Wells Fargo & Company

1974
ANNUAL
REPORT

contents

highlights

FOR THE YEAR (IN THOUSANDS)	1974	1973	CHANGE AMOUNT	CHANGE PER CENT
Income before Security Losses	$50,074	$44,119	$5,955	13.5
Security Losses Net of Tax	(2,705)	(660)	(2,045)	—
Net Income	$47,369	$43,459	$3,910	9.0
Dividends Declared	$19,059	$17,870	$1,189	6.7
PER SHARE (1)				
Income before Security Losses	$2.53	$2.25	$0.28	12.4
Net Income	$2.39	$2.21	$0.18	8.1
Dividends Paid	$0.96	$0.885	$0.075	8.5
AT THE YEAR END (IN THOUSANDS)				
Assets	$12,675,123	$11,767,725	$907,398	7.7
Deposits	9,740,290	9,016,894	723,396	8.0
Loans and Leases	8,065,712	7,139,368	926,344	13.0
Investments	1,737,095	1,669,793	67,302	4.0
Book Value Per Share (Excluding Capital Notes)	$21.28	$19.99	$1.29	6.5

(1) Based on average number of shares outstanding of 19,804,343 for 1974 and 19,633,968 for 1973.

letter to shareholders

Wells Fargo & Company improved both its earnings and its capital position in 1974, a year of severe economic stress and of varied pressures on banks and bank holding companies.

Total earnings (net income before security transactions) were $50,074,000 or $2.53 per share, a 12.4 per cent increase over the total of $44,119,000 or $2.25 per share registered in 1974. Net income in 1974 after security transactions was $47,369,000 or $2.39 per share compared with $43,459,000 or $2.21 per share in 1973.

These earnings were achieved in a year in which our operating strategy called for, first, a reduction of loan volume growth while emphasizing loan quality and profitability and, second, consolidation rather than expansion of our international activities.

This strategy was adopted in our Company planning sessions in the summer of 1973 and became the basic element of the profit plan approved for 1974.

Our objectives in pursuing this course were several. Loans in the previous three years had grown at a rate faster than both deposits and retained earnings. A continuation of this trend would have resulted in higher leverage with a lower capital-to-assets ratio and a lower return on earning assets—a pattern typical of many of the larger banks and bank holding companies during the last few years.

At the time we approved this plan, we did not anticipate that 1974 would end with a severe economic recession. Nor did we foresee that the year would bring to the banking industry warnings and pressures from the regulatory agencies to restrict loan volume and to limit expansion of holding company diversification, in order to improve capital and liquidity ratios.

However, the strategies we followed in 1974 served us well and will be continued in 1975. Our loan growth was limited to 13 per cent in 1974. Our liquidity and leverage ratios have reversed direction, and our return-on-assets ratio was increased. In 1975, we expect to see further strengthening of our capital ratios as our modified growth plan is continued.

This past year has been one in which public confidence in private banking has been questioned for the first time in 40 years. This resulted from several factors: the failure of two major banks in the United States and one in Europe; the appearance of a number of magazine articles claiming banks are "overextended;" the growth of bank assets at a faster rate than bank capital, giving rise to allegations of capital inadequacy; the increase in loan losses generated by the recession; and the extent to which liability management has caused over-reliance on short-term funds to meet longer-term obligations.

There is evidence in the banking system of all these things. But the issue of importance to the shareholder and the depositor and the public generally is how serious these matters are and how their interests are being protected. A few comments about each seem warranted at this time and hopefully will provide some perspective for your further evaluation.

Members of Wells Fargo's Executive Office are: President and Chief Executive Officer Richard P. Cooley, near left; Chairman Ernest C. Arbuckle, left of Mr. Cooley; Vice Chairman James K. Dobey, far left; and Vice Chairman Ralph J. Crawford, Jr.

With respect to bank failures, since 1968 there have been 31 (there are 14,000 domestic banks). Of these, 11 could be primarily attributed to insider transactions. The same factor was significantly present in 16 other failures. Thus, a total of 27 of the 31 bank failures were management failures. This illustrates what we feel is an important point—the best protection for depositors and shareholders alike is the mature experience and integrity of the management of their bank.

Capital adequacy is a complex issue to cover in a few sentences, but a few things can be said which may be useful. Absolute levels of equity capital in relation to total assets and deposits have been eroding but, as we have seen, absolute levels of capital have had little to do with why banks fail.

Since a major function of equity capital is to afford protection against abnormal losses, one must look at the components of various kinds of protective funds, which include a bank's reserves against loan losses and its retained earnings—both of which have grown much more rapidly than loan losses in the last 25 years. In addition the Federal Deposit Insurance Corporation has and continues to provide complete depositor protection now up to $40,000 per account.

The amount of straight equity desirable for any given bank depends upon a number of factors. Relatively low equity capital ratios do not necessarily indicate weakness in a bank's capital structure. For instance, one must also look at capital provided by long-term debt and sustained earnings growth. The quality and source of those earnings is also important. Consideration must be given to the stability provided by a high ratio of passbook savings to total deposits, and by a steady and high inflow of funds provided by the amortization of a large percentage of consumer and mortgage loans. These stabilizing factors are all present in Wells Fargo and are significant in assessing comparative standards of adequacy and liquidity. With a slowing of loan growth and the retention of strong earnings, we feel our total capital funds can sustain our current activity and modest growth in asset volumes for the years immediately ahead.

With respect to loan losses, you have noted in the earnings reports of many banks the substantial increases that have been made to loan loss reserves in the latter part of 1974 to protect against the higher loan losses which can normally be expected in a period of recession. This has and will affect bank earnings, but this increase in reserves is evidence of sound banking practice at a time of economic stringency. It is an essential step to ensure soundness and safety.

In our own case, we added an extra $6,300,000 to our loan loss reserves over and above our normal five-year moving average formula provision. This completely covered our 1974 loan write-offs and provided an increase in the valuation portion of our reserve for bad debts, which now exceeds $50,000,000.

Liability management refers to the use of short-term purchased funds to meet loan commitments. This practice has been growing since the introduction of the certificate of deposit in 1961 and has been effective in enabling banks to meet increasing loan demands throughout the last decade. It has also provided the flexibility to adapt to changing conditions in the economy. The use of purchased funds permits loans to grow faster than regular demand and consumer time deposits and does provide a method for banks to meet the needs of their corporate customers. The result has been an increased dependency on purchased funds.

The most important lesson of 1974 has been that all banks cannot rely on money markets as dependable sources of funds at all times. Although the consequences have not been serious for the solvency and viability of the banking system, they have provided an experience for banks which has resulted in a revaluation of the appropriate amount of purchased funds and the length of their maturities. Wells Fargo, for instance, adopted a program which will specifically lessen reliance on the use of overnight funds and increase the use of longer-term certificates of deposit.

We feel that the experience of the past year and the expectations for economic trends in 1975 will see a strengthening of the banking structure of our country in the future. There has been a re-emphasis of the need for constant vigilance with respect to loan quality. There is a greater sensitivity to the importance of accurate cost information, which will provide a basis for a price structure that will ensure a reasonable profit. Greater care will be used in examining the external forces of our environment and our decisions will be based on a recognition of the critical variables in that environment. We will be refocusing on the depositor as the key to the ability of banks in the years ahead to meet the unexpected demands for credit. At Wells Fargo we have maintained that position by paying a higher rate of interest for passbook savings than our major competitors. Most important, we are giving renewed and special attention to the consumer—our customer—whose needs, both individual and corporate, we exist to serve.

To help us achieve these objectives, the Executive Office was expanded further in 1974 and the responsibilities of its new members were increased. James K. Dobey, who in 1973 was named to the Executive Office, was made Vice Chairman of the Board of the Bank and the Company in 1974. Ralph J. Crawford, Jr., was named fourth member of the Executive Office and Vice Chairman of the Bank and the Company during the year. He joins Mr. Dobey in overseeing the day-to-day activities of our organization.

During the turbulent year just past, we received strong support and outstanding counsel from our Board of Directors. In the spring, we welcomed to the Board Helen K. Copley, chairman of The Copley Press Inc. and publisher of The San Diego Union and San Diego Evening Tribune. She filled the vacancy left by the resignation of Leonard K. Firestone who was appointed U.S. Ambassador to Belgium.

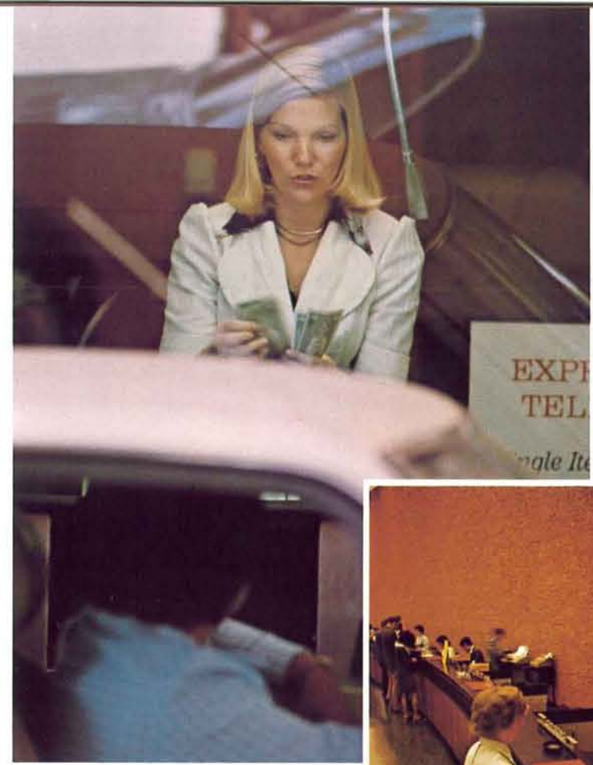
Our thanks for their cooperation and fine performance go to our staff who helped us achieve our increases in earnings in a very difficult economic year.

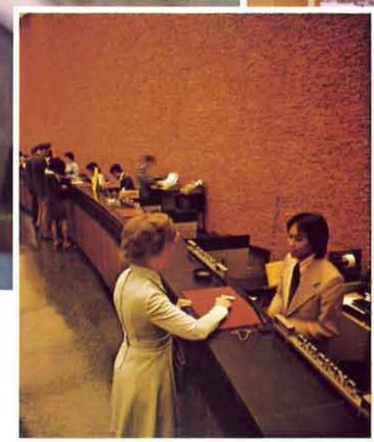
Ernest C. Arbuckle
Chairman of the Board

Richard P. Cooley
President
and Chief Executive Officer

January 29, 1975

With a network of 313 branches in California, Wells Fargo provides a full range of consumer banking services, including savings programs, checking accounts, Master Charge credit card, installment lending services, real estate loans and safe deposit facilities. Many of the services are grouped in the Bank's popular Gold Account package.





CONSUMER BANKING

Wells Fargo made striking gains in consumer banking in 1974.

The Bank's 5 per cent passbook savings rate brought us some $199 million of additional deposits during 1974 (exclusive of deposits added through acquisitions and mergers), more than were gained by all other California banks combined during the year. At the end of the year, total passbook savings deposits amounted to $2,005,727,000, making Wells Fargo the second bank in the United States to pass $2 billion in this category.

Wells Fargo's Gold Account, the pioneering package service, was augmented during the year by the addition of a $2,500 personal accident insurance feature. Gold Account customers also may now obtain supplemental personal accident insurance. Some 175,000 Californians are members of our Gold Account program.

Increases in numbers of Master Charge cardholders and in total outstandings in 1974 attest to the continued popularity of this service. Net gain in cardholder accounts during the year was 107,284, and outstandings rose to $188 million, an increase of 34 per cent.

Despite the credit crunch and its impact on all types of loans, Wells Fargo made some 5,700 loans on single-family homes during 1974, totaling $206,390,488. At year end the Bank's total portfolio of single-family home loans amounted to $1.49 billion. Wells Fargo also had $983,231,000 in consumer and installment loans outstanding at year end.

With the help of two important acquisitions during 1974, Wells Fargo expanded its coverage of the Southern California market. Early in the year, we purchased certain assets and assumed certain liabilities of the Beverly Hills National Bank. This acquisition of three new offices provided us with additional valued commercial and consumer banking ties in this important Southern California community.

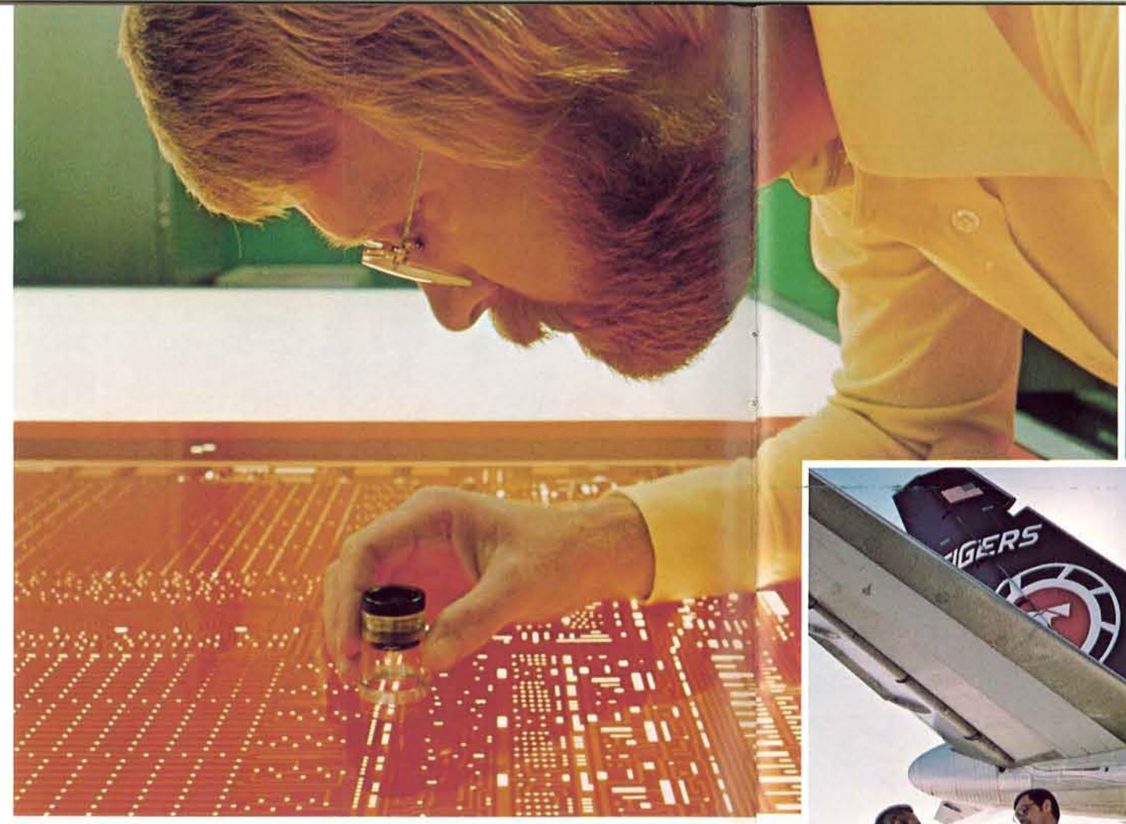
In August, a merger with Commercial National Bank of Buena Park was consummated, giving Wells Fargo seven additional offices with a strong consumer orientation in the growing Orange County market.

Four new offices were opened in 1974, all in Southern California: Santa Barbara, San Diego and two in Pasadena, one of the latter an innovative "Stage Stop" office that is primarily a check-cashing and deposit-taking convenience. One branch—the Sonoma Mortgage Division office—was closed in 1974 after the division became a subsidiary. Wells Fargo now has 313 branches statewide, 62 of them in the southern part of the state. During the year, the number of Wells Fargo customers in the South passed the 250,000 mark.

In keeping with the Bank's announced objective of slower but higher quality growth in the future, the Retail Banking Division devoted considerable time in 1974 to examining its operations and services. Plans were laid for a restructuring of the branch divisions to provide for greater autonomy and responsibility at the district level. It is believed that this policy will permit the geographic divisions to respond more quickly and effectively to local conditions and customer needs.

In another move to use our comprehensive financial skills, and inspired by a highly successful activity of Beverly Hills National Bank, Wells Fargo will accelerate the activities of its Entertainment Division. This group is geared to provide financial services to high income earners in the entertainment industry, sports and the professions—a group of people with unusual financial and banking needs.

To enhance basic banking service statewide, Wells Fargo in 1974 largely completed installation of 1,700 finger-tip computer terminals at teller stations in its branches. With the new system, tellers can now obtain instantaneous account information for customers without leaving their stations, regardless of whether the customer is in the office where his or her account is carried. The new system will enable us to provide substantially faster customer service.



Wells Fargo's Corporate Banking Group makes commercial loans for all purposes to large national companies headquartered throughout the United States and to major local and regional companies headquartered in California. Projects being financed range from electronics to transportation to thermal energy.

CORPORATE BANKING

Activities of the Corporate Banking Group comprise a key element in implementation of the Bank's overall policy of restraining asset growth. In 1974, the group devoted considerable attention to loan profitability rather than toward increasing loan volume. As a result, the size of the Bank's corporate loan portfolio rose very little over year-end 1973 totals.

This emphasis was not only in response to the Bank's strategy of slowing asset growth, but was also attributable to the restrictive monetary policy adopted early in the year by the Federal Reserve in its effort to combat inflation.

Inflation and the prospect of higher interest rates in the spring of 1974 caused business firms to flock to banks and the money markets to borrow funds before prices and rates rose further. After mid-March, loan demand soared and the prime rate, in company with other short-term interest rates, began moving upward. The prime rate hit 12 per cent in early July and remained at that level until late October; rates on other money market instruments peaked in August and September and then began moving downward.

High loan demand and high money market rates—coupled with tight money—required that the Corporate Banking staff give exceptionally careful attention during the year to the quality and profit potential of all components of the corporate loan portfolio.

A valuable tool in this effort was the Corporate Account Profitability System (CAPS), which was developed and put in place in 1973 as a step toward new corporate loan pricing techniques. During 1974, the capabilities of this computer-based system enabled our corporate loan officers to examine existing and prospective corporate relationships for true profitability over a period of time and in varying economic conditions. Wells Fargo will increasingly use CAPS analysis to establish loan programs and prices for corporate customers that meet mutually suitable objectives of responsiveness to the customer and a fair return for the Bank.

Corporate Banking in 1974 also stressed development of officers who are industry specialists. This ongoing effort is designed to enable Wells Fargo to better anticipate and serve the needs of particular types of companies.

Money market supply and demand pressures during the year caused the Corporate Banking staff to focus attention on fee-based services, such as those provided by the Securities Industry Department.

The Securities Industry Department generated fee income amounting to $2.5 million in 1974. This group makes loans to brokers, handles securities drafts and processes all securities transactions for Wells Fargo and its customers. The Special Industries Group, which deals exclusively with high-technology companies that appear to have outstanding potential for growth and success, also had an active and profitable year.

During 1975, the Corporate Banking Group will continue to gear its efforts toward quality loans, more precise pricing policies and increased fee income. Growth in the corporate loan portfolio will continue to be restrained as the Bank works toward the goal of limited asset growth in 1975.

INTERNATIONAL BANKING

The year 1974 presented a complex environment for international bankers. Affecting global financial patterns were worldwide inflation, floating exchange rates, the strong increases in world oil prices, concomitant inflows of sizable amounts of funds to oil-producing nations and high interest rates. These conditions combined to create a difficult atmosphere. Some banks in several nations suffered foreign exchange losses, and a few banks failed during this period.

Three German banks collapsed during 1974, with repercussions at banking institutions in many countries. The most significant impact was felt following the collapse of Bankhaus I.D. Herstatt in Cologne, Germany. Wells Fargo had a deposit of $3 million with this bank, $1.5 million of which was charged to earnings in the third quarter, resulting in an after-tax loss of about 3.5 cents per share in the quarter's earnings. Wells Fargo expects to recover the remaining $1.5 million.

Wells Fargo's International Division had a profitable year, despite these disruptive conditions. The division contributed nearly $6 million to the Bank's after-tax profits in 1974. The Bank's policy of increasing fee income was implemented by placing emphasis on such services as letters of credit, collection and export financing. Consequently, documentary business increased sharply and helped to generate growth in demand deposits from $80 million in December 1973 to $140 million at the end of 1974, an increase of 75 per cent.

Other new services also contributed to the demand deposit gain. One of these was the Wells Fargo Bank International Money Order, introduced in mid-1973. It is now being sold by all our branches and by 23 of our correspondents around the world.

In keeping with the Bank's emphasis on increased fee income, International Banking again stressed syndicated loan projects during the year, and was able to organize four syndications amounting to $193 million.

Our major international acquisition in 1974 was a 15 per cent interest in Credit Chimique, a privately held $700-million commercial bank headquartered in Paris.

The International Division has for many years provided foreign trade financing and other services from its San Francisco headquarters office, and in the past decade has expanded its activities abroad to include three branches and 12 representative offices.

Our partners in Credit Chimique are Compagnie Francaise des Petroles and Pechiney Ugine Kuhlman, which are two large French industrial concerns, and Commerzbank in Germany. Despite rigid credit controls in France, Credit Chimique was able to attain its profit targets for the year.

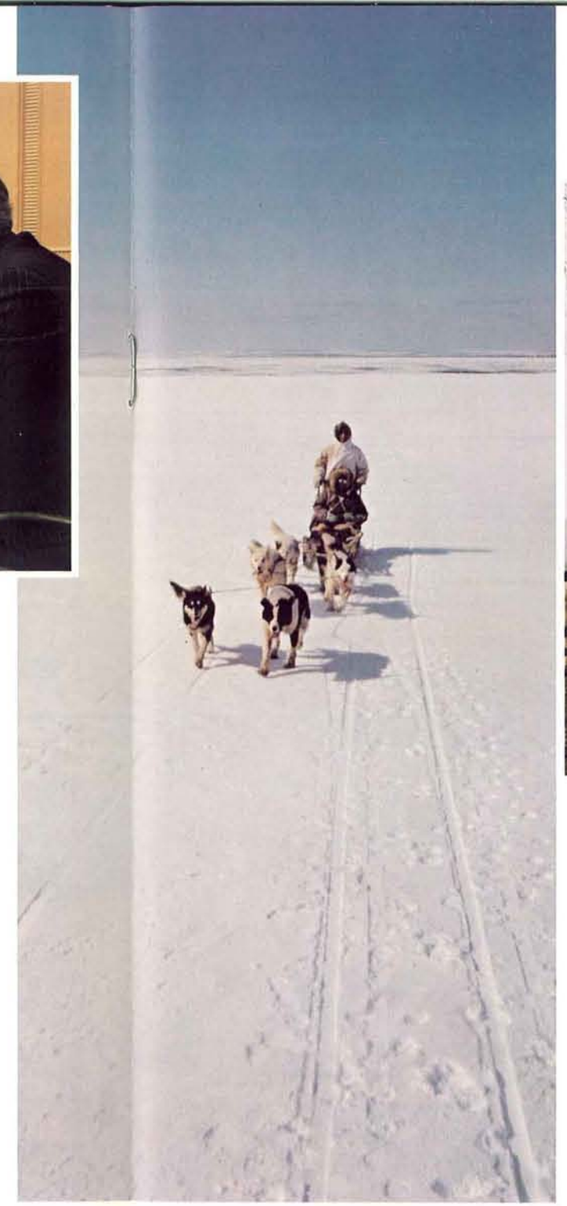
One of the key investments made by Wells Fargo in 1973—Allgemeine Deutsche Credit-Anstalt (ADCA)—is a $1.2-billion institution with branches in most of the principal cities of Germany. In 1974, ADCA expanded its nationwide system by opening a branch in the important city of Hamburg. Although 1974 was an unusually difficult period for German banking, ADCA had a satisfactory year.

Western American Bank, based in London, is a consortium bank in which Wells Fargo holds a 22.5 per cent interest. Several steps were taken during the year which were designed to enable Western American Bank to more effectively cope with the deterioration in international financial markets. These steps included a suspension of unprofitable bond trading, the closing of the Luxembourg and Zurich offices and a 30 per cent reduction in staff. The shareholder banks, including Wells Fargo, also purchased a substantial portion of Western American Bank's loan portfolio to assist it with its liquidity needs. Close coordination was maintained throughout the year between Western American's shareholders and its management, and Western American Bank was able to report profits for the 1974 operating year higher than those for the same period in 1973.

To increase our global recognition and provide a convenience to European investors, Wells Fargo & Company during 1974 listed its shares on The Stock Exchange in London and on the Frankfurter Boerse.

In November 1974, Wells Fargo opened a new Iberian Peninsula Representative Office in Madrid to serve international customers in both Spain and Portugal. This brings our total number of overseas representatives to 12.

The Bank's Trust Division administers estates and personal trusts; provides custody and investment advisory services for individuals, corporations and non-profit organizations; and administers pension and profit-sharing funds. Two unusual projects are supervision of a ranching operation and investment advisory service for the Northwest Alaska Native Association.



TRUST & INVESTMENT SERVICES

Trust Division fee income increased 7.2 per cent in 1974 to $16,066,000. In common with other areas of the Bank, the division is accelerating its efforts to develop and market fee-producing services.

Two important forums were held during the year to inform corporate executives and professional financial advisors about Wells Fargo's capabilities in trust business. A one-day pension seminar was held in Chicago in March for corporate executives involved in supervision of pension funds of more than $7 billion in assets. It was designed to provide them with the latest thinking on the investment process, the expanding role of the financial consultant and the recent pension legislation.

The second gathering was a continuation in Southern California of a long-standing and successful tradition initiated by the Trust Department of Beverly Hills National Bank and, since our acquisition of its assets, now sponsored by Wells Fargo. It is an annual estate planning forum for attorneys, accountants and insurance underwriters, which was held December 4 in Beverly Hills. Some 1,200 persons attended the 1974 forum.

During the year, Wells Fargo began using the services of The Depository Trust Company, a leading nationwide securities clearing house wholly-owned by the New York Stock Exchange. Wells Fargo was the first California bank to use the firm's services. It is a part of the ongoing effort to provide our customers with the most efficient handling of their securities.

Another step toward increased customer service was the launching in 1974 of a quarterly bulletin entitled "Investment Funds Perspective." This publication is sent to all customers whose accounts utilize our Common Funds. Late in the year, the Trust Division made some administrative changes to bring together and better coordinate as many as possible of the division's family-related account relationships. The customer-oriented review of the division's functions and services that prompted these moves will continue in 1975.

Our Wellsplan service—which provides advice to individual and corporate customers on tax planning, insurance and special investments—continued to make progress during 1974. On the advice of Wellsplan, investors have now acquired nearly $9 million of investment assets, including $2 million in oil and gas interests.

The Real Estate Equity commingled fund and the Wells Fargo Index Fund for employee benefit trusts both made further progress during the year.

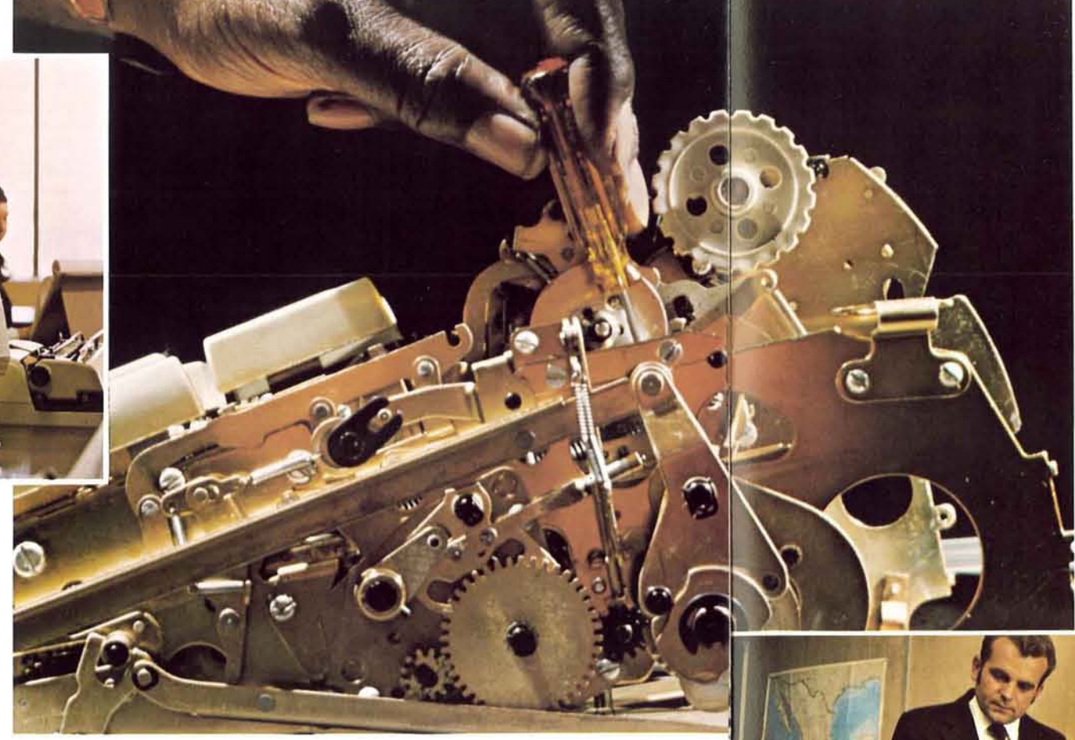
WELLS FARGO INVESTMENT ADVISORS

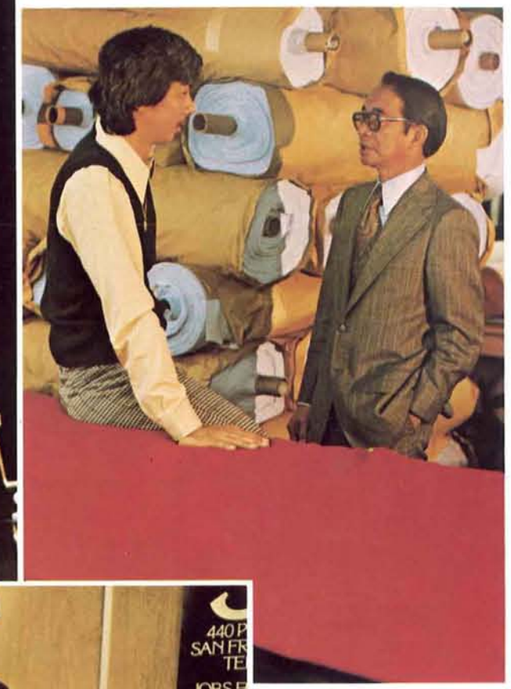
In a major reorganization oriented to the markets and clients that it serves, the former Financial Analysis Department became a profit center and an operating division of the Bank in 1974 and was renamed Wells Fargo Investment Advisors. The new division continues to work closely with the Trust Division, whose customers it serves. Its investment services include the management of portfolios for personal and institutional clients, investment advisory services for other asset managers and financial advisory services in the field of corporate finance.

In the area of portfolio management, the division advanced its work on the control of risk, the allocation of assets and the valuation of securities in the portfolios under its direction. Its disciplined approach to investment management, with emphasis on diversification and explicit orientation to client objectives, continued to show favorable results.

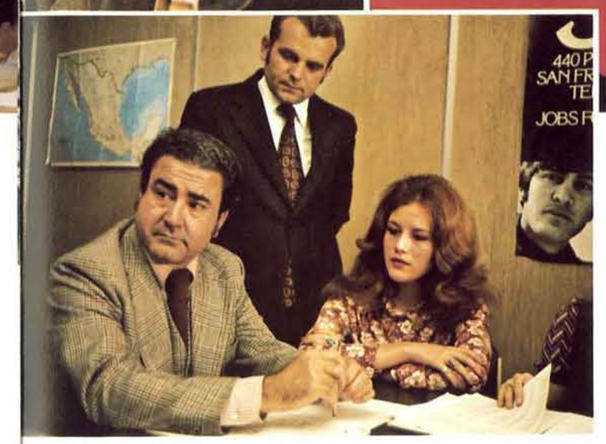
During the year, Investment Advisors extended the marketing of its Corporate Advisory Service to business firms needing assistance in corporate finance. The group advises companies on the value of their businesses, on proposed acquisitions and mergers, on capital structure and financing requirements, and on dividend policy and the cost of equity capital. The service encompasses a full spectrum of advisory activities, from analysis and planning to detailed recommendations and guidance in program implementation.

Investment Advisors also expanded the product line and marketing staff of its Institutional Counsel Service during 1974. This group sells Wells Fargo's investment research, economic and market information, and portfolio management advice to other asset managers. Its activities include an annual seminar at the Bank's Head Office for current and potential customers.





Wells Fargo has long been one of the leading banks in the area of corporate social responsibility. Among programs being implemented are those in job training and career development for the disadvantaged and financing of small business firms for minorities.



COMMITMENTS TO THE COMMUNITY

Banks are deeply involved in the economic livelihood of the nation, and have a special responsibility and special opportunities to fulfill their role as corporate citizens.

Exemplifying its belief in this philosophy, Wells Fargo in 1974 continued to study, improve and expand its many programs that affect our society, our fellow citizens and the communities served by the Bank.

In the important area of equal opportunity in employment, for instance, the Bank has a moving five-year Affirmative Action Program, which is updated each year. The current program runs through December 1979. Its goals call for minorities to represent over 38 per cent of all staff members by 1979, compared with 28 per cent currently; more than 40 per cent of all officers to be women, compared with 36 per cent today; 18 per cent of its officers to be minorities, compared with just under 12 per cent now; and for the Bank to have 45 women vice presidents and 36 minority vice presidents at the end of 1979, compared with eight of each currently.

The total staff at Wells Fargo Bank at the end of 1974—on a full-time equivalent basis—was 11,730.

In order to meet these goals and to help staff members qualify for expanded responsibility and promotion, the Bank in 1973 started a Career Development Program to accelerate the advancement of minority and women officers, and to aid non-officers whose upward mobility has been restricted because of lack of educational skills and English language handicaps. A total of 76 staff members have gone through the Career Development Program. The Bank's Urban Affairs Training Center, established in 1968, conducts special training programs known as Job Education Training for disadvantaged minorities.

Wells Fargo has one of the most successful and long-standing minority small business loan programs of any bank. The bulk of these—669 loans totaling over $26 million—are with the participation of the Small Business Administration. However, 164 loans totaling $4.2 million have been granted directly by Wells Fargo to small minority-owned business firms. These are not all our loans to businesses owned by women or minorities, of course, but represent those that do not meet our regular credit standards. For many years, the Bank has also supported the banking industry's job and economic development corporations in major cities in California.

At the end of 1974, Wells Fargo had a portfolio of student loans that amounted to more than $56 million, representing loans to some 30,000 students.

The Bank's Low Income Finance Terms, or LIFT, program is designed to provide installment loans to low income borrowers. At year end, LIFT had 767 loans outstanding totaling nearly $960,000.

In the environmental area, Wells Fargo has a number of continuing programs and some relatively new efforts. About 90 per cent of the Bank's data processing waste paper is sold for recycling and many internal and external forms are printed on recycled paper. Wells Fargo was the first bank to adopt bagasse, a sugar cane by-product, for all check printing.

For energy conservation, well over a year ago the Bank eliminated all lighted outdoor billboards from its advertising program and has scaled down the use of illuminated signs and interior lighting. The energy conservation efforts reduced the Bank's energy consumption by about 20 per cent in 1974.

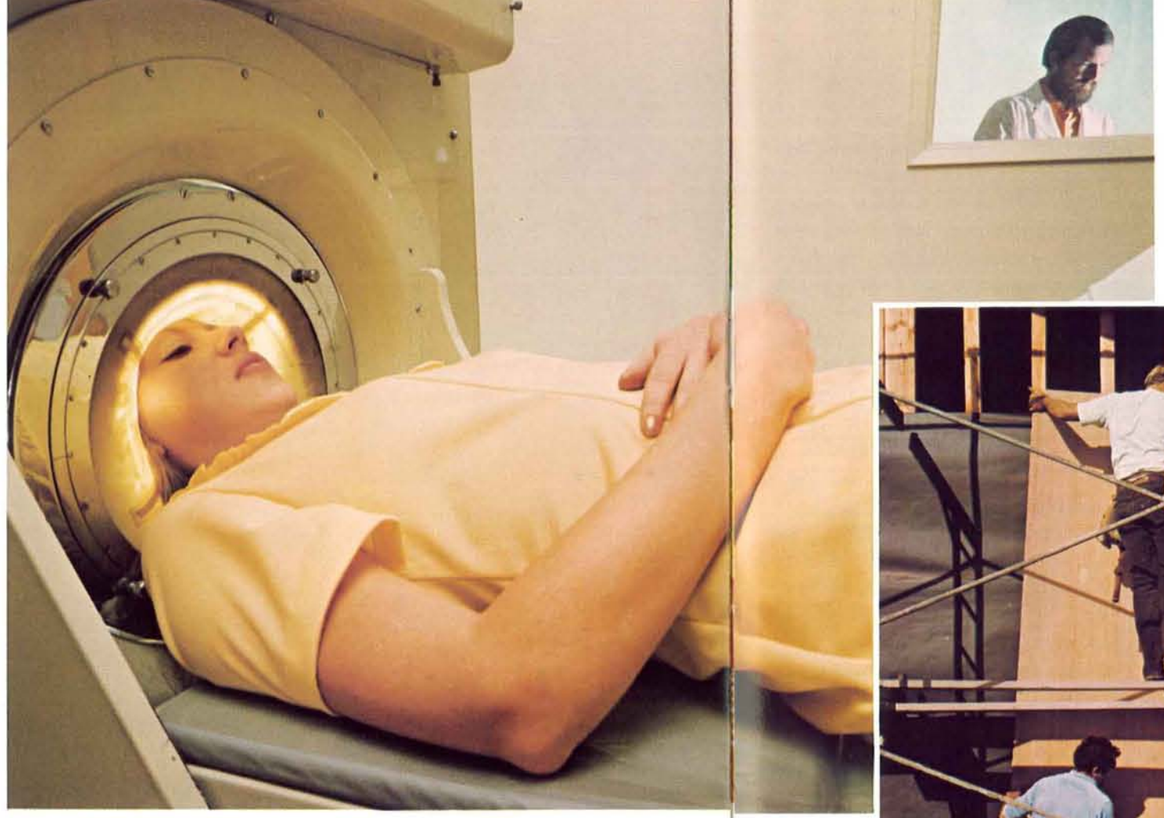
During the year, the Bank with the help of an outside consultant undertook a consumer affairs program in which all public contact functions and inquiry handling practices are being examined to pinpoint areas where improvements can be made. In addition, Wells Fargo has a Corporate Responsibility Committee that consists of 12 officers, as well as a full-time staff assistant. The Committee's mission is to examine any area of Bank operations and policies that affect the individuals and communities we serve. Areas the Committee is currently studying include real estate loan policies, employment of the handicapped and of individuals with arrest or conviction records, consumer education, corporate contributions and employee charitable solicitation policies, and collection and default procedures.

Among Committee recommendations that have been adopted is a Minority Purchasing Program, in which various purchasing units have pledged that a portion of their budgets will be used for buying goods or services from minority firms. Resulting from another recommendation, the Bank adopted an educational gift-matching program in 1974 in which it matches employee gifts—up to a $500-per-year limit. Since inauguration of this program in June, employees have contributed a total of $10,502 to 74 educational institutions in 24 states, an amount that has been matched by the Bank.

Acting on another Committee recommendation, 16 members of the Board of Directors and senior management participated in a full-day pilot seminar in November conducted by the Graduate Theological Union in Berkeley, to examine ethics in business.

In brief, Wells Fargo has a wide range of programs under way aimed at actively promoting economic and social well-being for Californians. The Bank is continually seeking ways to fulfill its commitment to the community and to bring benefits to all citizens.

summary of non-bank operations



Wells Fargo & Company, a one-bank holding company formed in 1969, has subsidiaries in a variety of fields. Most active in 1974 were those involving real estate projects and equipment leasing. Wells Fargo Leasing has, for instance, leased the first three-dimensional brain scanner in Northern California.

Wells Fargo & Company is the parent not only of Wells Fargo Bank, but also of a group of subsidiaries active in fields related to banking. These non-bank subsidiaries manage a real estate investment trust; originate, arrange financing for and handle servicing of real estate loans for investors; and provide equipment lease financing, data processing and securities clearance services.

During the year, the subsidiaries contributed $3,846,000 in net profits to the parent company, or 7.69 per cent of income before security losses.

At the end of 1974, Wells Fargo's non-bank subsidiaries were capitalized at $60,157,000, of which $32,657,000 was equity and $27,500,000 was subordinated debt. Assets were $303,402,000. Overall, these subsidiaries were in excellent capital position as compared to similar organizations in the financially related industries in which they compete.

WELLS FARGO MORTGAGE COMPANY

The year 1974 was an extremely difficult one for the mortgage banking industry. High interest rates on alternate types of investment drew funds away from institutions that normally provide most of the nation's construction and real estate loans. By year end, an easing in interest rates had begun and funds were flowing back into mortgage lending firms, but at the same time the economic slump had caused business firms and commercial developers to scale back their construction plans.

In this troubled environment, Wells Fargo Mortgage Company (formerly the Sonoma Mortgage Company Division of the Bank) completed its first full year as a subsidiary, and generated $1.1 million in earnings. As a subsidiary, the company now has greater flexibility in its investments and is permitted to expand into other states.

Despite the difficulties faced by the real estate industry in 1974, Wells Fargo Mortgage Company originated $140 million in loans, down from the 1973 figure of $155 million in new mortgage loans. At the end of 1974, the company was servicing 47,000 mortgage loans, amounting to more than $970 million, for about 225 investors.

The mortgage company established an insurance agency during the year, which offers health, accident and mortgage redemption insurance to borrowers whose property does not exceed four units. This agency is already contributing to profits and has excellent potential for growth.

WELLS FARGO REALTY ADVISORS

Wells Fargo Realty Advisors was also affected by the complex economic environment and the particular problems faced by the construction and real estate industries. This subsidiary, which provides advisory services on a fee basis and maintains a loan portfolio for its own account, contributed nearly $1.03 million to parent company earnings in 1974.

This subsidiary was formed in 1970 to advise Wells Fargo Mortgage Investors, as well as to conduct other real estate oriented activities. Wells Fargo Mortgage Investors is listed on the New York Stock Exchange and had loan commitments totaling $268 million on December 31, 1974. Because of the uncertainties facing the real estate industry, the trustees decided early in 1974 to restrict the growth of the trust. As a result, outstanding loans declined to $243 million at year end, compared with $256 million at the end of 1973.

The management fees received by the advisors from the trust declined to $1,374,000 in 1974, compared with $2,347,000 in the previous year. The advisory fee income is determined by a formula which relates to the net income of the trust.

Wells Fargo Realty Advisors has offices in Los Angeles, San Francisco, Phoenix and Houston.

WELLS FARGO LEASING CORPORATION

Wells Fargo Leasing Corporation became involved in equipment leasing for a number of energy development projects in 1974, in locations as widely separated as Montana, Louisiana and the North Sea. For the year, the corporation contributed more than $1.2 million to earnings.

Currently, the leasing company has $132 million in lease receivables outstanding, and the volume has been steadily increasing. The company concentrated its efforts during the past 12 months toward developing business relationships with medium-size California corporations. In this undertaking, leasing company executives worked closely with the Bank's branch officers.

Wells Fargo Leasing has offices in Los Angeles, San Francisco, New York

WELLS FARGO & COMPANY
COMPARATIVE COMBINED BALANCE SHEET†
NON-BANK SUBSIDIARIES ONLY (IN THOUSANDS)

	DECEMBER 31 1974	1973
Assets		
Cash and Short-Term Investments	$ 19,160	$ 27,206
Loans (Net of Reserves)	158,542	47,130
Direct Lease Financing	111,646	69,204
Accounts Receivable	9,157	5,961
Premises and Equipment	821	502
Other Assets	4,076	2,248
Total Assets	$303,402	$152,251
Liabilities		
Advances from Wells Fargo & Company	$176,775	$ 47,680
Accrued Expenses and Other Liabilities	50,720	31,770
Long-Term Debt	15,750	16,000
Long-Term Subordinated Debt Payable to Wells Fargo & Company	27,500	27,500
Total	$270,745	$122,950
Stockholders' Equity		
Capital Stock	$ 960	$ 960
Capital Surplus	23,007	23,007
Retained Earnings	8,690	5,334
Total Stockholders' Equity	32,657	29,301
Total	$303,402	$152,251

†Unaudited.

WELLS FARGO & COMPANY
COMPARISON OF NON-BANK SUBSIDIARIES' PROFIT†
1974 & 1973

	1974 NET INCOME (IN THOUSANDS)	1974 EARNINGS PER SHARE	1973 NET INCOME (IN THOUSANDS)	1973 EARNINGS PER SHARE
Wells Fargo Mortgage Company	$1,116	$0.056	—	—
Wells Fargo Realty Advisors	1,029	0.052	$1,148	$0.058
Wells Fargo Leasing Corporation	1,212	0.061	592	0.030
Wells Fargo Realty Services, Inc.	28	0.002	66	0.003
Wells Fargo Securities Clearance	461	0.023	571	0.029
Wellsco Data	*	*	487	0.025
Subsidiary Total	$3,846	$0.194	$2,864	$0.145
Per Cent Contribution to Wells Fargo & Company Income before Security Losses	7.69%		6.49%	

**Major operations returned to Bank organization in 1974. †Unaudited.*

WELLS FARGO REALTY SERVICES, INC.

In 1974, Grayco Land Escrow, Ltd., changed its name to Wells Fargo Realty Services, Inc., in order to heighten its identification with the parent company. The firm is a leading corporate trustee in the recreational real estate industry. Currently, it provides service to 80 recreational land developers accounting for more than $200 million in receivables. In addition, it performs specialized data processing services for the real estate industry.

The firm was acquired in 1972 to provide Wells Fargo with a vehicle to service and monitor loans or notes secured on recreational land and second homes. However, in view of the current energy shortage and environmental concerns, this type of lending has not

WELLS FARGO SECURITIES CLEARANCE CORPORATION

Wells Fargo Securities Clearance Corporation, located in New York City, handles the security clearance operations of Wells Fargo Bank as well as some of the Bank's major customers.

In a year of uncertainties in the stock market and declining volume, the company was less active than in the past. Its contribution to profits in 1974 was $461,000, compared with more than $500,000 in 1973.

OTHER SUBSIDIARIES

Wellsco Data Corporation, a data processing subsidiary that primarily served Wells Fargo Bank, underwent a reorganization during the year, when its primary operations were brought back into the Bank.

In 1974, Wells Fargo & Company withdrew applications with regulatory authorities for approval of the acquisition of an auto leasing company and the formation of an agricultural finance subsidiary. The decision to withdraw the applications was consistent with Federal Reserve policies discouraging further expansion of bank holding company activities at this time.

management's analysis of financial operations

Wells Fargo & Company's 1974 performance demonstrated the success of the policies, adopted late in 1973, of slowing asset growth and improving operating ratios and earnings. Guided by this strategy, the Company grew solidly but under controlled conditions in 1974 and displayed sufficient flexibility to meet the year's unusual economic demands.

Highlights for 1974 include:

Per share earnings before security gains or losses increased 12.4 per cent from the previous year.

Average passbook savings registered a 9.1 per cent gain over 1973, increasing the Bank's statewide market share of passbook savings and reducing the overall cost of funds.

Assets—controlled in accordance with the announced policy—increased 7.7 per cent from 1973. This compared to a gain of 30.7 per cent in 1973 over 1972.

The provision for loan losses was increased 95 per cent above the 1973 provision, a result of the uncertain economic and financial climate.

The general banking environment has altered dramatically in recent years with drastic changes in the prime rate, in asset yields and the cost of funding those assets. To meet the changing conditions, Wells Fargo and the financial community at large have made successive planning and strategy adjustments which themselves have served as agents of change. For these reasons, and in the interests of supplying information to assist individual assessments of the Company's performance, a detailed review of key financial data is being provided. The text which follows has been designed to assist with analyses of the *Six-Year Summary of Operating Statements* on pages 26 and 27.

INCOME STATEMENT

The *Income Statement* (Table I) shows items of income before security gains or losses as well as expense items for the years 1972 through 1974. All items are adjusted to a taxable-equivalent basis, which means sums have been added to non-taxed items, primarily municipal securities, to make these figures comparable to taxable items. Table I shows that the growth in income before security gains or losses between 1972 and 1973 benefited from the same percentage increase in both interest margin and non-interest income. The pattern was different between 1973 and 1974 when the growth in interest margin was three times as large as in the previous year while non-interest income showed a modest decline. The favorable impact of the increases was lessened in both periods by increases in other types of operating expenses.

INTEREST INCOME

From 1972 to 1973, the growth in interest income came from both an increase in earning assets and higher yields as shown in Table II. Except for deposits placed by overseas offices, the same pattern continued in 1974 although the earnings gain came more from improved yields than from asset gain. In the case of overseas deposits, the average volume declined from 1973 to 1974, but the yield on these deposits increased sufficiently to offset the volume decline, resulting in an increase in income over 1973

INTEREST EXPENSE

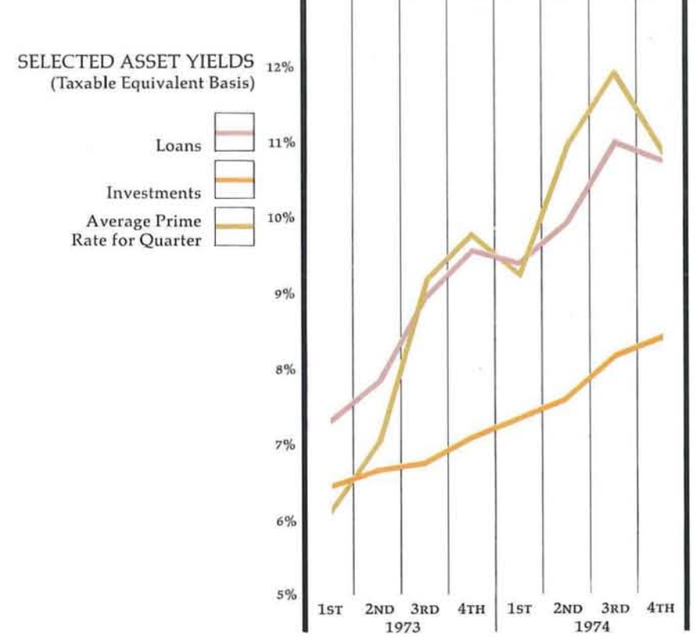
Interest expense went up at a faster pace than interest income in 1974 and 1973. However, the increase was much larger in 1973 as compared to the previous period because the average rates paid on funds were rising more rapidly in 1973 than in 1972, and because in 1973 it was necessary to fund a portion of earning assets with high-cost deposits, borrowed funds and commercial paper. In 1974, average passbook savings—paying the 5 per cent rate—and average demand deposits increased moderately, and this helped to mitigate somewhat the rise in

MARGIN ANALYSIS

As interest expense rose because earning assets had to be funded with increasingly costly funds, the net taxable-equivalent interest income declined as a per cent of earning assets from 1970 through 1973. Between the end of 1972 and 1973, for instance, net interest income dropped from 3.28 per cent of earning assets to 2.76 per cent. Although the decline had a negative impact on earnings, the rise in earning assets in the same period was more than enough to offset the impact.

The pattern changed in 1974, and net interest income as a per cent of earning assets increased to 3.11 per cent. This was primarily because of the increase in yields coupled with slower growth in earning assets. Earning assets increased only 13 per cent in 1974, compared to a 31 per cent increase in 1973 and a 19 per cent increase in 1972.

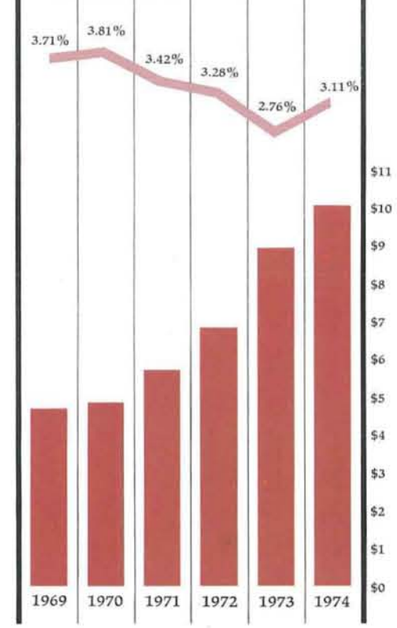
The Company's strategy to constrain the growth of earning assets while improving the net yield on those assets has proved successful, even though the unfavorable financial climate and heavy loan demand made 1974 a difficult time to institute new policies. Implementation of the strategy has resulted in the funding of higher yielding assets, a reduction of activities in lower yielding areas of banking operations, and less reliance on high cost borrowings to fund incremental asset growth. The Company expects to continue these policies throughout 1975 and the years ahead.



OTHER OPERATING INCOME

The "Other Operating Income" figures shown in Table I are a total of the non-interest income items—on a taxable-equivalent basis—detailed in the *Six-Year Summary of Operating Statements.*

Service charges on deposit accounts—primarily those of individual depositors—were the largest single non-interest item of income in 1972, 1973 and 1974. The increase in service charge income from 1972 to 1973 stemmed primarily from the success of the Wells Fargo Gold Account, the first package of consumer banking services which was introduced early in 1973 by Wells Fargo. Other major banks quickly followed Wells Fargo's lead with the result that competition for the individual customer's deposits has been unusually keen throughout 1974. The Gold Account met the competition squarely and had substantial increases in volume and income for 1974.



EARNING ASSETS AND NET INTEREST INCOME

Net Taxable Equivalent Interest Income as a Percentage of Earning Assets

Earning Assets in Billions of Dollars

Trust fees for the most part are based on the market value of the assets held in trust. The 14.3 per cent increase in trust fees from 1972 to 1973 resulted primarily from an increase in trust business. While the fees generated in 1974 were depressed due to the lower market value of assets, fees from new trust accounts and from clients added through the acquisition of Beverly Hills National Bank in January helped to improve the trust revenue for 1974.

The other items included in "Other Operating Income" varied significantly between 1973-1974. Fees for banking services increased from the previous year whereas foreign exchange income, income from foreign equity investments, service fees from data processing consulting and real estate management fees declined.

OTHER OPERATING EXPENSES

The inflationary price trend influenced expenses markedly in 1973 and 1974, even though general cost control procedures were in effect throughout these periods. In addition to the normal merit salary increases and staff additions, personnel expenses increased because of special salary adjustment programs, more comprehensive medical benefits and additional fringe benefits designed to help employees keep pace with the rising cost of living.

Also up from 1972 and 1973 levels were net occupancy and equipment expenses. The increase was expected in view of Wells Fargo's continuing commitment to retail banking. At the end of 1974, statewide offices totaled 313, compared to 1973's 300 and to 1972's 296. Seven of the new 1974 offices were added as a result of the merger of Commercial National Bank of Buena Park with Wells Fargo Bank, and three more offices were obtained when Wells Fargo Bank purchased certain assets and certain liabilities of Beverly Hills National Bank. Expenses were also boosted by the relocation in late 1973 of the Data Processing Division into new quarters at First and Market Streets, San Francisco; and the openings in late 1973 of new regional staff headquarters in Oakland and corporate headquarters in downtown Los Angeles. The year-to-year increases in equipment expenses result from a general upgrading of equipment and from purchase of additional equipment to meet the expanding volume of work. Only moderate increases in net occupancy and equipment expenses are expected over the next few years.

Items of expense which are included in the "Other Expense" in the *Six-Year Summary of Operating Statements* for 1974 have increased notably over 1973 levels. The increase can be attributed to the higher costs of utilities, supplies and

TABLE I • INCOME STATEMENT: TAXABLE—EQUIVALENT BASIS

	1974 (IN THOUSANDS)	PERCENTAGE CHANGE	1973 (IN THOUSANDS)	PERCENTAGE CHANGE	1972 (IN THOUSANDS)
INCOME FROM:					
Loans and Leases	$793,513	41.0%	$562,725	60.8%	$349,903
Investments	136,054	32.5	102,657	18.1	86,894
Other Interest	78,479	11.6	70,302	111.2	33,291
Total Income from Earning Assets	1,008,046	37.0	735,684	56.5	470,088
LESS INTEREST EXPENSE:					
Interest on Deposits	520,442	41.6	367,592	69.6	216,689
Interest on Borrowed Funds	155,728	43.9	108,228	350.3	24,032
Interest on Long-Term Debt	17,784	41.1	12,602	114.0	5,890
Total Interest Expense	693,954	42.1	488,422	98.1	246,611
NET INTEREST MARGIN	314,092	27.0	247,262	10.6	223,477
PLUS OTHER OPERATING INCOME	64,096	(3.1)	66,128	10.5	59,843
LESS OTHER OPERATING EXPENSE	267,638	21.6	220,091	10.8	198,667
INCOME BEFORE INCOME TAXES	110,550	18.5	93,299	10.2	84,653
INCOME TAXES ON A FULL-RATE BASIS	60,476	23.0	49,180	7.9	45,559
INCOME BEFORE SECURITY GAINS OR LOSSES	50,074	13.5	44,119	12.9	39,094

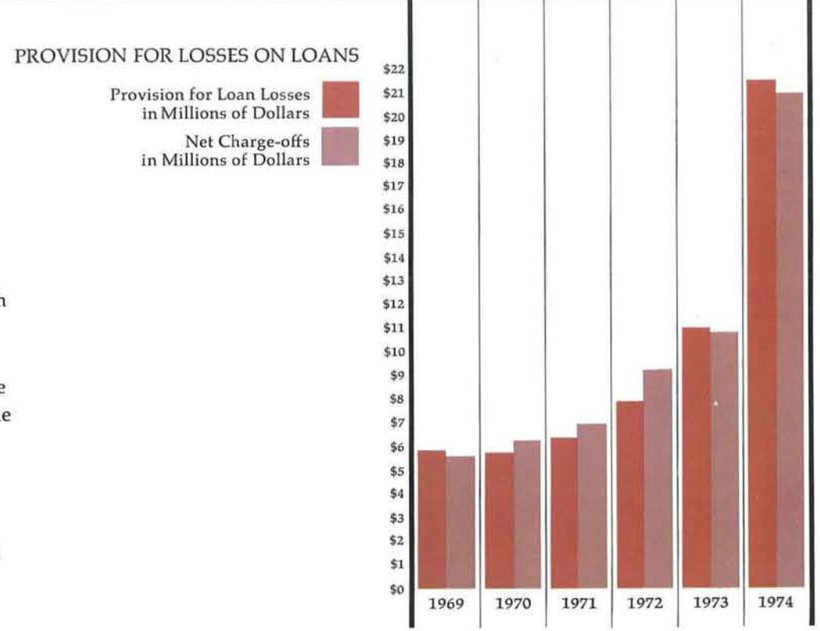
TABLE II • USES OF FUNDS: AVERAGE BALANCES & TAXABLE—EQUIVALENT YIELDS

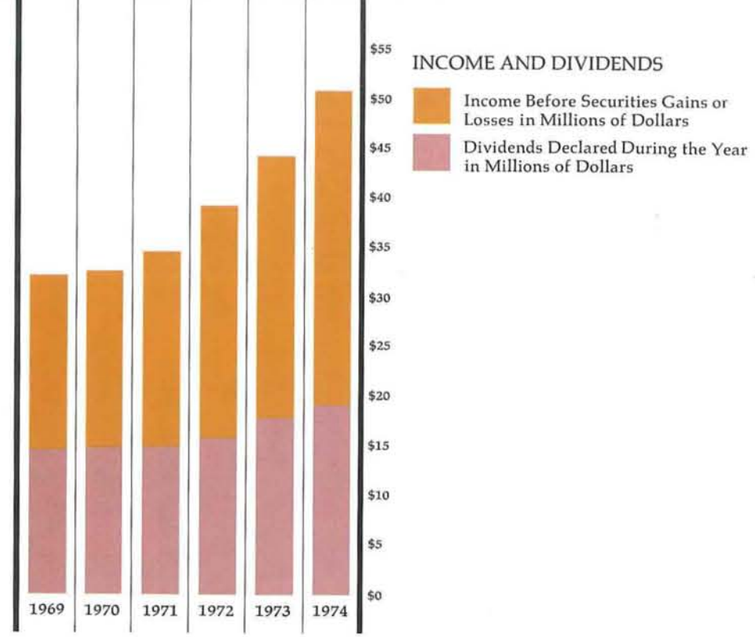
	1974 AMOUNT (IN MILLIONS)	1974 YIELD	1973 AMOUNT (IN MILLIONS)	1973 YIELD	1972 AMOUNT (IN MILLIONS)	1972 YIELD
CASH AND DUE FROM BANKS	$ 1,134	—	$ 984	—	$ 893	—
DEPOSITS PLACED BY OVERSEAS OFFICES	772	8.69%	963	6.39%	640	4.83%
INVESTMENT SECURITIES:						
U.S. Treasury Securities	239	6.58	346	5.96	341	5.64
Securities of Other U.S. Government Agencies and Corporations	610	6.85	444	6.35	232	5.48
Obligations of States and Political Subdivisions	760	9.09	594	7.46	715	7.20
Other Securities (Excluding Equity Investments)	116	8.15	130	7.36	62	5.68
TRADING ACCOUNT SECURITIES	109	10.47	112	7.85	43	5.58
FUNDS SOLD	148	9.34	32	7.94	59	4.92
LOANS AND LEASES:						
*Commercial Loans (Net of Overdrafts)	3,150	11.42	2,892	8.82	2,283	6.55
*Real Estate Loans	2,100	8.31	1,738	7.79	1,393	7.44
*Consumer Loans (Net of Unearned Discount)	988	11.51	787	10.23	579	10.07
Loans of Overseas Offices	941	11.91	807	9.65	421	7.13
Direct Lease Financing	168	11.63	109	10.31	58	9.26
ALL OTHER ASSETS	556	—	431	—	334	—
TOTAL	$11,791		$10,369		$8,053	

**Yields computed on an all-inclusive basis (including loan fees).*

professional services, and to a determinable loss of $1.5 million—half of a $3 million placement with Bankhaus I.D. Herstatt, Cologne, Germany, which closed in June. Wells Fargo expects to recover the remaining $1.5 million.

The differences in income tax expense shown in Table I compared to the income tax expense shown in the *Six-Year Summary of Operating Statements* are primarily related to the tax-exempt interest income earned during the year. Tax-exempt interest income declined in 1973 from the 1972 level, therefore the effective tax rate, which is a ratio of income tax expense to income before taxes, of 31.2 per cent for 1973 was higher than the 1972 rate of 29.7 per cent. Conversely, tax-exempt interest income in 1974 increased over 1973, which lowered the effective tax rate to 26.5 per cent.





PROVISION FOR LOSSES ON LOANS

The reserve for loan losses, as shown on the *Consolidated Balance Sheet*, has three components: the valuation portion, deferred taxes and a contingency reserve. Only the valuation portion is available at any given time to absorb potential loan losses of the Company. At December 31, 1974, the valuation portion of the reserve totaled $51,687,000. It was $48,613,118 at the end of the previous year and $48,527,095 at year-end 1972.

To maintain the valuation portion of the reserve, the Company has since 1968 consistently followed an approved regulatory formula which computes the minimum provision (or reserve addition) by multiplying average loans outstanding during the year by a five-year moving average ratio. The moving average ratio is derived by determining the average of actual net charge-offs during the most recent five years and dividing this amount by the average of daily loan balances for such period.

In addition to the formula computation, the management of the Company reviews the actual loans charged off during the previous six-year period and relates the previous loan charge-off experience to the evaluations of outstanding loans made periodically by regulatory agencies, by an internal review department of the Bank and by independent certified accountants. Further, management's evaluation of the existing loan portfolio takes into account particular credit exposure and economic conditions. Through this procedure, management independently assesses the adequacy of the loan loss reserve and of the related loan loss provision charged to expense.

In 1974, the moving average formula indicated a provision for loan losses of $15.2 million compared to $11 million in 1973 and $7.9 million in 1972, but the management of the Company determined that the provision needed to be increased by approximately $6.3 million because of economic conditions and to fully provide for the net loan losses charged to the reserve during 1974. If economic conditions continue to deteriorate, it is likely that the loan loss provision as well as the net loan loss write-offs will increase.

As of any given date, Wells Fargo & Company, along with other financial institutions, has loans outstanding to corporations which are experiencing varying degrees of financial difficulty. Such loans, in the aggregate, usually exceed the valuation portion of the reserve for loan losses. The management of the Company believes, however, that the valuation portion of the reserve for loan losses is adequate to cover any potential losses.

Net loans written off to the reserve for loan losses during 1974 totaled $21.1 million compared to $10.9 million in 1973 and $9.1 million in 1972. The following paragraphs discuss the losses in the various loan categories.

For commercial loans, write-offs in each of these years were: $10.6 million in 1974, $6.5 million in 1973 and $6.2 million in 1972. The losses in 1974 were not concentrated in any particular industry. Recently, there has been widespread news coverage of problems experienced by real estate developers and companies involved in real estate related activities. Wells Fargo & Company has unsecured loans outstanding to real estate related companies and real estate investment trusts. These loans are included in commercial loans and loans of overseas offices. Losses to date on these loans have been minimal.

Net losses on monthly payment loans totaled $4.5 million in 1974, $2 million in 1973 and $1 million in 1972. Much of the increase in losses from 1973 to 1974 was attributable to a combination of soft used car prices, a very slow mobile home market and a practically nonexistent market for recreational vehicles resulting in losses from resales of repossessed vehicles.

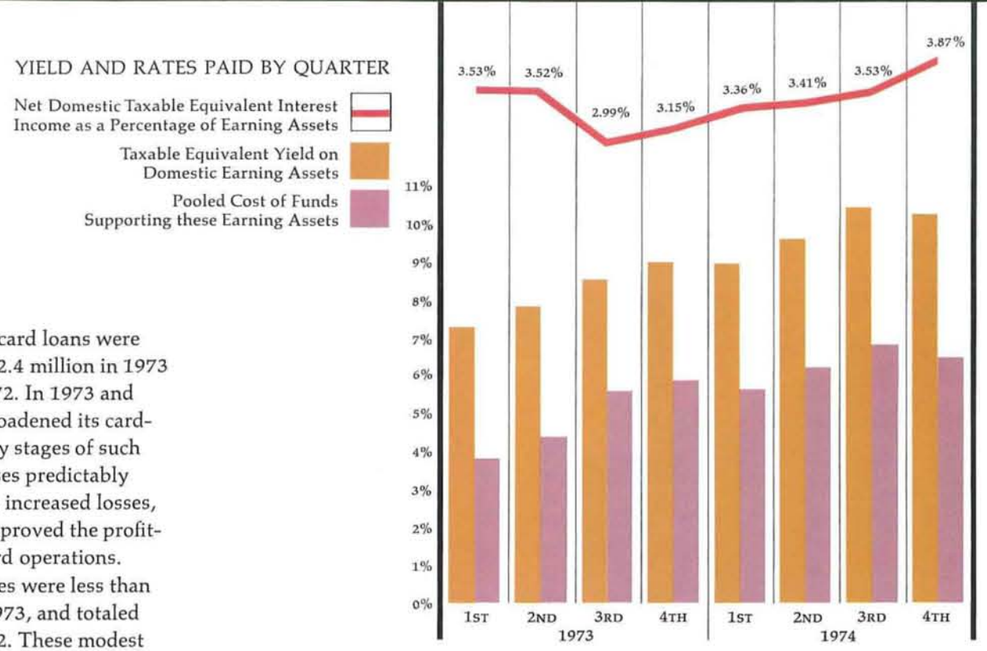
TABLE III • SOURCES OF FUNDS: AVERAGE BALANCES & RATES PAID

	1974		1973		1972	
	AMOUNT (IN MILLIONS)	RATES PAID	AMOUNT (IN MILLIONS)	RATES PAID	AMOUNT (IN MILLIONS)	RATES PAID
DEMAND DEPOSITS	$ 2,503	—	$ 2,342	—	$ 2,136	—
SAVINGS DEPOSITS	1,897	4.97%	1,739	4.63%	1,736	4.01%
SAVINGS CERTIFICATES	1,198	7.01	977	5.76	902	5.34
CERTIFICATES OF DEPOSIT	1,272	10.49	733	8.41	315	5.20
OTHER TIME DEPOSITS	525	9.11	593	6.77	555	4.73
DEPOSITS IN OVERSEAS OFFICES	1,670	9.64	1,781	7.24	1,062	5.31
OTHER LIABILITIES	494	—	356	—	324	—
COMMERCIAL PAPER OUTSTANDING	115	10.65	52	8.33	4	4.33
FUNDS BORROWED	1,433	10.01	1,197	8.68	545	4.38
LONG-TERM DEBT	274	6.49	203	6.21	126	4.68
STOCKHOLDERS' EQUITY	410	—	396	—	348	—
TOTAL	$11,791		$10,369		$ 8,053	

TABLE IV • QUARTERLY HISTORY

	INCOME PER SHARE BEFORE SECURITY GAINS OR LOSSES	NET INCOME PER SHARE	DIVIDENDS DECLARED PER SHARE	DIVIDENDS PAID PER SHARE	PRICE OF THE STOCK* HIGH	LOW	END OF PERIOD
First Quarter —1973	$ .52	$ .52	$ .215	$ .215	$29½	$22⅛	$22¾
Second Quarter—1973	.57	.57	.215	.215	24½	19¾	23⅜
Third Quarter —1973	.55	.55	.24	.215	24¾	20	23⅝
Fourth Quarter—1973	.61	.57	.24	.24	26	20⅝	22¾
Fiscal—1973	$2.25	$2.21	$ .91	$ .885	$29½	$19¾	$22¾
First Quarter —1974	$ .51	$ .51	$ .24	$ .24	$27	$22¾	$25⅜
Second Quarter—1974	.66	.66	.24	.24	25¾	15¾	15¾
Third Quarter —1974	.62	.62	.24	.24	17⅝	10¼	10¼
Fourth Quarter—1974	.74	.60	.24	.24	14½	9⅝	13
Fiscal—1974	$2.53	$2.39	$ .96	$ .96	$27	$ 9⅝	$13

*Per closing quote on New York Stock Exchange, the principal market in which the stock is traded.



Net losses on credit card loans were $4.9 million in 1974, $2.4 million in 1973 and $1.6 million in 1972. In 1973 and 1974, the Company broadened its cardholder base. In the early stages of such an expansion, loan losses predictably increase. Despite these increased losses, the overall program improved the profitability of the credit card operations.

Real estate loan losses were less than $50,000 in 1974 and 1973, and totaled about $300,000 in 1972. These modest losses came from a portfolio that now totals more than $2 billion in real estate loans outstanding, largely representing loans on single-family homes.

Losses on international loans amounted to $1.1 million in 1974 and less than $100,000 in 1973 and 1972.

SECURITY TRANSACTIONS

Security transactions, net of the related income tax effect, resulted in a loss of $2,705,000 in 1974, a loss of $660,000 in 1973 and a gain of $338,000 in 1972. The large increase in security losses in 1974 resulted from a program adopted by the Company to gradually sell off municipal bonds with maturities of more than 10 years and relatively unattractive yields.

QUARTERLY REVIEW—1974

In view of the extremes of change that characterized the 1974 banking environment, it is especially relevant to retrace and examine the Company's performance during this period as shown in Table IV. In a climate of general uncertainty, the prime rate climbed to 12 per cent, an historic high. Serious problems at two large U.S. banking organizations caused concern in the industry.

In the opening weeks of the year, the prime rate steadily moved downward, [illegible] per cent and maintaining that level until mid-March when it began to rise. In comparing fourth quarter 1973 with first quarter 1974, Wells Fargo's net taxable-equivalent interest income widened due principally to lower funding costs. Non-interest income lagged, and non-interest expenses climbed sharply from the earlier period combining to more than negate the effect on net income of the improved interest spread.

The second quarter was marked by a precipitous rise in the prime rate. At the same time, earning assets and the spread between taxable-equivalent yields and rates paid increased moderately over the first quarter. In addition, non-interest income recovered from the low levels of the first quarter, and tight expense controls limited increases in non-interest expenses. As a result, the second quarter produced better earnings than the first quarter.

The prime rate stabilized at its all-time high of 12 per cent during the third quarter. Spreads, under considerable pressure, were improved, and together with a modest increase in earning assets widened the net taxable-equivalent interest income over the second quarter. Non-interest income showed no improvement from the second quarter, but non-interest expenses rose notably due to the Herstatt loss, more than offsetting the net interest increase and decreasing the earnings per share for the quarter below that of the second quarter.

Early in the fourth quarter, deposit and borrowed fund rates dropped quickly. The prime rate descended slowly during the quarter to 10¼ per cent at year end. Because the prime lagged behind borrowing rates, the spread in the fourth quarter was favorably affected and increased 10 per cent over the previous quarter. Earning assets increased by 4 per cent over the third quarter. Non-interest income rose modestly from the previous quarter while non-interest expenses, principally the provision for losses on loans, rose significantly in the final quarter. The end result was a most satisfactory earnings performance in the fourth quarter.

CONSOLIDATED SIX-YEAR SUMMARY OF OPERATING STATEMENTS

WELLS FARGO & COMPANY AND SUBSIDIARIES (IN THOUSANDS)

	1974	1973	1972	1971	1970	1969	ANALYSIS CHANGE 1974/1973	ANALYSIS FIVE-YEAR COMPOUND GROWTH RATE
INCOME								
Interest and Fees on Loans and Leases	$ 790,964	$ 560,618	$ 348,792	$ 298,997	$ 302,974	$ 265,501	41.1%	24.4%
Interest and Dividends on Investment Securities	101,016	80,224	60,874	56,693	47,328	49,116	25.9	15.5
Interest on Deposits Placed by Overseas Offices	67,072	61,516	30,893	25,873	13,653	5,922	9.0	62.5
Trading Account Income	7,979	7,680	2,499	5,376	5,364	663	3.9	64.5
Service Charges on Deposit Accounts	24,245	21,718	20,664	20,078	19,600	17,814	11.6	6.4
Trust Income	16,066	14,984	13,112	11,409	10,745	10,101	7.2	9.7
Other Income	22,820	26,876	24,747	20,368	11,987	11,153	(15.1)	15.4
Total Income	1,030,162	773,616	501,581	438,794	411,651	360,270	33.2	23.4
EXPENSE								
Salaries	$ 119,777	$ 106,324	$ 96,331	$ 86,967	$ 79,923	$ 68,599	12.7	11.8
Pension and Other Employee Benefits	26,764	22,642	21,196	17,153	15,224	13,306	18.2	15.0
Interest on Deposits, Borrowings, Capital Notes and Debentures	693,954	488,422	246,611	214,843	202,470	173,435	42.1	32.0
Net Occupancy Expense	28,393	23,721	19,663	17,851	15,104	12,966	19.7	17.0
Equipment Expense	17,063	15,329	13,030	11,010	9,925	8,114	11.3	16.0
Provision for Loan Losses	21,500	11,034	7,864	6,479	5,937	5,945	94.9	29.3
Other Expense	54,633	42,018	41,302	34,821	32,400	29,670	30.0	13.0
Total Expense	962,084	709,490	445,997	389,124	360,983	312,035	35.6	25.3
INCOME BEFORE INCOME TAXES AND SECURITY GAINS OR LOSSES	68,078	64,126	55,584	49,670	50,668	48,235	6.2	7.1
Applicable Income Taxes	18,004	20,007	16,490	15,318	18,084	16,188	(10.0)	2.2
INCOME BEFORE SECURITY GAINS OR LOSSES	$ 50,074	$ 44,119	$ 39,094	$ 34,352	$ 32,584	$ 32,047	13.5	9.3
Security Gains (Losses)	(5,981)	(1,439)	735	(10,383)	325	(44)	—	—
Related (Increase) Reduction of Income Taxes	3,276	779	(397)	5,416	(178)	25	—	—
Net Income	$ 47,369	$ 43,459	$ 39,432	$ 29,385	$ 32,731	$ 32,028	9.0	8.1
INCOME PER SHARE								
Income before Security Gains or Losses	$2.53	$2.25	$2.10	$1.85	$1.77	$1.75	12.4	7.7
Net Income	$2.39	$2.21	$2.12	$1.58	$1.78	$1.75	8.1	6.4
INCOME PER SHARE ASSUMING FULL DILUTION								
Income before Security Gains or Losses	$2.46	$2.18	$2.03	$1.79	$1.71	$1.69	12.8	7.8
Net Income	$2.33	$2.15	$2.05	$1.54	$1.72	$1.69	8.4	6.6
AVERAGE SHARES OUTSTANDING	19,804,343	19,633,968	18,643,285	18,543,162	18,421,480	18,283,778	—	—

CONSOLIDATED BALANCE SHEETS

ASSETS (IN THOUSANDS)

	DECEMBER 31, 1974	DECEMBER 31, 1973	CHANGE
Cash and Due from Banks	$ 1,238,589	$ 1,164,534	$ 74,055
Deposits Placed by Overseas Offices	498,520	1,067,383	(568,863)
Investment Securities:			
U.S. Treasury Securities	203,486	274,814	(71,328)
Securities of Other U.S. Government Agencies and Corporations	551,460	622,711	(71,251)
Obligations of States and Political Subdivisions	805,823	594,149	211,674
Other Securities	176,326	178,119	(1,793)
Total Investment Securities	1,737,095	1,669,793	67,302
Trading Account Securities	86,597	222,655	(136,058)
Funds Sold	479,592	102,900	376,692
Loans and Direct Lease Financing:			
Commercial Loans	3,359,327	3,179,062	180,265
Real Estate Loans	2,237,841	1,966,527	271,314
Consumer Loans	1,171,231	960,309	210,922
Loans of Overseas Offices	1,059,613	908,352	151,261
Direct Lease Financing	237,700	125,118	112,582
Total Loans and Direct Lease Financing	8,065,712	7,139,368	926,344
Premises and Equipment	128,054	118,647	9,407
Customers' Acceptance Liability	153,048	53,876	99,172
Accrued Interest Receivable	149,629	124,744	24,885
Other Assets	138,287	103,825	34,462
Total Assets	$12,675,123	$11,767,725	$907,398

The accompanying notes are an integral part of these statements.

LIABILITIES AND STOCKHOLDERS' EQUITY (IN THOUSANDS)

	DECEMBER 31, 1974	DECEMBER 31, 1973	CHANGE
Demand Deposits	$ 2,724,560	$ 2,910,240	$(185,680)
Savings Deposits	2,005,727	1,782,181	223,546
Savings Certificates	1,311,889	1,020,201	291,688
Certificates of Deposit	1,894,209	775,159	1,119,050
Other Time Deposits	431,885	554,889	(123,004)
Deposits in Overseas Offices	1,372,020	1,974,224	(602,204)
Total Deposits	9,740,290	9,016,894	723,396
Funds Borrowed	1,395,613	1,540,802	(145,189)
Commercial Paper Outstanding	179,474	60,545	118,929
Acceptances Outstanding	153,787	53,876	99,911
Accrued Taxes and Other Expenses	147,365	106,488	40,877
Unearned Discount	106,628	90,928	15,700
Other Liabilities	130,882	120,504	10,378
Reserve for Loan Losses	116,322	113,248	3,074
Long-Term Debt:			
4½% Capital Notes of Wells Fargo Bank, N.A., due 1989	50,000	50,000	—
3¼% Convertible Capital Notes, due 1989	18,902	20,930	(2,028)
Debentures, Notes and Mortgages	210,138	200,736	9,402
Total Long-Term Debt	279,040	271,666	7,374
Stockholders' Equity:			
Common Stock—$5 par value, authorized 30,000,000 shares, outstanding 20,010,109 shares on December 31, 1974 and 19,651,229 on December 31, 1973	100,050	98,256	1,794
Capital Surplus	186,504	184,483	2,021
Retained Earnings	139,168	110,035	29,133
Total Stockholders' Equity	425,722	392,774	32,948
Total Liabilities and Stockholders' Equity	$12,675,123	$11,767,725	$ 907,398

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1974	YEAR ENDED DECEMBER 31, 1973	CHANGE
INCOME			
Interest and Fees on Loans and Leases	$ 790,964	$560,618	$230,346
Interest and Dividends on Investment Securities:			
U.S. Treasury Securities	15,726	20,594	(4,868)
Securities of Other U.S. Government Agencies and Corporations	41,783	28,216	13,567
Obligations of States and Political Subdivisions	34,051	21,851	12,200
Other Securities	9,456	9,563	(107)
Interest on Deposits Placed by Overseas Offices	67,072	61,516	5,556
Trading Account Income:			
Interest	7,258	6,617	641
Profits	721	1,063	(342)
Trust Income	16,066	14,984	1,082
Service Charges on Deposit Accounts	24,245	21,718	2,527
Other Income	22,820	26,876	(4,056)
Total Income	1,030,162	773,616	256,546
EXPENSE			
Salaries	119,777	106,324	13,453
Pension and Other Employee Benefits	26,764	22,642	4,122
Interest on Deposits	520,442	367,592	152,850
Interest on Borrowed Money	155,728	108,228	47,500
Interest on Long-Term Debt	17,784	12,602	5,182
Net Occupancy Expense	28,393	23,721	4,672
Equipment Expense	17,063	15,329	1,734
Provision for Losses on Loans	21,500	11,034	10,466
Other Expense	54,633	42,018	12,615
Total Expense	962,084	709,490	252,594
INCOME BEFORE INCOME TAXES AND SECURITY LOSSES	68,078	64,126	3,952
Less Applicable Income Taxes	18,004	20,007	(2,003)
INCOME BEFORE SECURITY LOSSES	$ 50,074	$ 44,119	$ 5,955
Security Losses Less Related Reduction of Income Taxes of $3,276 and $779	(2,705)	(660)	(2,045)
Net Income	$ 47,369	$ 43,459	$ 3,910
INCOME PER SHARE			
Income before Security Losses	$2.53	$2.25	$ .28
Security Losses, Net of Tax	(.14)	(.04)	(.10)
Net Income	$2.39	$2.21	$ .18
INCOME PER SHARE ASSUMING FULL DILUTION			
Income before Security Losses	$2.46	$2.18	$ .28
Security Losses, Net of Tax	(.13)	(.03)	(.10)
Net Income	$2.33	$2.15	$ .18

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE TWO YEARS ENDED DECEMBER 31, 1974 (IN THOUSANDS)

	COMMON STOCK	CAPITAL SURPLUS	RETAINED EARNINGS	TOTAL STOCK-HOLDERS' EQUITY
BALANCE DECEMBER 31, 1972	$ 97,790	$181,452	$100,464	$379,706
Net Income—1973			43,459	43,459
Conversion of Convertible Notes	274	1,344		1,618
Stock Issued in Exchange for Stock of Grayco Land Escrow Ltd.	192		62	254
Cash Dividends Declared			(17,870)	(17,870)
Provision for Losses on Loans, Exclusive of Portion Charged Against Income, Less Related Income Tax Effect $(9,720)			(15,880)	(15,880)
Proceeds from Issuance of Warrants Attached to Deutsche Mark Debentures		1,746		1,746
Other—Net of Tax		(59)	(200)	(259)
Net Increase (Decrease)	466	3,031	9,571	13,068
BALANCE DECEMBER 31, 1973	$ 98,256	$184,483	$110,035	$392,774
Net Income—1974			47,369	47,369
Conversion of Convertible Notes	343	1,684		2,027
Stock Issued in Exchange for Stock of Commercial National Bank	1,451	389	536	2,376
Cash Dividends Declared			(19,059)	(19,059)
Other—Net of Tax		(52)	287	235
Net Increase (Decrease)	1,794	2,021	29,133	32,948
BALANCE DECEMBER 31, 1974	$100,050	$186,504	$139,168	$425,722

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE TWO YEARS ENDED DECEMBER 31, 1974 (IN THOUSANDS)

	1974	1973
SOURCES OF FINANCIAL RESOURCES		
Net Income	$ 47,369	$ 43,459
Deposits	723,396	1,604,813
Long-Term Debt	7,374	84,102
Short-Term Borrowing	—	969,445
Other Liabilities and Reserves	75,406	85,571
Decreases in:		
Deposits Placed by Overseas Offices	568,863	—
Securities (including Trading)	68,756	—
Total	$1,491,164	$2,787,390
APPLICATION OF FINANCIAL RESOURCES		
Cash Dividends	$ 19,059	$ 17,870
Loans and Direct Lease Financing	926,344	1,585,464
Funds Sold	376,692	77,175
Cash and Due from Banks	74,055	129,319
Deposits Placed by Overseas Offices	—	534,732
Securities (including Trading)	—	342,297
Other Applications	68,754	100,533
Decreases in Short-Term Borrowing	26,260	—
Total	$1,491,164	$2,787,390

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.

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 1973 financial statements have been reclassified for comparative purposes to conform with the 1974 account presentations.

FOREIGN CURRENCY EXCHANGE ADJUSTMENTS

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 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. Debt 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 less-than-majority-owned and are primarily overseas investments, are carried at cost except for investments where the Company exercises significant influence over operating and financial policies. These investments are stated at equity in the underlying net assets of the investee. The excess of cost over fair value equity at the date of acquisition of these investments is included in "Other Assets" and is being amortized to other expense over the estimated benefit period, generally 40 years.

Gains or losses on the sale of trading account securities are considered part of normal operations and are recorded under the heading "Trading Account Income." Interest earned on trading account securities is shown separately in trading account income. Gains or losses on the sale of investment securities are recognized only upon realization and are shown separately in the statement of income.

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 range from 40-50 years for buildings, 5-15 years for equipment and 5 years for automobiles.

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 primarily 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 anticipated additions 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 dividends 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 a reduction of tax expense on a declining basis over the terms of the related lease.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNEARNED DISCOUNT

Unearned discount primarily includes the excess of aggregate receivables over amounts disbursed on installment loans. Unearned discount on installment loans is recognized as income 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 and the approximate direct costs of lease acquisitions are recognized as income 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

The Company and its subsidiaries provide for possible loan losses on the reserve method. The minimum 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. If, in the opinion of management, the minimum amount does not reflect an adequate provision based upon an evaluation of various factors affecting the collectibility of loans, additional amounts are provided. To the extent the charge to expense is less than the addition to the reserve for loan losses computed for federal income tax purposes, the additional charge is made to undivided profits, net of the related deferred income tax liability. Only that portion of the reserve provided by charges to expense is available to absorb loan losses.

INCOME PER SHARE

Income per share is computed by dividing income by the average number of shares and common stock equivalents outstanding during the year. 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. Common stock equivalents include outstanding stock options and warrants, which were anti-dilutive during substantially all of the years 1973 and 1974.

RETIREMENT PLAN

The Company's retirement plan is non-contributory and covers substantially all employees. Pension costs are actuarially computed and are funded as accrued.

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, 1974	1973
Market value	$1,628,150,751	$1,612,522,038
Accumulation of discount	1,943,317	1,711,061

Included in "Other Securities" are foreign investments accounted for on the equity method in the amount of $43,328,854 at December 31, 1974 and $38,146,847 at December 31, 1973 (net of the related Goodwill included in "Other Assets" of $14,223,000 and $12,063,000, respectively).

2. PLEDGED ASSETS

United States government securities, other securities and loans carried at $818,343,535 on December 31, 1974 and $937,286,333 on December 31, 1973 were pledged to secure U.S. government deposits, other public funds, trust deposits and for other purposes as required or permitted by law.

3. PREMISES AND EQUIPMENT

The following table presents comparative data for premises and equipment:

	DECEMBER 31, 1974	1973
	(IN THOUSANDS)	
Land	$ 25,699	$ 24,688
Buildings	83,246	79,934
Furniture and equipment	55,408	47,743
Leasehold improvements	25,120	20,180
	189,473	172,545
Less accumulated depreciation and amortization	61,419	53,898
	$128,054	$118,647

4. RESERVE FOR LOAN LOSSES

A summary of the changes in the reserve follows:

	1974	1973
	(IN THOUSANDS)	
Balance at beginning of year	$113,248	$ 87,562
Additions:		
Charged to:		
Expense	21,500	11,034
Undivided profits	—	15,880
Deferred taxes	—	9,720
Reserve for loans acquired from Beverly Hills National Bank and Commercial National Bank	2,640	—
Total additions	24,140	36,634
Deductions:		
Loans charged off	26,853	15,229
Less recoveries on loans charged off	5,787	4,281
Total deductions	21,066	10,948
Balance at end of year	$116,322	$113,248

The 1974 provision for loan losses charged to expense includes $6,262,000 more than the minimum amount computed under the five-year moving average formula.

An analysis of the loan loss reserve shows:

	DECEMBER 31, 1974	1973
	(IN THOUSANDS)	
Available to absorb loan losses	$ 51,687	$ 48,613
Deferred tax portion	28,054	28,054
Contingency portion	36,581	36,581
	$116,322	$113,248

5. CAPITAL AND CONVERTIBLE CAPITAL NOTES

The 4½% Capital Notes of the Bank may be currently redeemed at the option of the Bank at a 2.250 per cent premium and at decreasing premiums through 1983 and thereafter at par.

The 3¼% Convertible Capital Notes, originally issued by the Bank, may be currently redeemed at the option of the Company at a 1.6250 per cent premium and at decreasing amounts in the future. 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. DEBENTURES, NOTES AND MORTGAGES

The debentures, notes and mortgages of the Company and its subsidiaries consist of the following obligations:

	DECEMBER 31, 1974	1973
	(IN THOUSANDS)	
7⅜% Sinking Fund Debentures due 1997	$ 75,000	$ 75,000
8⅛% Notes due 1998	50,000	50,000
4¼%-4½% Collateral Trust and Mortgage Bonds due to 1993 of ATC Building Company and other mortgages on premises	18,463	17,616
7¼% Swiss Franc Notes (80,000,000 par) due 1976 of Wells Fargo International Investment Corporation	31,200	24,615
6½% Euro-Deutsche Mark Debentures (50,000,000 par) due 1988 of Wells Fargo International Investment Corporation	20,475	18,505
8% Senior Notes due 1988 of Wells Fargo Leasing Corporation	15,000	15,000
	$210,138	$200,736

Principal payments on the above indebtedness are due in the next five years as follows:

1975	1976	1977	1978	1979
$1,000,000	$32,200,000	$1,000,000	$1,000,000	$4,547,500

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 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 $38,935,190 of Bank premises, at cost. The bonds can presently be redeemed at a 2.020 per cent premium for the 4¼% Bonds and a 2.795 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 currently at a 2 per cent premium and at a 1 per cent premium after September 15, 1975.

The Deutsche Mark Debentures will be redeemed in 10 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 a 7.2 per cent premium and at lesser premiums until June 1, 1983, when the notes may be redeemed at par.

The borrowing agreements for the notes, debentures and mortgages include provisions which restrict the disposition of assets, the creation of property liens, the sale or issuance of the capital stock of the Company or its subsidiaries, the amount of funded debt and the payment of cash dividends.

7. COMMERCIAL PAPER OUTSTANDING

Commercial paper represents obligations of the Company with original maturities not to exceed 270 days. Outstanding amounts and rates are as follows:

	YEAR ENDED DECEMBER 31, 1974	1973
	(IN THOUSANDS)	
Average amount outstanding	$115,403	$51,977
Average rate	10.65%	8.33%
Highest month-end balance	$179,474	$99,126
Rate on outstandings at year end	9.86%	9.70%

In connection with these obligations, the Company had available lines of credit with unaffiliated banks totaling $139,500,000 at year-end 1974 and $73,500,000 at year-end 1973. During 1973 and 1974, none of the lines of credit were used.

8. 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 were detachable after June 1, 1974 and expire on October 1, 1988.

At December 31, 1974, 640,745 shares of unissued common stock were reserved for issuance upon conversion of the 3¼ % Convertible Notes.

Under the Company's stock option plan, various key employees were granted non-qualified options for up to 10 years to purchase the Company's common stock at an option price equal to the fair market value of the stock at the date of grant. The terms of the options provide that the optionee may exercise the option in part and at that time elect to forfeit up to 50 per cent of the shares under his option, and in lieu thereof receive cash or stock of the Company in an amount equal to the appreciation in the fair value of the shares at that date over the exercise price. None of the options were exercised in 1974 and 1973. The following table summarizes the status of the option plan:

	NUMBER OF SHARES	PRICE RANGE PER SHARE	AGGREGATE VALUE
Shares under option at:			
December 31, 1973	100,000	$21.88	$2,187,500
December 31, 1974	305,000	$20.25-$21.88	$6,337,125
Options granted:			
1973	100,000	$21.88	$2,187,500
1974	209,000	$20.25	$4,232,250

None of the above options were exercisable at December 31, 1974 and 1973. A maximum of 35,000 shares are available for future options.

9. EMPLOYEE BENEFITS

The cost of the Pension Plan totaled $2,796,700 in 1974 and $2,230,735 in 1973. Improvements were made in the Pension Plan effective in 1974 resulting in a contribution increase of approximately $200,000 for 1974. The value of the pension fund as computed for actuarial purposes at December 31, 1973, the date of the last actuarial valuation, exceeded the actuarial value of vested benefits. The market value of the pension fund assets declined during 1974. However, it is estimated that the actuarial value of the fund assets exceeds the vested benefits at December 31, 1974.

The Employee Retirement Income Security Act of 1974 became effective on September 2, 1974. Its effect on the Pension Plan is currently being studied by counsel for the Company and its actuaries. It is anticipated that the future costs of the Pension Plan will not be significantly affected.

Substantially all employees participate in profit sharing plans. Contributions to the plans are based on an earnings formula and totaled $8,435,419 in 1974 and $7,696,096 in 1973.

10. FOREIGN EXCHANGE ADJUSTMENTS

Net exchange adjustments arising in the Bank's international investment subsidiary during 1974 and 1973 amounting to charges of $2,439,000 and $3,746,000, respectively, have been deferred. A portion of these adjustments were amortized during 1974 and 1973 and charged against income in the amount of $1,273,000 and $1,321,000, respectively. Deferred foreign exchange adjustments included in "Other Assets" at December 31, 1974 and 1973 amounted to $3,591,000 and $2,425,000, respectively. Net gains arising from foreign currency trading operations and other foreign currency adjustments arising during the year and recognized currently in 1974 and 1973 were $366,000 and $1,268,000, respectively.

11. INCOME TAXES

Current and deferred tax provisions (credits) included in the consolidated statements of income are as follows:

	U.S.FEDERAL	FOREIGN	STATE & LOCAL	TOTAL
		(IN THOUSANDS)		
1974				
Current	$ 1,326	$5,168	$6,574	$13,068
Deferred	3,393	67	1,476	4,936
	$ 4,719	$5,235	$8,050	$18,004
1973				
Current	$ (9,042)	$3,134	$2,905	$ (3,003)
Deferred	17,101	2,636	3,273	23,010
	$ 8,059	$5,770	$6,178	$20,007

At December 31, 1974, the Company had income taxes payable of $68,303,000 of which $4,906,000 is currently payable. At December 31, 1973, the Company had income taxes payable of $45,191,000, including $14,198,000 current income taxes receivable.

The components of the deferred income tax expense in 1974 and 1973 and the tax effect of each are as follows:

	1974	1973
	(IN THOUSANDS)	
Revenue and expense recognized on the accrual method for financial statements but on the cash basis for tax returns	$ (7,520)	$12,203
Conversion of leases from finance to operating method	11,174	12,100
Additional loan loss deduction for income tax purposes	—	5,981
Tax effect of security losses	3,653	868
Net increase (decrease) in bond discount accretion	(1,305)	451
Other items	(1,066)	(8,593)
	$ 4,936	$23,010

The variances in the amounts for 1973 from the previously reported estimates result from adjustments when the 1973 tax returns were filed.

The effective tax rates for 1974 and 1973 are 26.5 per cent and 31.2 per cent, respectively, as follows:

	PER CENT OF PRE-TAX INCOME BEFORE SECURITY TRANSACTIONS 1974	1973
Tax expense at full corporate federal income tax rate	48.0%	48.0%
Increases (reductions) in taxes resulting from:		
State and municipal bond income	(26.3)	(17.8)
State and local taxes on income, net of federal income tax benefit	6.0	5.1
Investment tax credit	(2.4)	(2.4)
Other items	1.2	(1.7)
	26.5%	31.2%

The tax benefit of 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.

For financial statement purposes, the Company and its subsidiaries had deferred investment tax credit on property purchased for lease to customers of $5,382,000 at December 31, 1974 and $3,215,000 at December 31, 1973. For federal income tax purposes, the Company had investment tax credit carry-overs of $8,455,000 and $6,266,000 at December 31, 1974 and 1973, respectively, expiring 1978 through 1981.

12. 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. Commitments under stand-by letters of credit outstanding at December 31, 1974 aggregated $145,305,418.

13. LEASE COMMITMENTS

Operating expenses include net rentals for land, buildings and equipment of approximately $22,300,000 for 1974 and $17,400,000 for 1973. The amount of sublease income included in the above amounts is not material.

For disclosure purposes, the Company has classified lease arrangements as either "finance" or "operating" leases. A summary of non-cancellable long-term lease commitments, primarily for the use of real property, follows:

	FINANCE LEASES		OPERATING LEASES		
	GROSS RENTS	SUBLEASES	GROSS RENTS	SUBLEASES	TOTAL
	(IN THOUSANDS)				
1975	$ 10,441	$ (325)	$ 3,809	$(314)	$ 13,611
1976	10,793	(328)	3,425	(186)	13,704
1977	10,770	(156)	3,124	(89)	13,649
1978	11,009	(101)	2,896	(60)	13,744
1979	11,452	(73)	2,484	(60)	13,803
1980 to 1984	51,205	(85)	7,840	—	58,960
1985 to 1989	47,946	(33)	3,729	—	51,642
1990 to 1994	37,309	(29)	2,535	—	39,815
1995 and succeeding	30,190	(17)	2,143	—	32,316
	$221,115	$(1,147)	$31,985	$(709)	$251,244

	INTEREST RATE USED IN PRESENT VALUE COMPUTATION		PRESENT VALUE OF FINANCE LEASES DECEMBER 31,	
	RANGE	WEIGHTED AVERAGE	1974	1973
Finance leases— net of taxes, insurance and other expenses	6.0%-10.0%	8.12%	$63,807	$59,681
Finance leases— including payments for taxes, insurance and other expenses	5.0 - 9.0	7.62	30,577	22,970

The present values for the related subleases are insignificant.

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 1974 and 1973 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, 1974 and 1973, and the related consolidated statements of income, stockholders' equity 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, 1974 and 1973, and the results of their operations 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 17, 1975

FINANCIAL SUMMARY

AVERAGE YIELDS AND RATES (TAXABLE-EQUIVALENT BASIS)

	1974	1973	1972	1971	1970	1969
SPREADS:						
Gross Yield on Earning Assets	9.98%	8.21%	6.88%	7.18%	7.98%	7.41%
Pooled Cost of Invested Funds	6.87	5.45	3.60	3.76	4.17	3.70
Net Spread	3.11%	2.76%	3.28%	3.42%	3.81%	3.71%
SELECTED USES:						
Loans:						
Commercial	11.18%	8.59%	6.40%	6.76%	8.41%	7.78%
Real Estate	7.79	7.12	6.79	6.67	6.69	6.39
Consumer	11.32	10.04	9.68	10.43	10.51	9.86
Overseas Offices	11.91	9.65	7.13	7.97	9.68	10.99
Total Loans	10.30%	8.50%	6.99%	7.22%	8.07%	7.53%
Securities:						
Taxable Securities	6.94%	6.34%	5.58%	5.84%	6.08%	5.65%
State and Municipal	9.09	7.46	7.20	7.27	7.64	8.21
Total Securities	7.89%	6.78%	6.44%	6.59%	6.95%	6.97%
Leasing	11.63%	10.31%	9.26%	6.83%	7.25%	6.31%
SELECTED SOURCES:						
Savings Deposits	4.97%	4.63%	4.01%	4.30%	4.42%	3.96%
Savings Certificates	7.01	5.76	5.34	5.34	5.34	5.10
Negotiable Certificates of Deposit	10.49	8.41	5.20	5.36	7.33	6.59
Other Time Deposits	9.11	6.77	4.73	4.89	6.57	5.81
Deposits in Overseas Offices	9.64	7.24	5.31	6.77	8.01	10.86
Short-Term Funds Borrowed	10.01	8.68	4.38	4.67	7.92	7.99
Commercial Paper	10.65	8.33	4.33	6.29	8.59	8.45
Long-Term Debt	6.49	6.21	4.68	4.33	4.15	4.01
OPERATIONS DATA:						
Company Staff at Year End (Full-Time Equivalent)	12,186	11,514	10,887	10,441	10,262	9,755
Number of Offices of Bank at Year End	316	303	299	287	275	258

MATURITY SCHEDULES:	1974		1973		1972	
	BOOK VALUE (IN MILLIONS)	PER CENT	BOOK VALUE (IN MILLIONS)	PER CENT	BOOK VALUE (IN MILLIONS)	PER CENT
U.S. Treasury:						
In One Year	$ 96	47.29%	$ 73	26.55%	$120	33.52%
In Two through Five	101	49.75	196	71.27	238	66.48
In Six through Ten	6	2.96	6	2.18	—	—
After Ten	—	—	—	—	—	—
Federal Agency:						
In One Year	217	39.38	79	12.68	101	30.24
In Two through Five	323	58.63	500	80.26	233	69.76
In Six through Ten	10	1.81	44	7.06	—	—
After Ten	1	.18	—	—	—	—
State and Municipal:						
In One Year	348	43.18	125	21.04	180	26.67
In Two through Five	115	14.27	105	17.68	115	17.03
In Six through Ten	101	12.53	85	14.31	83	12.30
After Ten	242	30.02	279	46.97	297	44.00

FINANCIAL SUMMARY

AVERAGE BALANCES[1] (IN MILLIONS)

	1974	1973	1972	1971	1970	1969
SELECTED USES:						
Investment Securities:						
Taxable Securities	$ 965	$ 920	$ 635	$ 576	$ 441	$ 539
State and Municipal	760	594	715	639	554	573
Total Investment Securities (Excluding Equity Investments)	1,725	1,514	1,350	1,215	995	1,112
Trading Account Securities	109	112	43	84	40	25
Loans:						
Commercial	3,220	2,962	2,319	2,014	1,786	1,661
Real Estate	2,100	1,738	1,393	1,233	1,280	1,264
Consumer	1,075	854	628	459	433	432
Overseas Offices	941	807	421	287	128	29
Total Loans	7,336	6,361	4,761	3,993	3,627	3,386
Leasing	168	109	58	41	34	31
SELECTED SOURCES:						
Deposits:						
Demand Deposits	2,503	2,342	2,136	1,976	1,824	1,731
Savings Deposits	1,897	1,739	1,736	1,612	1,448	1,532
Savings Certificates	1,198	977	902	775	631	537
Certificates of Deposit	1,272	733	315	254	193	250
Other Time Deposits	525	593	555	460	343	391
Deposits in Overseas Offices	1,670	1,781	1,062	678	287	101
Total Deposits	9,065	8,165	6,706	5,755	4,726	4,542
Funds Borrowed	1,433	1,197	545	406	343	338
Commercial Paper	115	52	4	3	160	65
Long-Term Debt	274	203	126	95	96	96
Stockholders' Equity	410	396	348	336	319	304
RATIOS:						
Income before Security Gains or Losses to Average Stockholders' Equity	12.21%	11.14%	11.23%	10.22%	10.21%	10.54%
Stockholders' Equity per Share at Year End	$21.28	$19.99	$19.41	$18.34	$17.72	$16.84
MARKET PRICES:[2]						
High for the Year	$27	$29½	$29½	$24⅜	$21¾	$30½
Low for the Year	9⅝	19¾	19¼	18½	14½	21¾
Year End	13	22¾	28⅜	20⅜	21	24¼

(1) Basis of computation: the average balances shown in this schedule are derived from daily balances of Wells Fargo Bank, N.A. and its subsidiaries and the month-end balances of the Holding Company and the non-bank consolidated subsidiaries.

(2) Market prices reflect two-for-one split in 1972.

directors

Ernest C. Arbuckle
Chairman of the Board

Kenneth K. Bechtel
Chairman, Executive Committee, Industrial Indemnity Company (insurance)

William R. Breuner
President, John Breuner Company (retailer of home furnishings)

Robert L. Bridges
Partner, Thelen, Marrin, Johnson & Bridges (attorneys)

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

Richard P. Cooley
President and Chief Executive Officer

Helen K. Copley
Chairman, The Copley Press, Inc. (newspaper publishing)

James K. Dobey
Vice Chairman of the Board

James Flood
Trustee, Flood Estate (a family trust under the will of James L. Flood)

W. P. Fuller III
Vice President, Western Region for PPG Industries (glass, paints and chemicals)

Richard E. Guggenhime
Partner, Heller, Ehrman, White & McAuliffe (attorneys)

James M. Hait
Senior Consultant and Director, FMC Corporation (food machinery and chemicals)

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

George S. Ishiyama
President, Ishiyama Corporation (raw materials exporting)

Mary E. Lanigar
Partner, Arthur Young & Co. (certified public accountants)

Roger D. Lapham, Jr.
Chairman and Managing Director, Rama Corporation, Ltd. (insurance brokerage holding company)

Edmund W. Littlefield
Chairman and Chief Executive Officer, Utah International Inc. (mining and ocean shipping)

Malcolm MacNaughton
Chairman and Chief Executive Officer, Castle & Cooke, Inc. (food processing, land development, merchandising and shipping services)

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Chairman, Bromar, Inc. (manufacturers' agents, importers and brokers of food products)

Arjay Miller
Dean, Graduate School of Business, Stanford University

Paul A. Miller
Chairman and Chief Executive Officer, Pacific Lighting Corporation (natural gas—holding company)

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

Atherton Phleger
Partner, Brobeck, Phleger & Harrison (attorneys)

*Directors Emeritus, Wells Fargo Bank

management

WELLS FARGO & COMPANY

420 Montgomery Street
San Francisco, California 94104

*CHAIRMAN OF THE BOARD
Ernest C. Arbuckle

*PRESIDENT AND CHIEF EXECUTIVE OFFICER
Richard P. Cooley

*VICE CHAIRMAN OF THE BOARD
James K. Dobey

*VICE CHAIRMAN
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SENIOR VICE PRESIDENT AND TREASURER
Donald E. Seese

VICE PRESIDENT AND SECRETARY
Philip G. Bowser

GENERAL AUDITOR
Orion A. Hill, Jr.

*Member of the Executive Office

WELLS FARGO BANK

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*CHAIRMAN OF THE BOARD
Ernest C. Arbuckle

*PRESIDENT AND CHIEF EXECUTIVE OFFICER
Richard P. Cooley

*VICE CHAIRMAN OF THE BOARD
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Orion A. Hill, Jr.

*Member of the Executive Office

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Data Processing Division
Watson M. McKee, Jr.
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Real Property Management Department
Gerard E. Downey
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W. James Robertson
Senior Vice President

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Special Industries Group
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Senior Vice President

Gerrit E. Venema
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Vice President and Manager

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The Rt. Hon. Lord Sherfield, GCB, GCMG
Chairman

Henry Parish III
Managing Director

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Glen H. Smith
Assistant Vice President and General Manager

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R. Wickham Baxter
Vice President

Nassau Branch
Nassau, Bahamas

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Australia: Sydney
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Jacques de la Chauviniere
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Nicaragua: Managua
Peter R. Fowler
Assistant Vice President and Representative

Singapore
Burke A. Ferrari
Assistant Vice President and Representative

Venezuela: Caracas
Walter A. Bustard
Vice President and Representative

AFFILIATES:

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Frankfurt, Germany

Banco Continental de Panama
Panama City, Panama

Banco de America
Managua, Nicaragua

Broadbank Corporation Limited
Auckland, New Zealand

Corporacion Interamericana S. A.
Interamericana de Arrendamientos S. A.
Mexico City, Mexico

Crédit Chimique
Paris, France

Dubai Bank Limited
Dubai

Financiera Nacional S. A.
Caracas, Venezuela

Martin Corporation Group Limited
Sydney, Australia

Shanghai Commercial Bank Limited
WMS Capital Corporation Limited
Hong Kong

Western American Bank (Europe) Limited
London, England

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Glenhall E. Taylor, Jr.
Senior Vice President

Monthly Payment Loan Administration
John K. Snyder
Vice President

Real Estate Loan Administration
Fielding McDearmon
Senior Vice President

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Kenneth L. Jones
Vice President and Chief Loan Examiner

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Senior Vice President

PERSONNEL DIVISION

Daniel S. Livingston
Senior Vice President

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Senior Vice President

PUBLIC RELATIONS
George F. Caulfield
Vice President

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Richard J. Borda
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Peninsula Division, San Jose
Eugene E. Cochrane
Senior Vice President

Southern California Division, Los Angeles
John H. Griffith
Senior Vice President

Valley Division, Sacramento
Leslie C. Smith
Senior Vice President

West Bay Division, San Francisco
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Senior Vice President

Credit Card Department
James R. Gibson
Vice President and Manager

Escrow Department
John M. Pitman
Vice President

Labor Union and Management Services Department
L. Robert Koenig
Vice President

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George A. Hopiak
Senior Vice President and
Senior Trust Officer

URBAN AFFAIRS
Robert J. Gicker
Vice President

WELLS FARGO INVESTMENT ADVISORS DIVISION
James R. Vertin
Senior Vice President

WELLS FARGO & COMPANY NON-BANK SUBSIDIARIES

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San Francisco, California 94104

R. Thomas Decker
President

WELLS FARGO MORTGAGE COMPANY
600 Montgomery Street
San Francisco, California 94111

Henry F. Trione
Chairman of the Board

Robert L. Altick, Jr.
President

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Marina Del Rey, California 90291

Paul Hazen
President

WELLS FARGO REALTY SERVICES, INC.
572 East Green Street
Pasadena, California 91101

Thomas A. Gray
President

WELLS FARGO SECURITIES CLEARANCE CORPORATION
27 William Street
New York, New York 10005

Joseph C. Werba
President

WELLSCO DATA CORP.
525 Market Street
San Francisco, California 94105

STOCK EXCHANGE LISTINGS
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Pacific Stock Exchange
London Stock Exchange
Frankfurter Boerse

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Morgan Guaranty Trust Company
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New York, New York 10015

REGISTRARS OF STOCK
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55 Hawthorne Street
San Francisco, California 94105

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

NOTICE TO SHAREHOLDERS

The annual meeting of Wells Fargo & Company will be held at 2 p.m. on March 18, 1975 at 420 Montgomery Street, San Francisco, California.

Readers wishing more detailed information about Wells Fargo & Company may obtain copies of the Company's Form 10-K upon request from:

Corporate Secretary
Wells Fargo & Company
P.O. Box 44000
San Francisco
CA 94144