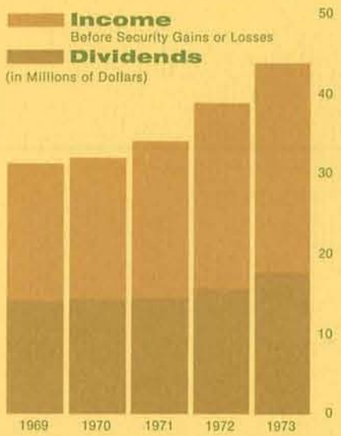
Financial Review



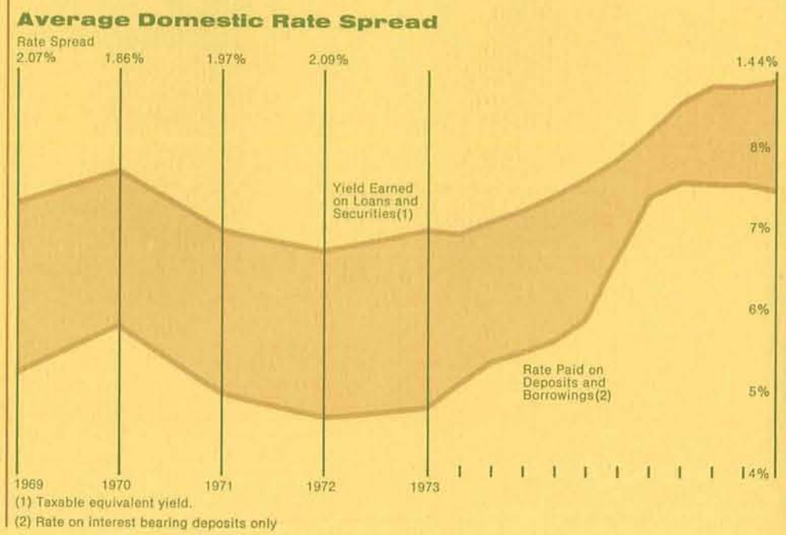
Wells Fargo & Company realized a 7.1 per cent increase in per share earnings in 1973. The year's earnings per share were $2.25, compared to $2.10 in 1972.

The year 1973 was divided almost equally into two parts with respect to the money market environment and the resulting contrasts in earnings performance. During the first half, the high loan volumes in all sectors, along with comparatively normal margins between money market rates and lending rates, resulted in substantial profit gains.

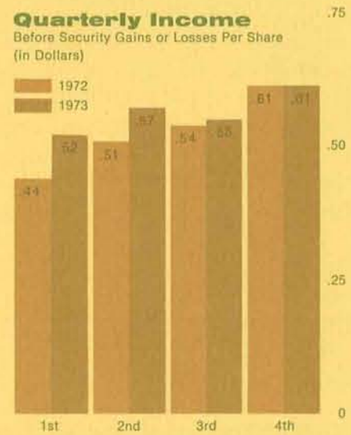
In the second half, earnings remained level because of the efforts of the Administration's Committee on Interest and Dividends to hold down interest rates charged to customers, which resulted in a significant narrowing of the spread between average rates charged on loans and the average cost of borrowed funds. Though the prime rate charged to the largest and strongest corporate borrowers was increased 16 times to an all-time high of 10 per cent in September, it never caught up with short-term money market rates and did not discourage borrowers until late in the third quarter when commercial loans began leveling off.

Earlier first-half gains would have been even more marked had it not been for an after-tax charge of $3,006,200 on a $20 million Swiss Franc note obligation. The additional liability and offsetting earnings charge resulted from the deteriorating position of the dollar vis-a-vis the Swiss Franc. In the third quarter, with the concurrence of its independent accountants, the Bank adopted a new procedure for converting, for accounting purposes, the Swiss Franc obligation to U.S. dollars. Originally, the Bank had adopted the principle of translating its Swiss Franc liability at the current exchange rate and immediately reflecting any change in the income statement. This method had the effect of correctly stating the Bank's liability at current rates, but caused variations in earnings each period as the international monetary situation fluctuated. In accordance with the new policy, the Bank is amortizing the translation adjustments arising from the Swiss Franc liability, as well as the net translation gains or losses on the foreign currency assets funded by that borrowing, over the life of the note which matures September 15, 1976.

Fourth quarter earnings increased 4.8 per cent to $11,950,000 from $11,403,000 in 1972. The per share results of 61 cents were unchanged due to the increased number of shares outstanding. In the fourth quarter, the increased fee income offset the lower spreads.



Other income for 1973 increased $7.0 million over 1972. The major factor was an increase in finance leasing income obtained through leases made by Wells Fargo Leasing Corporation and by the Bank.



Included in other income is Wells Fargo International Investment Company's share of the annual net income of affiliated companies in which it has equity investments exceeding 20 per cent of the voting common stock, or investments in which Wells Fargo exercises a significant control. Among affiliates in Europe, the Far East and Latin America which comprise such income sources, the largest contributor to profit was Western American Bank (Europe) Limited, which added approximately $1,764,000 in 1973.

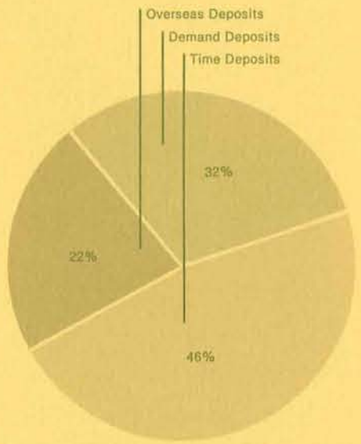
Interest on deposits and borrowed funds, which represented about 69 per cent of total expenses and remains the Company's largest expense item, was up 98 per cent to $488 million. Increases in rates paid and in time deposit volume accounted for the interest expense increase.

Though salaries, pensions and other employee benefits still combine to be the second largest expense item, the increase of 9.7 per cent to $129 million was in accordance with plans to hold the increase in these expenditures to approximately 10 per cent.

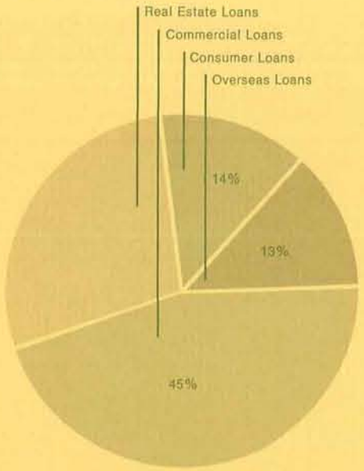
Occupancy expense rose 20 per cent to $24.5 million from $20.5 million in 1972, largely due to three major moves into new leased premises. These included relocation of Wellsco Data Corporation and the Data Processing Division of the Bank into the new building at Market and First Street, San Francisco; and Bank staff moves into a new regional headquarters building in Oakland and a new low-rise Southern California headquarters building in downtown Los Angeles.

Total deposits reached $9.0 billion by year end, a 22 per cent increase over 1972. The largest gains were from deposits in overseas branches, up over $811 million. Strong increases also were made in commercial demand deposits, which rose to $2.5 billion at year-end 1973 from $2.1 billion for 1972. The year-to-year gain amounted to $365 million, or 17.2 per cent.

Indications of the growing willingness of the individual customer to commit his savings funds to longer terms to obtain higher interest payments are evidenced in the larger share of total savings and time deposits represented by Consumer Savings Certificates.



Year End Deposits



Year End Loans

Consumers held in excess of $1.0 billion in savings certificates at the close of 1973, a 36.4 per cent share of total consumer savings deposits of $2.8 billion. At year-end 1969—four years ago—savings certificates were $571 million, or 27.9 per cent of all individual savings and time deposits of $2.0 billion.

For the third year in a row, loan volume made record gains with total loans up 28 per cent to $7.0 billion from $5.5 billion in 1972. Commercial loans increased to $3.2 billion, up $626 million from 1972. The Bank also redoubled its efforts, with marked success, to expand its share of loans to medium-sized corporations headquartered in California.

Real estate loans increased 26 per cent, or $408 million over 1972. This increase does not include those loans sold through the Bank's Sonoma Mortgage Company Division, now the Wells Fargo Mortgage Company subsidiary. The Bank's real estate loan portfolio totalled $1.97 billion at year end. The Bank stayed with its customers in the real estate market in 1973, making a larger than normal share of the California banking community's total real estate loans.

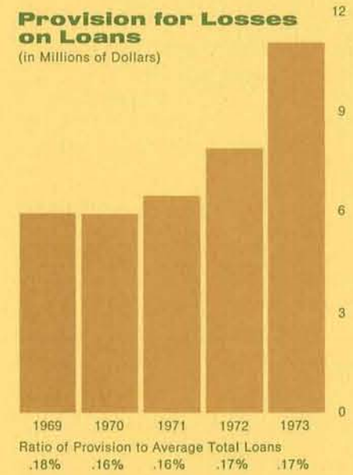
Consumer loans gained 31 per cent to $960 million from $730 million in 1972. The substantial increase reflected the Bank's policy of meeting the financial requirements of the individual despite the high cost and scarcity of funds. Auto and mobile home dealer paper represented a major portion of this increase. Home improvement loans, also part of the consumer loan portfolio, increased to $49.4 million from $36.6 million.

Master Charge card outstandings increased to $140 million, a dramatic 61 per cent gain over the year-ago figure of $87 million. This gain resulted from the success of the Wells Fargo Gold Account as well as from the Master Charge absorption of small loans which historically had been processed as installment loans.

The overall loan loss provision continued to be less than 0.2 per cent of loans outstanding. However, the actual dollar amount charged to expense increased $3,170,000 to $11,034,000.

The Bank's investment portfolio grew only modestly in 1973 to $1.7 billion at year end. In reemploying funds in the portfolio, the Bank has continued to stress Federal Agency securities for the higher yields they provide in relation to direct government obligations. In the latter part of the year, the Bank switched from some government bonds due in 1974 to additional longer-term Federal Agency issues. Losses incurred on these switches (reflected in security losses in the Statement of Income) will be recovered in the form of increased coupon income next year. This move into Federal Agency issues also has enabled the Bank to "tie down" what appear to be relatively attractive investment yields.

Loan Yields



The average maturity of the Bank's government and Federal Agency portfolio at year end was 2 years, 1 month, compared to 1 year, 8 months at the end of 1972. The average maturity of municipal bonds increased to 10 years, 6 months, from 8 years, 10 months in 1972. However, because of changes in the portfolio mix, the average maturity of the overall portfolio was reduced moderately to 4 years, 11 months, from 5 years, 1 month at the end of 1972.

The Bank expanded its money market operations with an increase of 180 per cent in its daily volume from 1972. Daily transactions averaged $1.4 billion and included Federal Funds, U.S. Government and Federal Agency issues, bankers acceptances, secondary market Certificates of Deposit, short-term tax-exempt notes and repurchase agreements with corporate and municipal officers.

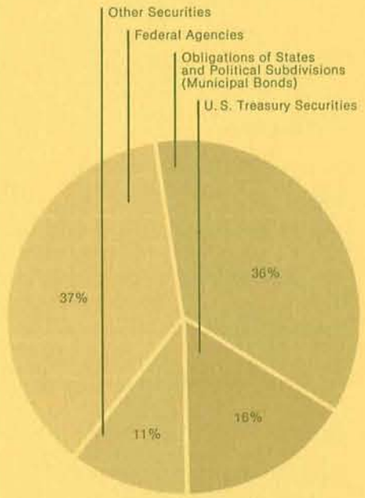
The Bank participated in syndicate underwritings for state and municipal bonds totalling $947 million. This compared with $1 billion in 1972.

Due to the higher Company earnings level, the quarterly dividend was increased to 24 cents from 21½ cents a share, effective with the October payment. The annual rate rose to 96 cents from 86 cents per share. In 1973, 88½ cents was paid in dividends compared to 83 cents in 1972.

Through two offerings, Wells Fargo & Company raised the equivalent of $70 million late in the year. The first, a 50-million Euro-Deutsche Mark debenture (approximately $20 million), was placed through a syndicate of European underwriters headed by Norddeutsche Landesbank Girozentrale, Wells Fargo Bank's partner in Allgemeine Deutsche Credit-Anstalt, or ADCA. The notes carried a coupon rate of 6½ per cent and were accompanied by detachable warrants to purchase 400,000 shares of Wells Fargo & Company's common stock at a per share price of 24⅝. Proceeds were used primarily for the purchase of a 25 per cent equity interest in ADCA, with the remainder providing additional capital funds for further expansion of the Bank's international activities.

The second offering was a private placement of $50 million, 25-year notes with a limited number of U.S. institutional investors. The notes, which have an annual interest rate of 8⅛ per cent, are non-redeemable for ten years, after which there are sinking fund requirements that the Company retire approximately 50 per cent of the issue by maturity. About $25 million of the net proceeds will be invested in non-Bank subsidiaries and the balance has been invested in Wells Fargo Bank. This is part of a continuing program to keep Company debt and equity in line with expansion objectives.

Wells Fargo & Company's long-term debt and capital notes now total $271,666,000. Equity totals were $392,774,000 as of December 31, 1973.



Year End Investments

Consolidated Balance Sheet

ASSETS	DECEMBER 31, 1973	DECEMBER 31, 1972	CHANGE
	(IN THOUSANDS)		
Cash and Due from Banks	$ 1,164,534	$1,035,215	$ 129,319
Deposits Placed by Overseas Offices	1,067,383	532,651	534,732
Investment Securities:			
U.S. Treasury Securities	274,814	357,610	(82,796)
Securities of Other U.S. Government Agencies and Corporations	622,711	333,624	289,087
Obligations of States and Political Subdivisions	594,149	675,088	(80,939)
Other Securities	178,119	98,277	79,842
Total Investment Securities	1,669,793	1,464,599	205,194
Trading Account Securities	222,655	85,552	137,103
Funds Sold	102,900	25,725	77,175
Loans	7,014,250	5,470,068	1,544,182
Direct Lease Financing	125,118	83,836	41,282
Premises and Equipment	118,647	114,538	4,109
Customers' Acceptance Liability	53,876	46,872	7,004
Accrued Interest Receivable	124,744	74,860	49,884
Other Assets	103,825	69,806	34,019
Total Assets	$11,767,725	$9,003,722	$2,764,003

The accompanying notes are an integral part of these statements.

LIABILITIES AND CAPITAL	DECEMBER 31, 1973	DECEMBER 31, 1972	CHANGE
	(IN THOUSANDS)		
Demand Deposits	$ 2,910,240	$2,453,311	$ 456,929
Savings Deposits	1,782,181	1,750,301	31,880
Savings Certificates	1,020,201	933,324	86,877
Certificates of Deposit	775,159	421,361	353,798
Other Time Deposits	554,889	690,773	(135,884)
Deposits in Overseas Offices	1,974,224	1,163,011	811,213
Total Deposits	9,016,894	7,412,081	1,604,813
Commercial Paper Outstanding	60,545	16,118	44,427
Funds Borrowed	1,540,802	615,784	925,018
Long-Term Debt	200,736	115,014	85,722
Acceptances Outstanding	53,876	46,872	7,004
Accrued Taxes and Other Expenses	106,488	70,962	35,526
Unearned Discount	90,928	66,267	24,661
Other Liabilities	120,504	120,806	(302)
Total Liabilities	11,190,773	8,463,904	2,726,869
Reserve for Loan Losses	113,248	87,562	25,686
Capital Accounts			
Borrowed Capital:			
4½% Capital Notes of Wells Fargo Bank, N.A., due 1989	50,000	50,000	—
3¼% Convertible Notes, due 1989	20,930	22,550	(1,620)
Total Borrowed Capital	70,930	72,550	(1,620)
Equity Capital:			
Common Stock—$5 par value, authorized 30,000,000 shares, outstanding 19,651,229 shares on December 31, 1973	98,256	97,790	466
Capital Surplus	184,483	181,452	3,031
Retained Earnings	110,035	100,464	9,571
Total Equity Capital	392,774	379,706	13,068
Total Liabilities and Capital	$11,767,725	$9,003,722	$2,764,003

The accompanying notes are an integral part of these statements.

Consolidated Statement of Income

	YEAR ENDED DECEMBER 31, 1973	YEAR ENDED DECEMBER 31, 1972	CHANGE
	(IN THOUSANDS)		
INCOME			
Interest and Fees on Loans	$551,183	$344,231	$206,952
Interest and Dividends on Investment Securities:			
U.S. Treasury Securities	20,594	19,203	1,391
Securities of Other U.S. Government Agencies and Corporations	28,216	12,713	15,503
Obligations of States and Political Subdivisions	21,851	25,434	(3,583)
Other Securities	9,563	3,524	6,039
Interest on Deposits Placed by Overseas Offices	61,516	30,893	30,623
Trading Account Income	7,680	2,499	5,181
Trust Income	14,984	13,112	1,872
Service Charges on Deposit Accounts	21,718	20,664	1,054
Other Income	36,311	29,308	7,003
Total Income	773,616	501,581	272,035
EXPENSE			
Salaries	106,324	96,331	9,993
Pension and Other Employee Benefits	22,642	21,196	1,446
Interest on Deposits	367,592	216,689	150,903
Interest on Borrowed Money	107,440	23,190	84,250
Interest on Long-Term Debt and Capital Notes	12,602	5,890	6,712
Net Occupancy Expense	24,509	20,505	4,004
Equipment Expense	15,329	13,030	2,299
Provision for Losses on Loans	11,034	7,864	3,170
Other Expense	42,018	41,302	716
Total Expense	709,490	445,997	263,493
INCOME BEFORE INCOME TAXES AND SECURITY GAINS OR LOSSES	64,126	55,584	8,542
Less Applicable Income Taxes	20,007	16,490	3,517
INCOME BEFORE SECURITY GAINS OR LOSSES	$ 44,119	$ 39,094	$ 5,025
Security Gains (Losses) Net of Income Tax Effect of $(779) and $397	(660)	338	(998)
Net Income	$ 43,459	$ 39,432	$ 4,027
INCOME PER SHARE:			
Income Before Security Gains or Losses	$2.25	$2.10	$ .15
Security Gains or Losses, Net of Tax	(.04)	.02	(.06)
Net Income	$2.21	$2.12	$ .09
INCOME PER SHARE ASSUMING FULL DILUTION:			
Income Before Security Gains or Losses	$2.18	$2.03	$ .15
Security Gains or Losses, Net of Tax	(.03)	.02	(.05)
Net Income	$2.15	$2.05	$ .10

The accompanying notes are an integral part of these statements.

Consolidated Statement of Capital Accounts

For the two years ended December 31, 1973

	4½% CAPITAL NOTES	3¼% CONVERTIBLE NOTES	COMMON STOCK	CAPITAL SURPLUS	RETAINED EARNINGS
			(IN THOUSANDS)		
Balance December 31, 1971	$50,000	$25,063	$92,744	$160,617	$ 86,913
Net income—1972					39,432
Conversion of convertible notes		(2,513)	420	2,092	
Additional stock issued in payment for assets of Sonoma Mortgage Corporation			76	(76)	
Sale of 910,000 additional shares			4,550	18,819	
Cash dividends declared					(15,910)
Provision for losses on loans, exclusive of portion charged against income, less related income tax effect $(5,858)					(9,557)
Other—net of tax					(414)
Net Increase (Decrease)	—	(2,513)	5,046	20,835	13,551
Balance December 31, 1972	50,000	22,550	97,790	181,452	100,464
Net income—1973					43,459
Conversion of convertible notes		(1,620)	274	1,344	
Stock issued in exchange for stock of Grayco Land Escrow Ltd.			192		62
Cash dividends declared					(17,870)
Provision for losses on loans, exclusive of portion charged against income, less related income tax effect $(9,720)					(15,880)
Proceeds from issuance of warrants attached to Deutsche Mark Debentures				1,746	
Other—net of tax				(59)	(200)
Net Increase (Decrease)	—	(1,620)	466	3,031	9,571
Balance December 31, 1973	$50,000	$20,930	$98,256	$184,483	$110,035

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Financial Position

For the two years ended December 31, 1973

	1973	1972
	(IN THOUSANDS)	
SOURCES OF FINANCIAL RESOURCES		
Net Income	$ 43,459	$ 39,432
Non-cash items (deferred taxes, depreciation and amortization)	33,606	16,047
Total obtained from income	77,065	55,479
Issuance of common stock and warrants	2,000	23,369
Proceeds from issuance of long-term debt	83,905	74,600
Increases in:		
Deposits	1,604,813	1,029,117
Funds borrowed	925,018	—
Commercial Paper	44,427	15,868
Other increases—net	49,350	93,542
Decreases in—Funds sold	—	64,430
Total	$2,786,578	$1,356,405
APPLICATION OF FINANCIAL RESOURCES		
Dividends paid to stockholders	$ 17,870	$ 15,910
Reduction in long-term debt	1,966	133
Reduction in funds borrowed	—	63,795
Additional investments in:		
Loans	1,544,182	997,284
Deposits placed by overseas offices	534,732	14,201
Securities (including trading)	342,297	106,298
Cash and due from banks	129,319	87,744
Funds sold	77,175	—
Direct lease financing	41,282	40,041
Other applications	97,755	30,999
Total	$2,786,578	$1,356,405

The accompanying notes are an integral part of these statements.

Summary of Significant Accounting Policies

The accounting and reporting policies of Wells Fargo & Company (the Company) and of Wells Fargo Bank, N.A. (the Bank) and other subsidiaries conform to generally accepted accounting principles and to general practice within the banking industry. The following is a description of the most significant of these policies. It should be read in conjunction with the accompanying statements and related notes thereto.

Consolidation

The consolidated financial statements include the accounts of the Company, the Bank and their principal subsidiaries. Foreign branches and a foreign subsidiary are consolidated on a line-by-line basis. Significant intercompany accounts and transactions have been eliminated in consolidation. Certain accounts in the 1972 financial statements have been reclassified for comparative purposes to conform with the 1973 account presentations.

Foreign Currency Translation

Gains or losses arising from foreign currency trading operations are reported currently. Unperformed forward contracts are valued at currently quoted forward rates, and the resulting unrealized gain or loss is reported currently. Actual gains or losses on forward contracts which represent "swap" transactions related to lending or funding operations are identified and accrued as interest income or expense over the term of the contract.

Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars using the rates of exchange in effect at the close of the period; non-monetary assets and liabilities are translated using historical rates; income statement items are translated monthly using the average rate. Exchange adjustments arising from translation are reported currently in the income statement, except those which occur in the Bank's international investment subsidiary, which are deferred and are to be charged to the income statement over the remaining terms of the foreign currency long-term debt of the subsidiary.

Securities

Securities are held for both investment and trading purposes. Trading account securities are stated at the lower of cost or market. Gains and losses and interest earned on trading account securities are reported in the caption "trading account income". Securities held for investment purposes are carried at cost, adjusted for amortization of premium and accumulation of discount.

Equity securities held for investment, which are primarily overseas investments, are included in "other securities" on the balance sheet and are carried at cost except for investments where the Company exercises significant influence, which are stated at equity in the underlying net assets of the investee. The Company's share of earnings or losses of investees is included in other income. The amount of earnings from such investments is not significant to date.

Goodwill (amounting to $12,063,000 at December 31, 1973) representing the excess of purchase price over the value of assets purchased in a German bank is included in "other assets" and is being amortized to other expense over a 40-year period.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method for all assets acquired after June 1972. An accelerated method is used for all assets acquired prior to that time. Estimated useful lives used were as follows:

	Years
Buildings	40-50
Furniture and Equipment	5-15
Automobiles	5

Income Taxes

The Company and its subsidiaries file consolidated Federal income tax returns in which the taxable incomes of the various entities generally are computed using the cash receipts and disbursements method of accounting as permitted by the tax statutes. Deferred income taxes, included in accrued taxes and other expenses, are provided for timing differences between income as reported in the financial statements and as reported for income tax purposes. Deferred income taxes provided for the anticipated addition to the reserve for loan losses in excess of the amounts charged to expense in the financial statements are included in the reserve for loan losses.

Income taxes are accrued on undistributed earnings of a foreign subsidiary and equity investments under the assumption that all such earnings will be distributed as a dividend in the future to the investor company.

Tax reductions arising from the investment tax credit on property purchased and used by the Company and its subsidiaries are recognized as a reduction of tax expense in the current period. Investment tax credit on property purchased for lease to customers is recognized as income on a declining basis over the term of the related lease as an additional element of lease income.

Summary of Significant Accounting Policies (continued)

Unearned Discount

Unearned discount primarily includes the excess of aggregate receivables over amounts disbursed on installment loans. Unearned discount on installment loans is recognized on a declining basis ("rule of 78s" method) over the term of the loan. Unearned income on finance leases is deducted from the related receivables; a portion of unearned income equal to the estimated provision for possible losses is recognized at the commencement of the lease; the remaining unearned income is recognized on a declining basis over the term of the lease.

Reserve for Loan Losses

Additions to the reserve for loan losses are generally made in the maximum amount permitted as a deduction for Federal income tax purposes. Such amounts may not necessarily be claimed in the returns when actually filed. The provision for loan losses charged to expense for financial statement purposes is based on a moving average ratio of loan loss experience for the most recent five years applied to average outstanding loans for the current year. To the extent this charge is less than the addition to the reserve for loan losses computed as described above, the additional charge is made to undivided profits, net of the related deferred income tax liability. Such deferred income tax liability is reduced by the amount of the 10 per cent minimum tax required to be paid, if required, on the additional deduction as a tax preference item, with a corresponding increase in the current tax liability.

Income Per Share

Income per share is computed by dividing income by the average number of shares outstanding during the year and outstanding stock options. Income per share, assuming full dilution, is computed in the same manner, with appropriate adjustment assuming conversion of all convertible notes with related adjustments to net income for interest on the convertible notes, net of tax. Warrants outstanding were not considered because they were anti-dilutive.

Retirement Plan

The Company's retirement plan is non-contributory and covers substantially all employees. The Company's policy is to fund the accrued cost of the retirement plan.

Notes to Consolidated Financial Statements

The Summary of Significant Accounting Policies presents information concerning accounting principles used in the preparation of the financial statements and should be read in conjunction with the following Notes.

1. Securities

The following data is provided with respect to investment securities:

	DECEMBER 31, 1973	DECEMBER 31, 1972
Market value	$1,612,522,038	$1,410,108,903
Book value of securities pledged to secure public deposits	937,286,333	1,131,198,413
Accumulation of discount	1,711,061	1,614,601

Included in "other securities" (net of $12,063,000 of Goodwill included in "other assets") are foreign investments accounted for on the equity method in the amount of $38,146,847 at December 31, 1973.

2. Premises and Equipment

The following table presents comparative data for premises and equipment:

	DECEMBER 31, 1973	DECEMBER 31, 1972
Land	$ 24,688,423	$ 24,129,044
Buildings	79,933,914	75,447,039
Furniture and equipment	47,742,907	43,470,640
Leasehold improvements	20,180,236	18,744,678
	172,545,480	161,791,401
Less accumulated depreciation and amortization	53,898,116	47,253,673
	$118,647,364	$114,537,728

3. Reserve for Loan Losses

A summary of the changes in the reserve follows:

	1973	1972
	(In thousands)	
Balance at beginning of year	$ 87,562	$ 73,385
Additions:		
Charged to:		
Expense	11,034	7,864
Undivided profits	15,880	9,557
Deferred taxes	9,720	5,858
Total additions	36,634	23,279
Deductions:		
Loans charged off	15,229	12,810
Less recoveries on loans charged off	4,281	3,708
Total deductions	10,948	9,102
Balance at end of year	$113,248	$ 87,562

Of the consolidated reserve for loan losses at December 31, 1973 of $113,248,385, only the valuation portion, $48,613,118, is available to absorb loan losses. The remaining amount consists of deferred taxes in the amount of $28,054,548, and a contingency reserve of $36,580,719.

4. Long-Term Debt

The long-term debt of the Company and its subsidiaries consisted of the following obligations:

	DECEMBER 31, 1973	DECEMBER 31, 1972
	(In thousands)	
7⅜% Sinking Fund Debentures due 1997	$ 75,000	$ 74,600
8⅛% Notes due 1998	50,000	—
4¼%-4½% Collateral Trust and Mortgage Bonds due to 1993 of ATC Building Company	17,616	19,582
7¼% Swiss Franc Notes (80,000,000 par) due 1976 of Wells Fargo International Investment Corporation	24,615	20,832
6½% Euro-Deutsche Mark Debentures (50,000,000 par) due 1988 of Wells Fargo International Investment Corporation	18,505	—
8% Senior Notes due 1988 of Wells Fargo Leasing Corporation	15,000	—
	$200,736	$115,014

The 7⅜% Sinking Fund Debentures will require an annual sinking fund of $2,500,000 beginning November 15, 1982 which will retire 50 per cent of the debentures prior to maturity. Beginning November 15, 1982, the Company has the non-cumulative right at its option to increase its sinking fund payment in any year by an additional amount not in excess of $2,500,000, which would be used to redeem debentures at par plus accrued interest. Beginning on November 15, 1982, the Company may redeem, in addition to sinking fund redemptions, debentures at a premium of 3.69 per cent and at decreasing premiums thereafter.

The 8⅛% Notes will require mandatory annual principal prepayments of $1,700,000 beginning November 1, 1983. At its option, beginning November 1, 1983, the Company has the non-cumulative right of increasing principal prepayment by $1,700,000. Beginning on November 1, 1983, the Company may prepay principal at a premium of 4.063 per cent and at decreasing premiums thereafter.

The 7⅜% Debentures and 8⅛% Notes are not subordinated in right of payment to any other indebtedness of the Company. Both the debenture and note agreements have provisions restricting the disposition of its assets, creation of property liens, sale or issuance of its capital stock or the capital stock of its subsidiaries, the funded debt of the consolidated group, and the payment of cash dividends.

The 4¼%-4½% Bonds are payable in annual installments of $1,000,000 until 1988 and then annual installments of $500,000 until 1993. The bonds are secured by deeds of trust on $38,401,321 of bank premises, at cost. The bonds can presently be redeemed at a 2.175 per cent premium for the 4¼% Bonds and a 2.95 per cent premium for the 4½% Bonds.

Payment of principal and interest on the 7¼% Swiss Franc Notes has been guaranteed by the Company. The notes may be redeemed in entirety beginning after September 15, 1974 at a 2 per cent premium and at decreasing premiums thereafter.

The Deutsche Mark Debentures will be redeemed in ten annual installments of DM 5,000,000 beginning November 1, 1979. In addition, redemptions can be made at a 2.5 per cent premium beginning November 1, 1979 and at decreasing amounts thereafter. Payment of principal and interest on the Deutsche Mark Debentures has been guaranteed by the Company.

The 8% Senior Notes due 1988 will require mandatory annual principal prepayments of $1,500,000 beginning June 1, 1979. At its option, Wells Fargo Leasing Corporation may currently prepay principal at an 8 per cent premium and at lesser premiums until June 1, 1983 when the notes may be redeemed at par. The note agreement provides restrictive covenants regarding total debt, payment of dividends, liens and encumbrances and other activities of Wells Fargo Leasing Corporation.

5. Capital Notes

The 4½% Capital Notes of the Bank will mature September 15, 1989. These notes may be currently redeemed at the option of the Bank at a 2.475 per cent premium and at decreasing premiums through 1983 and thereafter at par.

The 3¼% Convertible Capital Notes, originally issued by the Bank, also mature September 15, 1989 and may be currently redeemed at the option of the Company at a 1.7875 per cent premium and at decreasing amounts thereafter. These notes are convertible into common stock of the Company at $29.50 per share. The Company has assumed joint and several liability for all payments of principal and interest on the convertible capital notes and has agreed to reimburse the Bank if for any reason it should be required to make payments thereon.

The capital and convertible capital notes indenture contains provisions which, among other things, restrict the payment of dividends by the Bank and specify the maintenance of minimum amounts of the Bank's capital funds.

The notes are subordinated to obligations to depositors and certain other creditors of the Bank.

6. Common Stock

Warrants to purchase a total of 400,000 shares of common stock of the Company at a price of $24.63 per share are attached to the Deutsche Mark Debentures issued in November of 1973. The warrants are detachable on or after June 1, 1974 and expire on October 1, 1988.

Under the Company's stock option plan, various key employees were granted options during the year to purchase 100,000 shares of the Company's common stock at $21.63 per share. None of the options were exercisable at December 31, 1973. The plan is subject to the approval of the Company's stockholders.

At December 31, 1973, 709,492 shares of unissued common stock were reserved for issuance upon conversion of the 3¼% Convertible Notes. Additionally, the Company

Notes to Consolidated Financial Statements (continued)

and the Bank have entered into merger agreements which are pending regulatory approval, the consummation of which will require issuance of approximately 600,000 shares of unissued common stock.

7. Dividends

Availability of retained earnings of the Company for dividends is affected by indenture provisions of the long-term debt and capital notes and by restrictions imposed by regulatory authorities. Under the most restrictive of these provisions (those of the regulatory authorities), the amount of retained earnings available for dividends as of December 31, 1973 was $43,808,535.

8. Retirement and Incentive and Savings Plans

In addition to the Company's retirement plan, there are also incentive and savings plans for all employees. The total expenses for these plans were as follows:

	1973	1972
Incentive and savings plan expense	$7,696,096	$8,044,954
Retirement plan expense	2,220,735	2,405,579

The market value of the pension fund exceeded the actuarial value of vested benefits as of December 31, 1973.

9. Income Taxes

Current and deferred tax provisions (credits) and liabilities (receivables) included in the consolidated statement of income and the consolidated balance sheet for the two years ended December 31, 1973 were as follows:

	PROVISION (In thousands)			
	U.S. FEDERAL	FOREIGN	STATE & LOCAL	TOTAL
1972				
Current	$ 2,613	$2,480	$ 4,636	$ 9,729
Deferred	4,797	514	1,450	6,761
	$ 7,410	$2,994	$ 6,086	$ 16,490
1973				
Current	$ (10,358)	$4,355	$ 1,584	$ (4,419)
Deferred	17,196	2,636	4,594	24,426
	$ 6,838	$6,991	$ 6,178	$ 20,007

	LIABILITY (In thousands)			
	U.S. FEDERAL	FOREIGN	STATE & LOCAL	TOTAL
1972				
Current	$ 2,493	$ 302	$ 2,589	$ 5,384
Deferred	28,826	1,253	6,347	36,426
	$ 31,319	$1,555	$ 8,936	$ 41,810
1973				
Current	$ (13,008)	718	$ (3,371)	$ (15,661)
Deferred	46,022	3,889	10,941	60,852
	$ 33,014	$4,607	$ 7,570	$ 45,191

The variances in the current and deferred amounts for 1972 from the previously reported estimates result from adjustments when the 1972 tax returns were filed.

The sources of the deferred income tax expense in 1973 and the tax effect of each were as follows:

	(In thousands)
Revenue and expense recognized on the accrual method for financial statements but on the cash basis for tax returns	$14,519
Conversion of leases from finance to operating methods	10,975
Miscellaneous items	(1,068)
	$24,426

Total tax expense amounted to $20,007,000 (an effective rate of 31.2 per cent). Applying the U.S. Federal income tax rate of 48 per cent to income before income taxes and security gains or losses would result in a tax expense of $30,780,000. The reasons for this difference are as follows:

	AMOUNT (In thousands)	% OF PRETAX INCOME
Tax expense at full rate	$30,780	48.0%
Increases (reductions) in taxes resulting from:		
State and municipal bond income	(11,443)	(17.8)
State and local taxes on income, net of Federal income tax benefit	3,293	5.1
Investment tax credit	(1,533)	(2.4)
Miscellaneous items	(1,090)	(1.7)
	$20,007	31.2%

The tax effect on security losses differs from the Federal income tax rate of 48 per cent because of the State income tax benefit, net of Federal income taxes. The Company and its subsidiaries have $3,215,000 of deferred investment tax credit on property purchased for lease to customers.

10. Foreign Exchange Adjustments

Net exchange adjustments arising in the Bank's international investment subsidiary during 1973, amounting to a charge of $2,425,000, have been deferred and are included in "other assets". This amount is net of amortization of $1,321,000 which is included as a reduction of other income and is approximately offset by exchange adjustments and trading profits of the Bank. The net amount of other income arising from exchange adjustments and foreign exchange trading operations in 1973 is thus not significant.

11. Contingent Liabilities

The Bank is defendant in certain legal proceedings, and is one of the defendants in several class action suits which involve claims against all defendants of substantial sums of money and/or issues which could affect certain of the operations of the Bank in the future. In the opinion of management of the Company and the Bank, the outcome of litigation will not have a material adverse effect on the financial position of the Company or the Bank.

In the normal course of business, there are outstanding various commitments and contingent liabilities such as foreign exchange contracts, guarantees, commitments to extend credit, etc. which are not reflected in the accompanying financial statements. No material losses are anticipated by management as a result of these transactions.

12. Lease Commitments

For disclosure purposes, the Company has classified lease arrangements as either "finance" or "operating" leases. A summary of rental expense, primarily for the use of real property, follows:

	1973	1972
	(In thousands)	
Finance lease rentals	$6,225	$3,773
Less subleases	(399)	(339)
	5,826	3,434
Operating lease rentals	3,310	3,030
Less subleases	(170)	(168)
Total	$8,966	$6,296

A summary of non-cancellable long-term lease commitments follows:

	FINANCE LEASES		OPERATING LEASES		
YEAR	GROSS RENTS	SUBLEASES	GROSS RENTS	SUBLEASES	TOTAL
	(In thousands)				
1974	$ 8,372	$ (381)	$ 3,350	$(117)	$ 11,224
1975	8,389	(318)	3,033	(101)	11,003
1976	8,389	(313)	2,733	(86)	10,723
1977	8,429	(245)	2,462	(46)	10,600
1978	8,682	(188)	2,455	(22)	10,927
1979 to 1983	44,563	(891)	6,522		50,194
1984 to 1988	45,105	(813)	2,505		46,797
1989 to 1993	40,062	(813)	1,728		40,977
1994 and succeeding	27,796	(1,838)	2,138		28,096
	$199,787	$(5,800)	$26,926	$(372)	$220,541

	INTEREST RATE USED IN PRESENT VALUE COMPUTATION		PRESENT VALUE OF FINANCE LEASES	
	RANGE	WEIGHTED AVERAGE	DEC. 31, 1973	DEC. 31, 1972
			(In thousands)	
Finance leases—net of taxes, insurance and other expenses	6.0% - 10.0%	7.98%	$59,681	$53,378
Related subleases	8.0% - 10.0%	8.33%	2,138	1,326
Finance leases—including payments for taxes, insurance and other expenses	5.0% - 8.0%	7.33%	22,970	23,687
Related subleases	8.0%	8.00%	364	408

The impact of the net financing lease commitments as compared to charges for amortization and interest had the leases been capitalized on average income for 1973 and 1972 is less than 3 per cent. Existing lease commitments contain escalation clauses and other restrictive covenants, but none of the covenants would materially affect the Company's consolidated financial position.

Accountants' Report

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

We have examined the consolidated balance sheets of Wells Fargo & Company and subsidiaries as of December 31, 1973 and 1972, and the related consolidated statements of income, capital accounts and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Wells Fargo & Company and subsidiaries at December 31, 1973 and 1972, and the results of their operations, changes in capital accounts and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.
Certified Public Accountants

San Francisco, California
January 16, 1974

Consolidated Five-Year Summary of Operations

FINANCIAL RESULTS (IN THOUSANDS)	1973	1972	1971	1970	1969
INCOME					
Interest and Fees on Loans	$551,183	$344,231	$296,198	$300,509	$263,544
Interest and Dividends on Investment Securities	80,224	60,874	56,693	47,328	49,116
Service Charges on Deposit Accounts	21,718	20,664	20,078	19,600	17,814
Trust Income	14,984	13,112	11,409	10,745	10,101
Other Income	105,507	62,700	54,416	33,469	19,695
Total Income	**773,616**	**501,581**	**438,794**	**411,651**	**360,270**
EXPENSE					
Salaries	106,324	96,331	86,967	79,923	68,599
Pension and Other Employee Benefits	22,642	21,196	17,153	15,224	13,306
Interest on Deposits, Borrowings, Capital Notes and Debentures	487,634	245,769	214,843	202,470	173,435
Net Occupancy Expense	24,509	20,505	17,851	15,104	12,966
Equipment Expense	15,329	13,030	11,010	9,925	8,114
Provision for Losses on Loans	11,034	7,864	6,479	5,937	5,945
Other Expense	42,018	41,302	34,821	32,400	29,670
Total Expense	**709,490**	**445,997**	**389,124**	**360,983**	**312,035**
INCOME BEFORE INCOME TAXES AND SECURITY GAINS OR LOSSES	**64,126**	**55,584**	**49,670**	**50,668**	**48,235**
Applicable Income Taxes	20,007	16,490	15,318	18,084	16,188
INCOME BEFORE SECURITY GAINS OR LOSSES	**44,119**	**39,094**	**34,352**	**32,584**	**32,047**
Security Gains (Losses) after Taxes	(660)	338	(4,967)	147	(19)
Net Income	$ 43,459	$ 39,432	$ 29,385	$ 32,731	$ 32,028
INCOME PER SHARE					
Income Before Security Gains or Losses	**$ 2.25**	**$ 2.10**	**$ 1.85**	**$ 1.77**	**$ 1.75**
Net Income	$ 2.21	$ 2.12	$ 1.58	$ 1.78	$ 1.75
INCOME PER SHARE ASSUMING FULL DILUTION					
Income Before Security Gains or Losses	**$ 2.18**	**$ 2.03**	**$ 1.79**	**$ 1.71**	**$ 1.69**
Net Income	$ 2.15	$ 2.05	$ 1.54	$ 1.72	$ 1.69
DIVIDENDS AND BOOK VALUE (Per Share)					
Cash Dividends Declared	$ .91	$ .86	$ .80	$ .80	$ .80
Book value at end of year	$19.99	$19.41	$18.34	$17.72	$16.84
Average Shares Outstanding	19,633,968	18,643,285	18,543,162	18,421,480	18,283,778

AVERAGE DAILY BALANCES (IN MILLIONS)	1973	1972	1971	1970	1969
Demand Deposits	$2,342	$2,136	$1,976	$1,824	$1,731
Savings Deposits	1,739	1,736	1,612	1,448	1,532
Savings Certificates	977	902	775	631	537
Certificates of Deposit	733	315	254	193	250
Other Time Deposits	593	555	460	343	391
Deposits in Overseas Offices	1,781	1,062	678	287	101
Total Deposits	**$8,165**	**$6,706**	**$5,755**	**$4,726**	**$4,542**
Investment Securities	$1,542	$1,359	$1,215	$ 995	$1,112
Trading Account Securities	112	43	84	40	25
Loans:					
Commercial	$2,962	$2,319	$2,014	$1,786	$1,661
Real Estate	1,738	1,393	1,233	1,280	1,264
Consumer	854	628	459	433	432
Loans of Overseas Offices	807	421	287	128	29
Total Loans	**$6,361**	**$4,761**	**$3,993**	**$3,627**	**$3,386**
Net Funds Borrowed (Short-term)	$1,236	$ 513	$ 357	$ 418	$ 361
Capital Accounts	465	428	411	394	379

AVERAGE RATES					
Securities:					
U.S. Treasury	5.96%	5.64%	5.99%	6.14%	5.54%
State and Municipal[1]	7.46	7.20	7.27	7.64	8.21
Total Securities[1]	**6.66%**	**6.40%**	**6.59%**	**6.95%**	**6.97%**
Loans:					
Commercial	8.59%	6.40%	6.76%	8.41%	7.78%
Real Estate	7.12	6.79	6.67	6.69	6.39
Consumer	10.04	9.68	10.43	10.51	9.86
Total Domestic Loans	**8.33%**	**6.97%**	**7.16%**	**7.95%**	**7.50%**
Loans of Overseas Offices	**9.65%**	**7.13%**	**7.97%**	**9.68%**	**10.99%**
Total Domestic Loans and Securities[1]	**8.05%**	**6.81%**	**6.99%**	**7.76%**	**7.37%**
Interest Paid on Time Deposits and Short-term Borrowings (Domestic)	**6.76%**	**4.55%**	**4.72%**	**5.59%**	**5.12%**

[1]Taxable equivalent yield.

MASTER CHARGE[1]					
Total Sales and Cash Advances (in millions)	$297	$185	$133	$ 84	$ 65
Average Loan Balances (in millions)	$105	$ 71	$ 53	$ 38	$ 29
Cardholders—at year end (in thousands)	955	706	609	670	638
Participating Merchants—at year end (in thousands)	16	15	15	15	15

[1]Wells Fargo accounts only.

MISCELLANEOUS DATA					
Company Staff at year end (full time equivalent)	11,514	10,887	10,441	10,262	9,755
Number of offices of Bank at year end	304	299	287	275	258

Comparison of Loans (End of year)

	1973	1972	CHANGE
	(IN THOUSANDS)		
COMMERCIAL LOANS			
Loans Unsecured	$2,688,217	$1,997,071	$ 691,146
Loans on Collateral	483,191	523,302	(40,111)
Bills of Exchange and Acceptances Discounted	7,654	32,295	(24,641)
	$3,179,062	$2,552,668	$ 626,394
REAL ESTATE LOANS			
Conventional Loans	$1,475,941	$1,159,713	$ 316,228
FHA and VA Loans	352,381	294,345	58,036
Farm Loans	10,629	10,766	(137)
Interim Construction	127,576	93,605	33,971
	$1,966,527	$1,558,429	$ 408,098
Dollar volume of new loans made during year	$ 720,644	$ 713,548	$ 7,096
Number of loans held by Bank at end of year	76	70	6
Number of sold loans serviced for others at end of year	44	42	2
Dollar volume of sold loans serviced for others at end of year	$ 777,819	$ 739,589	$ 38,230
CONSUMER LOANS			
Total consumer loans at end of year	$ 960,309	$ 730,483	$ 229,826
Dollar volume of new loans made during year(1)	$1,068,093	$ 924,114	$ 143,979
Number of new loans made during year(1)	137	140	(3)
Loan losses as a per cent of loans outstanding at end of year	.45 of 1%	.36 of 1%	.09 of 1%
LOANS OF OVERSEAS OFFICES			
Total of loans at overseas offices at end of year	$ 908,352	$ 628,488	$ 279,864
Total Loans	**$7,014,250**	**$5,470,068**	**$1,544,182**

(1)Does not include Master Charge loans.

Maturity Schedule of Major Categories of Investment Securities

Book value as of December 31, 1973

	U.S. TREASURY SECURITIES		FEDERAL AGENCY SECURITIES		STATE, COUNTY AND MUNICIPAL BONDS	
	BOOK VALUE	PER CENT	BOOK VALUE	PER CENT	BOOK VALUE	PER CENT
	(IN MILLIONS)					
Maturing in one year	$ 73	26.55%	$ 79	12.68%	$125	21.04%
Maturing in two through five years	196	71.27	500	80.26	105	17.68
Maturing in six through ten years	6	2.18	44	7.06	85	14.31
Maturing after ten years	—	—	—	—	279	46.97
Total	$275	100.00%	$623	100.00%	$594	100.00%

Maturity Schedule of Investment Securities

Par value as of December 31, 1973 and 1972

	1973		1972		CHANGE	
	PAR VALUE	PER CENT	PAR VALUE	PER CENT	PAR VALUE	PER CENT
	(IN MILLIONS)					
Maturing in one year	$355	21.26%	$450	30.67%	$ (95)	(9.41)%
Maturing in two through five years	842	50.45	602	41.04	240	9.41
Maturing in six through ten years	136	8.15	86	5.86	50	2.29
Maturing after ten years	336	20.14	329	22.43	7	(2.29)

Directors

WELLS FARGO & COMPANY
and its principal subsidiary,
WELLS FARGO BANK, N.A.

Ernest C. Arbuckle
Chairman of the Board

Kenneth K. Bechtel
Chairman of the Executive Committee,
Industrial Indemnity Company

William R. Breuner
President,
John Breuner Company

Robert L. Bridges
Thelen, Marrin, Johnson & Bridges,
Attorneys at Law

Ransom M. Cook*
President, Wells Fargo Bank, 1960-64;
Chairman, 1964-66

Richard P. Cooley
President and Chief Executive Officer

James K. Dobey
Executive Vice President

Leonard K. Firestone
Retired President,
Firestone Tire & Rubber Company
of California

James Flood
Trustee,
Flood Estate

W. P. Fuller III
Vice President,
Western Region, PPG Industries

Richard E. Guggenhime
Partner,
Heller, Ehrman, White & McAuliffe,
Attorneys at Law

James M. Hait
Senior Consultant and Director,
FMC Corporation

I. W. Hellman*
President, Wells Fargo Bank, 1943-60;
Chairman, 1960-64

George S. Ishiyama
President, Ishiyama Corporation

Thomas V. Jones
President and Chairman of the Board,
Northrop Corporation

Daniel E. Koshland*
Chairman of the Executive Committee,
Levi Strauss & Co.

Mary E. Lanigar
Partner,
Arthur Young & Co.

Roger D. Lapham, Jr.
Senior Vice President,
Frank B. Hall & Co., Inc.

Edmund W. Littlefield
Chairman of the Board and
Chief Executive Officer,
Utah International Inc.

James K. Lochead*
President, American Trust Company,
1938-56; Chairman, 1956-57

Malcolm MacNaughton
Chairman of the Board and
Chief Executive Officer,
Castle & Cooke, Inc.

J. W. Mailliard III
Chairman of the Board,
Mailliard & Schmiedell

Donald H. McLaughlin*
Chairman of the Executive Committee,
Homestake Mining Company

Arjay Miller
Dean, Graduate School of Business,
Stanford University

Paul A. Miller
Chairman of the Board and
Chief Executive Officer,
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George G. Montgomery**
Retired Chairman of the Board,
Kern County Land Company

B. Regnar Paulsen
Chairman of the Board and President,
Rice Growers Association
of California

Atherton Phleger
Brobeck, Phleger & Harrison,
Attorneys at Law

Allan Sproul*
Economist;
President, Federal Reserve Bank
of New York, 1941-56

*Directors Emeritus,
Wells Fargo Bank, N.A.

**Deceased January 1, 1974

Organization

WELLS FARGO & COMPANY
420 Montgomery Street
San Francisco, California 94104

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Ernest C. Arbuckle

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CHIEF EXECUTIVE OFFICER
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VICE PRESIDENT AND SECRETARY
Philip G. Bowser

GENERAL AUDITOR
Orion A. Hill, Jr.

TRANSFER AGENTS
Wells Fargo Bank, N.A.
Corporate Trust Department
475 Sansome Street
San Francisco, California 94111

Morgan Guaranty Trust Company
30 West Broadway Street
New York, New York 10015

REGISTRARS OF STOCK
Bank of America N.T. & S.A.
55 Hawthorne Street
San Francisco, California 94105

First National City Bank
111 Wall Street
New York, New York 10015

STOCK EXCHANGE LISTINGS
New York Stock Exchange
Pacific Coast Stock Exchange

WELLS FARGO BANK
Head Office: 464 California Street
San Francisco, California 94104

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Ernest C. Arbuckle

PRESIDENT AND
CHIEF EXECUTIVE OFFICER
Richard P. Cooley

EXECUTIVE VICE PRESIDENT AND
CHAIRMAN OF THE MANAGEMENT
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