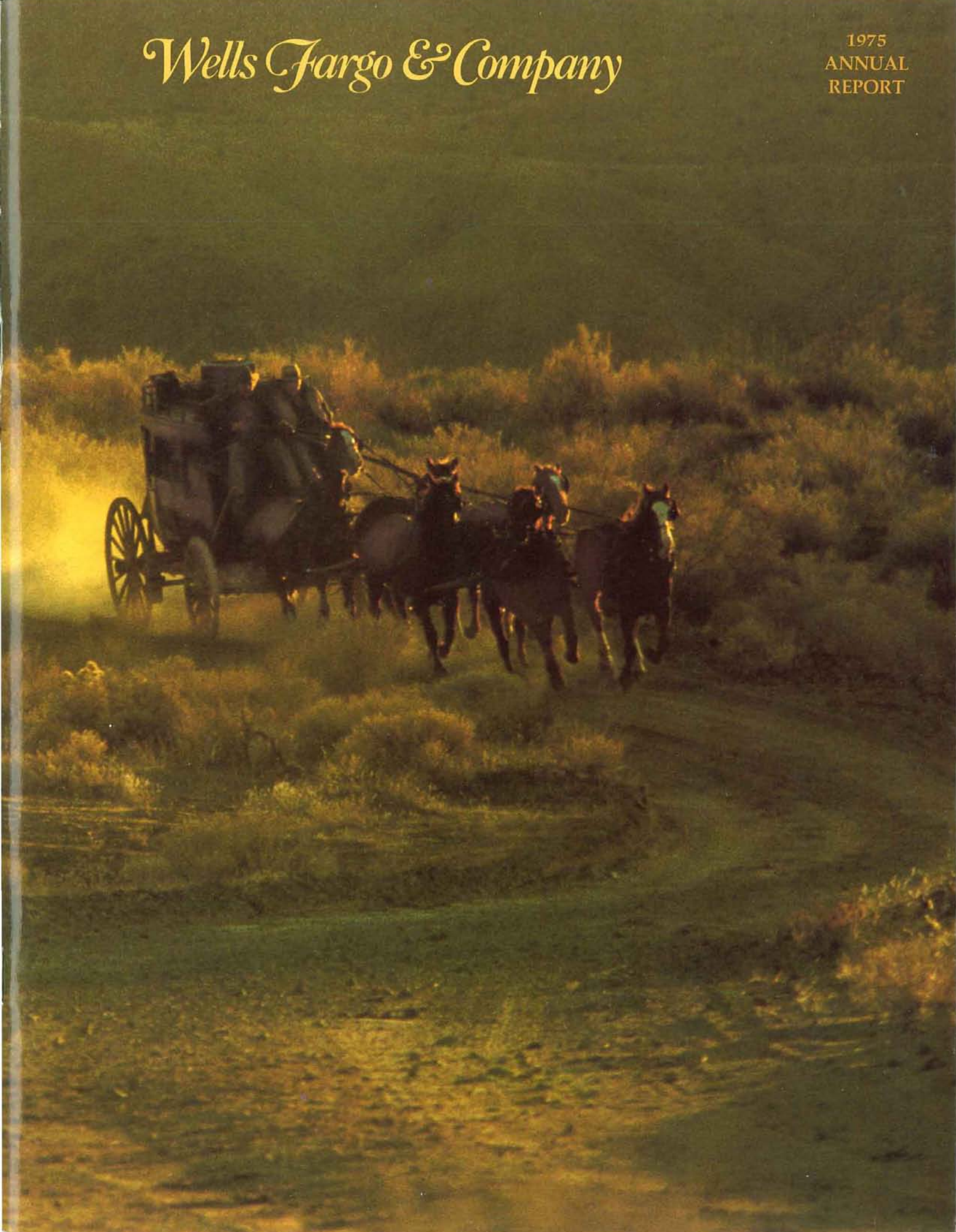
Wells Fargo & Company

1975
ANNUAL
REPORT



contents

highlights

WELLS FARGO & COMPANY AND SUBSIDIARIES

FOR THE YEAR (IN THOUSANDS)	1975	1974	CHANGE AMOUNT	CHANGE PER CENT
Income before Security Gains or Losses	$ 56,145	$ 50,074	$ 6,071	12.1
Security Gains (Losses) Net of Tax	646	(2,705)	3,351	—
Net Income	$ 56,791	$ 47,369	$ 9,422	19.9
Dividends Declared	$ 19,219	$ 19,059	$ 160	0.8
PER SHARE (1)				
Income before Security Gains or Losses	$2.80	$2.53	$0.27	10.7
Net Income	$2.83	$2.39	$0.44	18.4
Dividends Paid	$0.96	$0.96	—	—
AT THE YEAR END (IN THOUSANDS)				
Assets	$12,362,231	$12,511,210	$ (148,979)	(1.2)
Deposits	9,824,311	9,740,290	84,021	0.9
Loans	7,620,311	7,822,371	(202,060)	(2.6)
Investments	1,694,975	1,687,372	7,603	0.5
Book Value Per Share	$24.97	$23.10	$1.87	8.1

(1) Based on average number of shares outstanding of 20,017,813 for 1975 and 19,804,343 for 1974.

Members of management with responsibility for the diverse operations of Wells Fargo & Company and Wells Fargo Bank are (left to right) A. William Barkan, executive vice president, Southern California Executive Office, and the four members of the corporate Executive Office: Vice Chairman Ralph J. Crawford, Jr.; Vice Chairman James K. Dobey; Chairman Ernest C. Arbuckle; and President and Chief Executive Officer Richard P. Cooley.

letter to shareholders

Wells Fargo & Company achieved an increase in earnings in 1975 despite the persistent worldwide recession which affected many of our customers and which challenged the professional skills of the banking industry.

Net income before security transactions rose 10.7 per cent to $56,145,000, equal to $2.80 per share. This compares with earnings of $50,074,000, or $2.53 a share in 1974.

Income after security transactions was $56,791,000, or $2.83 a share, as compared with $47,369,000, or $2.39 a share in 1974. This was an increase of 18.4 per cent.

One result of the downturn in the economy was a reduced demand for commercial loans. Customers were hesitant to finance new facilities and expand operations until an economic upswing was more clearly evident. Average loan volume during the year was $7,337,000,000, only slightly higher than the 1974 figure of $7,179,000,000. This level was below our expectations, but was consistent with the experience of other banks during the year. Because we were able to maintain favorable levels of spreads between yields and rates paid for funds throughout 1975, the reduced commercial loan volume did not severely affect profits.

A problem considerably more troublesome to the banking industry in 1975 was the increased rate of loan losses. However, during a recession when corporations experience declines in their sales and earnings, a deterioration in the quality of their assets is to be expected. In 1975, Wells Fargo charged off $41 million in net loan losses to our loan loss reserve, nearly double the $21 million in loan losses charged to the reserve in 1974. Nevertheless, by adding $50.4 million to our reserve during the year, more than double the amount set aside in 1974, we increased our reserve by $9.5 million over the year-end 1974. At the date of this letter, we expect that 1976 loan losses will be below the 1975 level. However, we plan to continue to increase our loan loss reserves during the year.

In recent months, there has been considerable publicity about banks that have a higher ratio than usual of "classified" loans to capital. Classified loans are those which bank regulators believe are above average in risk. Virtually all large banks, including Wells Fargo, now have a higher proportion of classified loans than is normal. However, the regulatory authorities agree that the share of classified loans is expected to increase in a time of recession, and Wells Fargo's ratio of classified loans to capital funds is currently at about the average level for large money center banks, according to testimony recently given to Congress by the Comptroller of the Currency. The current higher-than-normal ratio exists because banks are continuing to work with their customers in resolving recession-related problems. Some are repaying their loans at a slower pace than was originally agreed, and others are repaying at a lower rate of interest. However, our experience at Wells Fargo has been that actual losses arising from classified loans equal only about 7.5 per cent. Of this, a sizable share is eventually recovered, so that the net loss is rarely more than 4.5 per cent of all classified loans. Based on historical experience, we believe our total loan loss reserve of $61.7 million is adequate for any losses that may arise from loans currently classified.

The well publicized difficulties of the real estate industry presented a large problem to many banks during the year and accounted for a disproportionate amount of loan losses. Wells Fargo experienced loan losses of over $6 million from real estate investment trusts in this period. Fortunately, Wells Fargo Mortgage Investors, the real estate investment trust advised by a subsidiary of Wells Fargo & Company, is in sound condition and has returned to a profitable position well ahead of the industry generally. (Additional detail on Wells Fargo loans to real estate investment trusts is presented in the "Management's Analysis" section of this report.)

Another subject of concern for the banking industry in 1975 was the value of New York City bonds and the continuing financial crisis faced by that city. Since it has a minimal investment in New York City bonds, Wells Fargo expects no severe consequences to its operations regardless of how the city's financial problems are resolved. However, we recognize the effect a default on New York City bonds would have on the entire bond market, and share the banking industry's desire to see the situation move promptly toward satisfactory solution. As a California bank, Wells Fargo does have a strong position in bonds issued by our own state's municipalities.

Earnings were generally strong in Wells Fargo's international operations in 1975, although a serious loan loss problem was incurred by Allgemeine Deutsche Credit-Anstalt (ADCA), a German bank in which Wells Fargo has held a 25 per cent interest. This resulted in a $3.4 million charge against Wells Fargo's after-tax income. We plan to reserve against possible additional losses in 1976, but expect this operation to return to profitability in 1977. Additional capital was invested in ADCA at year end by our German partners and our interest in this investment was reduced to 17 per cent.

A highlight of the year was the strong performance of our non-bank subsidiaries, which generated 11 per cent of total profits. Particularly encouraging were sizable increases in the earnings of the leasing and mortgage companies, which produced results significantly higher than those projected in our profit goals for the year.

We believe our overall direction and achievements in 1975 place Wells Fargo in a strong position for the coming year. The operating strategy outlined in last year's Letter to Shareholders, which called for a reduction in the rate of loan volume growth accompanied by emphasis on loan quality,

was especially important in view of economic developments in 1975. Both return on assets and return on equity improved significantly during the year and our capital position was improved by an increased addition to retained earnings.

The economic recovery expected this year should produce a better environment for the banking industry and reduce the credit problems that have beset banks over the past year. Wells Fargo expects to benefit significantly from this improved economic picture and we contemplate moderate but healthy growth in 1976. We intend to vigorously pursue new business of high quality while serving the needs of present customers to the best of our capabilities.

The heightened challenge to bankers in the period ahead comes not only from pressures created by a cyclical economy but also from the changing technological, social and political forces affecting our business. Nowhere are the winds of change stronger than in the quickening transition to electronic funds transfer systems which promise to provide customers with faster, more accurate, more convenient service. Placing Wells Fargo in the forefront of this electronic revolution is our new WellService program, a check and credit card verification system for retail merchants that was introduced in 1975. WellService will be aggressively merchandised in the coming year.

At both the state and national level, continuing legislative activity portends additional changes in the financial industry. There are proposals in both the U.S. Senate and the House of Representatives for basic changes in our ways of doing business, such as the payment of interest on all customer funds on deposit with the Bank. Other proposed legislative changes are aimed at altering many of the federal regulations that create distinctions between banks and other financial institutions, but they do not always give banks competitive parity with other financial intermediaries. Wells Fargo feels it would be in the best interest of shareholders for banks to compete on equal terms with other financial institutions and generally supports any proposals leading to this end as being of long-range benefit to the consumers and the banks which serve them.

In addition to legislative and regulatory moves that are having an impact on our way of doing business, the banking industry could also be strongly affected by accounting changes now being proposed by the Financial Accounting Standards Board (FASB) and the Securities and Exchange Commission. These changes would require that industrial concerns, as well as financial institutions, report their operating results on an inflation-adjusted basis. For banks and other intermediaries, this could require frequent revaluation of assets and liabilities as current values change under the impact of both inflation and normal market forces. Because banks are net lenders of funds, the secular effect of the inflation adjustments could be to erode reported earnings during periods of rising prices. We feel that all the ramifications of inflation accounting on the financial industry and on capital markets have not been adequately explored, and we are concerned about the potential impact of hastily enacted accounting changes.

To help meet the variety of challenges ahead, several important organizational changes have been made in the Bank. Robert L. Altick, Jr., Thomas A. Bigelow, Ronald E. Eadie and Richard M. Rosenberg were elected executive vice presidents. Mr. Bigelow heads the Administration Group which includes the Data Processing Division and Real Property Management Department; Mr. Eadie directs our International Division; and Mr. Rosenberg oversees a new Corporate Services Group. Our wholesale real estate lending activities have been consolidated under a Real Estate Industries Group headed by Mr. Altick. The Retail Banking Group was reorganized into four geographic divisions, each with a division manager overseeing from four to six regions of approximately 20 branch offices each, and a Consumer Loan Division responsible for monthly payment loan and credit card operations. We believe these changes, and others which will occur periodically as we review and reshape our organizational structure, position us to take greater advantage of all opportunities available to us.

The success we achieved in 1975 is due to the performance of our entire staff, who accepted the challenge presented by a recession year and whose efforts enabled us to achieve the favorable year-end results. It is fitting particularly to express our gratitude to Executive Vice President John F. Holman, who retired on February 1, 1976, after 48 years with our organization. As senior credit officer at Wells Fargo, Mr. Holman achieved an outstanding reputation in the banking industry; his contributions during the recent period of economic stress were invaluable to the Bank's successful performance.

As in past years, our Board of Directors provided the experience and counsel needed by management during the difficult period. Last spring we welcomed to our Board Robert T. Nahas, a prominent Northern California builder and real estate developer, whose background has given us additional expertise in an important area of our business.

With the support of our employees, our directors and our shareholders we look forward to a successful 1976.

Ernest C. Arbuckle, Chairman of the Board

Richard P. Cooley, President and Chief Executive Officer

March 2, 1976

Reporting to Wells Fargo's Executive Office are executive vice presidents with responsibilities for key groups and divisions. In the photo at left are (left to right) Executive Vice Presidents Thomas A. Bigelow, Administration Division; John R. Breeden, Corporate Banking Group; Robert L. Kemper, Finance and Asset Management Group; and Carl E. Reichardt, Credit Policy.

In the photo at right are (left to right) Executive Vice Presidents Robert L. Altick, Jr., Real Estate Industries Group; Richard D. Jackson, Retail Banking Group; Ronald E. Eadie, International Division; and Richard M. Rosenberg, Corporate Services Group.

summary of operations

consumer banking

Consumer banking was an area of strong achievement at Wells Fargo in 1975.

Four major new services were introduced, large increases in savings and time deposits were registered, the Bank welcomed its one millionth savings account, and the Retail Banking Group was reorganized to improve coordination with both branch offices and their customers.

New services introduced during the year were the Wells Fargo Reward and a test program for Variable Interest Rate (VIR) mortgages, both designed for individual customers, and WellService and Cash Mover for merchants and corporate customers.

The Wells Fargo Reward was introduced at midyear to complement the Bank's popular Gold Account package of services. Under the Reward program, a customer with $2,000 or more in savings at Wells Fargo became eligible for a checking account without monthly service charges or a minimum checking account balance, and for a free safe deposit box as available.

The Reward account was introduced as other California banks increased their savings passbook rate to 5 per cent, following the lead Wells Fargo had taken in 1973. Partly as a result of the Reward program, the Bank retained virtually all of the increased market share of savings that had been gained during the two-year period when other banks were at the lower savings rate. By year end, total passbook savings deposits amounted to $2.57 billion, a gain of $566 million over the 1974 total, and more than 91,000 Reward accounts had been acquired.

Wells Fargo became the first major bank in California to test a variable rate mortgage when it launched its Variable Interest Rate (VIR) program in Southern California in December. In recent years the Bank has experienced rising costs of funds and narrowing margins on loans during tight money periods. To offset this problem, the Bank entered the program in an effort to relate mortgage interest rates more closely to the cost of funds. VIRs are keyed to the Cost of Money Index published semiannually by the Federal Home Loan Bank, and are offered at one-quarter per cent below Wells Fargo's conventional mortgage rate at the time the loan is made. Should the pilot program prove satisfactory, the service will be offered throughout the state to enable the Bank to continue its long-standing commitment to the California mortgage market. During 1975, Wells Fargo made some 5,200 loans on single-family homes, totaling $218 million. By the end of the year, the Bank's portfolio of single-family home loans totaled $1.49 billion.

With its WellService system, the Bank brings to merchant customers the benefits of electronics for instant check and credit card verification. WellService enables a merchant to verify checks drawn on any bank in California and to validate transactions charged on the two leading bank credit cards and the three major travel and entertainment cards. This fee service, which became operational in a number of retail stores in October, links merchants to distant credit verification points through Wells Fargo's statewide electronic communications network. Merchant response to the program has been enthusiastic and the WellService system will be greatly expanded in the coming year.

Cash Mover was introduced late in 1975, after modifications in the regulations governing commercial banks made it possible for the first time for business customers to have funds readily available in an interest-bearing account of the kind that individual savers have long enjoyed. Cash Mover consists of a conventional checking account and an Earnings (savings) Account for business firms. Geared toward companies with available savings funds of less than $150,000, it enables the commercial customer to keep the amount necessary to transact business in the checking account, and earn 5 per cent interest on excess cash in the Earnings Account. As needs vary, funds can be transferred back and forth between accounts by telephone. In its initial months, this new service has met with gratifying success.

These innovative services, along with the automatic deposit of Social Security checks made available to customers during 1975, supplement Wells Fargo's traditional consumer and retail banking services, which also made excellent gains during the year. Net gain in Master Charge cardholder accounts in 1975 was 66,138, and outstandings rose to $212 million, a gain of 14 per cent. The Bank also had $1.04 billion in consumer and installment loans outstanding at the end of the year, an increase of $55 million, or 5.6 per cent, from the previous year.

A highlight of the year was the opening of the Bank's one millionth savings account. A surprised and pleased Southern California customer received a giant savings passbook containing a special prize: a $136.99 deposit, representing one day's interest on $1 million.

To better bring the Bank's wide array of services to consumers, the Retail Group was reorganized in 1975, and two customer service programs were expanded during the year.

In the reorganized structure, the Retail Group now has only four divisions instead of the previous six. The four are: Bay, Peninsula, Valley and Southern California. The divisions administer a total of 18 regions which handle many of the functions formerly carried out at the divisional level. The major consideration in the reorganization was to bring some of the key support people in loan supervision, operations, personnel and sales management closer to the branches they actually serve. To speed and improve customer service, branch managers have been given added decision-making authority, as well as now receiving faster assistance from the support people.

A bankwide Customer Service Program, which began with designation of 1975 as "The Year of the Customer," was established to monitor and review complaints and compliments by Wells Fargo customers and report to the Executive Office on trends. During the year, program staff members analyzed over 4,000 customer comments. Procedures were studied and improved in those areas that generated the largest number of complaints. This project is now an on-going program throughout Wells Fargo.

In order to help tellers improve their skills and job knowledge and, therefore, to better qualify them for improved customer service and advancement in the Bank, another new approach was developed by the Retail Group—the Customer Service Representative Program. Launched as a pilot program in Southern California in 1974, the program proved so successful and popular that it has been expanded throughout the branch network. Tellers who undertake and successfully complete the program are promoted and designated "Customer Service Representatives." In another project designed to communicate to tellers how vital their performances and views are to the Bank, President Cooley held a breakfast meeting with tellers in each division in 1975.

In keeping with the Bank's plan for continued moderate branch expansion, Wells Fargo opened six new branch offices in 1975, four of them in Southern California. This brought the total number of offices statewide to 319. In addition, the Bank has signed a letter of intent with City National Bank, Beverly Hills, whereby it will purchase certain assets and assume certain liabilities of that bank's Topanga Plaza office in Canoga Park. Federal authorities and the boards of directors of both banks must approve the purchase.

Wells Fargo is continually seeking new banking services to complement the traditional savings programs, checking accounts, Master Charge credit card, installment lending services, real estate loans and safe deposit facilities. Among the major new services introduced in 1975 was WellService, designed to provide retail merchants with quick verification of checks and credit cards. At left is a merchant terminal; at right is the WellService computer that links the merchant terminals to the Bank's statewide electronic communications network.

Commercial loans for all purposes are made by Wells Fargo's Corporate Banking Group, which deals with large national companies headquartered throughout the United States and with major local and regional companies with headquarters in California. At left, a Wells Fargo corporate banking executive calls on one of her major clients in Southern California.

A new group was organized by Wells Fargo in 1975 to serve the needs of the large commercial real estate borrower. At right, representatives of the Real Estate Industries Group select a vantage point overlooking a development financed by the Group.

corporate banking

The Corporate Banking Group is constructed to bring the full range of Wells Fargo's banking capabilities to America's major business entities, wherever they may be. During the 1974-75 recession, corporations took advantage of lower interest rates to rebuild liquidity and restructure capital.

In such an environment, short-term loan demand inevitably declines and Corporate Banking reflected this condition by experiencing a noticeable drop in the usage of loan commitments. Over $2 billion of new or increased loan commitments were approved during the year, however, and the aggregate level of commitments showed only a modest percentage decline from 1974 levels.

With the expected economic resurgence, loan growth can be expected to resume from the Group's base of over 1,200 customers. The loan portfolio is highly diversified and contains no concentrations in industries that have been identified as potential trouble spots. Loans on oil tankers, for instance, are a minor part of the portfolio.

Changing needs of corporate customers prompted the Corporate Banking Group to restructure its responsibilities in 1975. Bankers with specialized knowledge and experience are now organized in four operating divisions.

The United States Division is responsible for nearly all the Bank's commercial banking service outside of California; over 50 per cent of the Group's business originates outside the state. The Northern and Southern California Divisions provide banking service in those regions. A special commitment of Group talent is being made in Southern California to service aerospace and energy companies nationwide.

A number of special customer groups are serviced by the Financial Institutions Division, including correspondent banks, savings and loans, insurance companies, and security brokers and dealers. This division also provides large volume, efficient securities clearance, custody and issuance service for customers, as well as for the Bank itself. With facilities in San Francisco, Los Angeles and New York, Wells Fargo is the only West Coast bank providing nationwide clearance service. For closer coordination on securities related matters, the Bank's Corporate Agency Department was transferred to this division during the year.

The Special Industries Department continues to be a significant and dynamic arm of the Corporate Banking Group. This department, with offices in Palo Alto and Orange County, provides specialized banking service to advanced technology-based firms in the West.

Two years ago, a group was organized by the Investment Advisors Division to provide advice to business firms on financial planning, mergers, divestitures, consulting and private placements. In 1975 this group, the Corporate Finance Department, became part of Corporate Banking, which expands the potential for generating fee income.

real estate industries

A new division of the Bank—Real Estate Industries—was formed in March 1975 to consolidate all the commercial real estate lending activities previously handled by several different departments and some large branch offices. The move was made to ensure that policies regarding commercial real estate related loans made anywhere in the nation are more closely coordinated and that assets are more profitably managed.

Real Estate Industries grants commercial loans to mortgage banking firms, real estate investment trusts and developers, and makes large construction loans. The Division also handles any other major loans granted by Wells Fargo where real estate related income provides the primary source of repayment.

The Division's staff was drawn from Wells Fargo Mortgage Company, from Retail Banking, from Corporate Banking and from the various other groups in the Bank that had been involved in some phase of construction or real estate lending in the past. As a result, it began operations with seasoned personnel familiar with both the real estate industry and with Wells Fargo and its policies.

Total loan commitments of the Division at the end of 1975 were just over $1 billion. Some $680 million was in commercial loan commitments, with some $425 million of that amount outstanding. Commitments for construction loans totaled $350 million, of which some $210 million was outstanding.

The Bank has made a $50-million line of credit available to Wells Fargo Mortgage Investors, the independently owned trust advised by a subsidiary of Wells Fargo & Company. Since late in 1975, the trust has issued sufficient commercial paper to meet its needs, and at year end nothing was owed to the Bank. Since then, similar conditions have prevailed and only nominal use has been made of the line of credit.

During 1975, Real Estate Industries concentrated its efforts on establishing a smoothly running organization and monitoring the loans it had acquired from other areas of the Bank. As the real estate industry begins to gather steam in its recovery in 1976, however, the new Division will more aggressively seek and acquire new loans compatible with its portfolio and the Bank's profit goals.

international banking

The International Division made good progress in 1975 despite problems encountered by some of its foreign affiliates. The earnings contribution of the Division reached a new high of $7.7 million, an increase of 29 per cent over the previous year. This was achieved despite an after-tax charge against income of $3.4 million in connection with losses derived from operations of our German affiliate, Allgemeine Deutsche Credit-Anstalt (ADCA) and sizable losses on loans acquired in 1974 from Western American Bank, our affiliated merchant bank in London. Excluding affiliate related losses, the Division's earnings in 1975 were approximately $16.2 million.

The excellent earnings from banking operations are attributable to a large increase in net interest margins, sharply higher fee income, good cost control and moderate loan losses. Net interest income increased 53 per cent from 1974. Part of the increase resulted from wider contractual spreads on new loans, and part from more effective funding. Earning assets declined slightly on an annual average basis—from $2.2 billion in 1974 to $2.1 billion in 1975—but a strong increase was under way in the last half of the year. At year end, earning assets reached $2.4 billion.

One of the most heartening developments last year was the sharp increase in fee income from $9.3 million in 1974 to $15 million in 1975. Management fees earned in connection with loan syndications were an especially important factor. During 1975, Wells Fargo was a manager or co-manager in $3.5 billion of loans, including $513 million in which we were the agent bank for the syndicate. The latter included: a $250-million revolving line of credit for PETROBRAS, the Brazilian state oil company; a $100-million financing for PETROPERU, the Peruvian state oil company; a $100-million credit for Nacional Financiera, S.A., Mexico's national development bank; a $40-million loan for the Companhia Vale do Rio Doce, a major Brazilian mining company; and $23 million for the Companhia Telefonica Brasileira, the Brazilian telephone company for the state of Rio de Janiero.

The $100-million loan to PETROPERU, financing a portion of the Trans Andean Pipeline, was an especially innovative transaction since it joined a lending syndicate led by Wells Fargo with a governmental source of funds in the Middle East. The $250-million credit facility for PETROBRAS was also noteworthy since it marked the first time that a major international syndicate employed U.S. banker's acceptances as an instrument of finance. These imaginative transactions, together with the other 32 syndicates with which we were associated, have given Wells Fargo important recognition in the capital markets of the world.

During 1975, the Division gave renewed emphasis and attention to asset quality. Net charge-offs of loans originated by the International Division have amounted to .10 per cent of average loans outstanding over the past five years. In 1975, we charged off $2.6 million against three loans, a ratio of .17 per cent. Offsetting these losses was a $490,000 recovery of a loss on a transaction with Bankhaus I.D. Herstatt in 1974.

Performance of our overseas affiliates was mixed in 1975. As mentioned above, our German affiliate ADCA produced a substantial loss. This loss was covered by a capital increase, underwritten by a consortium of German banks led by Norddeutsche Landesbank, the other principal shareholder in ADCA. As a result of this capital increase, the Wells Fargo interest in ADCA declined from 25 per cent to 17 per cent. On the other hand, Western American Bank made excellent progress with the problems that beset it in 1974, and ended the year in a sound financial position and with better earnings than anticipated. Martin Corporation in Australia also showed that it is fully recovered from past problems as it registered a solid profit performance in 1975. Among our other major affiliates, Credit Chimique in France, Banco de America in Nicaragua and the Shanghai Commercial Bank in Hong Kong all enjoyed very good years.

As we enter 1976, the International Division is looking ahead confidently to continued growth and excellent earnings in its basic banking business, as well as additional progress in strengthening our foreign affiliates. Although we are reasonably satisfied, continued strong emphasis is being given to credit quality and controls, including an active program of asset diversification and careful attention to country risks. We are confident that within these parameters, we will be able to play an increasingly important and rewarding role in the world economy.

At left, a corporate banking officer looks over containers financed by Wells Fargo from a ship owned by one of the Bank's clients.

Wells Fargo's International Division provides foreign trade financing and other services from its San Francisco headquarters office, and through its three overseas branches, 12 international subsidiaries and affiliates, and 11 representative offices. At right is the signing of one of Wells Fargo's major international loan syndication agreements in 1975 in the Board Room at the Bank's Head Office.

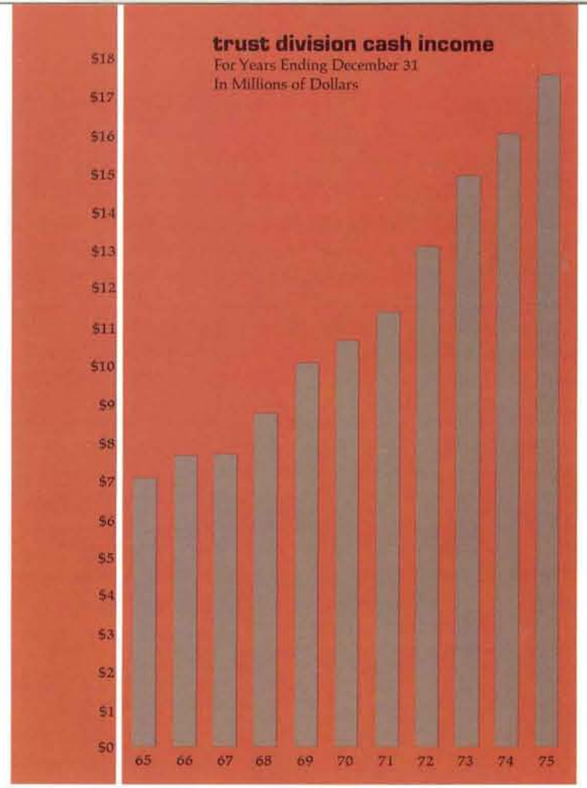
Wells Fargo provides trust and investment advisory services for customers and undertakes investment activities on its own account, transacted through its busy trading room at Head Office in San Francisco. The Trust Division administers estates and personal trusts, provides custody services and administers pension and profit-sharing funds. The Investment Advisors Division provides a variety of advisory services for individuals, corporations and nonprofit organizations.

25 largest common stock holdings in managed trust accounts

From Wells Fargo Bank's Working List of Common Stocks
(By market value, December 31, 1975)

ISSUER OF SECURITY	MARKET VALUE ($ THOUSANDS)	SHARES (THOUSANDS)	% OF COMMON SHARES OUTSTANDING
IBM	63,420	274	.18
Procter & Gamble	57,935	610	.74
Exxon	43,600	474	.21
American Telephone and Telegraph	40,106	771	.13
Caterpillar Tractor	38,263	517	.90
Standard Oil of California	35,770	1,154	.68
General Motors	33,948	559	.19
Utah International	33,201	664	2.11
General Electric	31,304	618	.34
Dow Chemical	29,310	297	.32
Eastman Kodak	29,116	265	.16
Phillips Petroleum	23,876	440	.58
*Wells Fargo	20,276	1,111	5.55
Sears Roebuck	19,324	277	.18
Standard Oil of Indiana	17,479	391	.27
Lucky Stores	15,844	953	2.61
Union Carbide	15,809	240	.39
American Express	14,025	344	.48
BankAmerica	13,788	312	.45
Minnesota Mining & Mfg.	13,672	237	.21
Pacific Gas & Electric	13,653	621	.78
Mobil Oil	13,307	267	.26
Atlantic Richfield	13,213	136	.29
Beatrice Foods	12,964	519	.66
E. I. duPont	11,718	85	.18

**The Trust Division makes no discretionary purchases of the common stock of Wells Fargo & Company for trust accounts, nor does the Division recommend its purchase to clients.*



trust and investment services

The Bank groups that are involved in Wells Fargo's trust and investment advisory activities enjoyed a strong year in 1975, partly reflecting the benefits of improved capital markets as the economy recovered from severe recession.

TRUST Income generated by the Trust Division reached a new high of $17,566,000, an increase of 9.3 per cent over 1974. Over the past 10 years the Division's income increased at an average compound annual rate of 9.4 per cent, and it has increased at a rate of 10.3 per cent over the past five years. It was reported in 1975 that as of the previous year end, Wells Fargo had moved from its rank as seventeenth largest trust unit in the nation to sixteenth in terms of income.

To speed customer service, the Trust Division began conversion to one of the nation's most advanced computerized trust accounting systems in January 1975. The new system allows the Division's administrative staff in all trust offices and departments to retrieve up-to-the-minute information for customers regarding their accounts. Trust administrators can now input informational changes into the computer through terminals located in all offices and departments. This allows them to maintain closer personal control over their accounts than ever before. The successful implementation of this new accounting program has enhanced the accuracy and timeliness of the Division's reports to customers.

In April 1975, the Trust Division announced establishment of two new common trust funds for tax-exempt organizations: a common stock fund and a fixed income fund. These Funds were created for the purpose of providing diversified investment media exclusively for the use of Testamentary and Intervivos or Living Trusts, which are established either for the benefit of tax-exempt organizations or for individuals who wish the remainder to go to charities. Additionally, tax-exempt organizations can themselves participate by establishing trusts for their own benefit. At their inception, the two Funds were valued at $16.4 million. At year end their combined value was $25 million.

During the year, the Trust Division also started a pilot program as custodian of a new insurance industry service called the Investment Annuity Policy, to which a number of firms have now subscribed. This innovative service is a potentially significant source of future revenue.

During 1975, corporate trust business grew approximately 10 per cent, which increased our total appointments as Indenture Trustee to over $6.75 billion. The Corporate Trust Department is very active in the areas of security trustee or agent and assignee for large equipment leasing accounts, as well as fiscal agent for governmental agencies.

Following the enactment of the Pension Reform Act, the Trust Division's Pension Marketing Department expanded its activity considerably. Sales staff was doubled to more effectively tap the extensive pension market that exists among medium-sized firms in California. Most employee benefit plans are required to make certain changes in order to conform to the new law. Wells Fargo has developed one of the master retirement plans for corporations (MASCOR), which can be immediately adopted by most corporations to satisfy their compliance requirements.

A full-service trust office was opened in Santa Barbara during the year to serve customers in San Luis Obispo, Santa Barbara and Ventura Counties.

INVESTMENT ADVISORS Wells Fargo's Investment Advisors Division continued to develop its disciplined approach to investment management, which emphasizes diversification and explicit control of risk, and advanced its work on optimizing the allocation of assets. The adoption of the Pension Reform Act of 1974, which set new requirements for portfolio diversification, served to underscore the value of the Division's investment approach.

During the year, the Investment Advisors Division assumed responsibility for the national marketing of portfolio management services for corporate pension and profit sharing accounts. An expanded program was inaugurated and several major new accounts were opened.

As an extension of its work on improving portfolio diversification, Investment Advisors was the first organization to emphasize the marketing of an Index Fund to corporate pension accounts, drawing on several years of experience in managing portfolios in this form. The Wells Fargo Bank Index Fund for Employee Benefit Trusts was opened late in 1973, and the total assets of the Fund increased from about $17 million at the end of 1974 to about $152 million at the end of 1975.

The Index Fund is a Wells Fargo innovation designed to deliver the market rate of return from common stocks with minimal variance and is a means whereby participating accounts are assured of capturing the broad movements of the stock market as measured by the Standard & Poor's 500 Stock Index. Accomplishment of this objective is assured by virtue of low portfolio turnover and the diversification afforded by holding practically all 500 of the stocks in the S&P Index. Participation in the Fund offers protection against large shortfalls in relative-to-market results and is increasingly recognized as a valuable complement to other equity investment approaches.

The market value of commingled investment funds under the management of Investment Advisors increased from about $270 million to about $500 million during the year. While the increase is partly attributable to higher security prices, it also came in good part from new contributions. These funds offer many participants important advantages over individually managed accounts, and Investment Advisors will continue to encourage their use, where appropriate, by both personal and institutional clients.

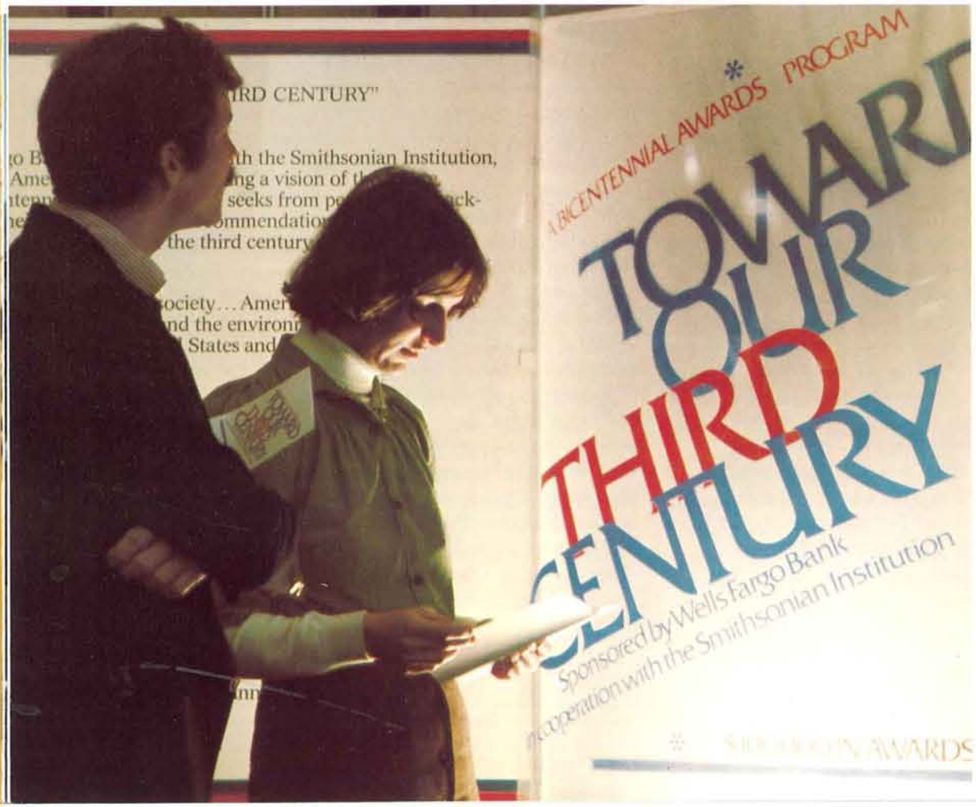
The Division's Institutional Counsel Service also added significantly to its client base in 1975. This group provides Wells Fargo's investment research, portfolio strategy and capital market analysis to other asset managers on a fee basis. The marketing of the service was expanded to Europe, where a number of major institutions became new subscribers during the year.

commitments to the community

Wells Fargo has responsibilities to many communities: its shareholders, customers and employees; the cities and states in which it operates; the nation and the citizens of the many other countries where it has facilities or investments. The Bank is continually striving to fulfill its responsibilities to these diverse groups in all its activities.

Opening up more channels of communication between Americans and their institutions is one such responsibility. Accordingly, during 1975, Wells Fargo launched a far-reaching and unique program for achieving this objective: a Bicentennial Awards Program entitled, "Toward Our Third Century." This nationwide program, which is being sponsored in cooperation with the Smithsonian Institution, was designed to enable Americans from all parts of the country to present their views on where our nation is heading or what we should hope to accomplish over the next 100 years.

The program opened in early September and deadline for entries was January 31, 1976. Winners in the three categories—essays by Americans under 18 years of age, essays by those over 18, and entries in the audio-visual division—will be announced on July 4, 1976. Awards will total $100,000 for 55 winners. The Smithsonian Institution will participate in preliminary judging, and final judging will be conducted by a panel of nine distinguished Americans. The winning entries will be disseminated to many opinion leaders—legislators, regulatory bodies, educators and civic groups.



Through recommendations of its Corporate Responsibility Committee and the individual efforts of many executives and staff members, Wells Fargo continually seeks additional ways to be responsive to the communities whose well-being it affects. A major undertaking for 1975-76 was "Toward Our Third Century," a Bicentennial Awards Program sponsored in cooperation with the Smithsonian Institution. In this program, Wells Fargo sought the views of Americans across the nation in essay or audio-visual form. Some 7,000 entries were submitted by the close of the program.

Wells Fargo examined dozens of proposals for honoring the nation's bicentennial year, many of them considerably more costly. The Bank finally concluded that offering Americans of all ages and abilities a platform from which to voice their views on the subjects of individual freedoms, American arts and culture, the United States and the world, and science, technology, energy and the environment was the most worthy undertaking. Response to the program by individuals, a diverse range of organizations, educational institutions and corporations indicates that there is wide agreement with this philosophy. More than 7,000 entries were received from virtually every state in the nation as well as from U. S. citizens living abroad.

Meanwhile, the Bank has stepped up its other community responsibility activities as well. In affirmative personnel action, the following gains were made during 1975: minorities accounted for 28.6 per cent of the staff at the end of the year, compared with 28 per cent in 1974; more than 38 per cent of the Bank's officials, managers and professionals were women by year end, compared with 36 per cent in 1974; over 13 per cent of the officials, managers and professionals were minorities at the end of 1975, compared with less than 12 per cent at the end of the previous year.

Total staff at Wells Fargo Bank (adjusted to "full-time equivalent" to take into account persons working part-time) was 11,993 by the end of 1975.

During the year, Wells Fargo adopted a new Personnel Data System. The new system is essentially an information bank indicating skills of all employees, and will allow the organization to pinpoint where staff members are being under-utilized, where previously unknown skills or educational achievements can be tapped for a better position, and the career objective of every employee.

The Bank's minority small business loan program, established in 1968, continued to make strong gains during the year. Since this program began, the Bank has granted 852 loans totaling over $37 million that are guaranteed by the Small Business Administration, and has made 446 direct loans totaling some $6.6 million to small minority-owned business firms. This does not represent all of Wells Fargo's loans to minority-owned firms, but are only those that do not meet our regular borrowing standards. The Bank also continues to support job and economic development corporations in California.

The Bank also has a sizable student loan portfolio. At the end of 1975, Wells Fargo held more than $51.4 million in student loans, representing 37,354 loans. During the year, $9.2 million in student loan notes were sold to the Student Loan Marketing Association. There have been increasing default problems in the student loan area in recent years. Wells Fargo is currently working with the U.S. Office of Education and with college and vocational school administrations to alleviate these problems so that the Bank can continue its commitment to California's student community.

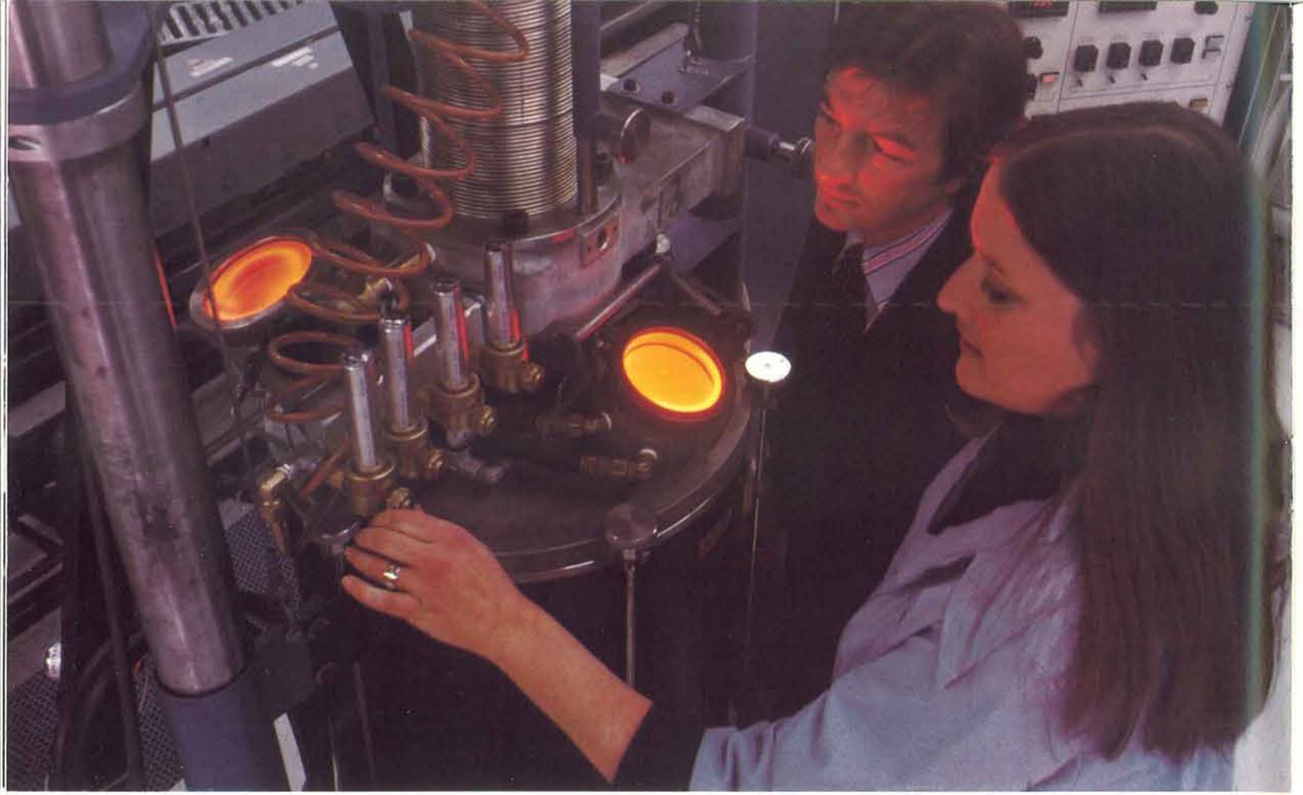
Another program to offer loans to borrowers who might not otherwise qualify is Wells Fargo's Low Income Finance Terms, or LIFT, program of installment loans. By the end of 1975, there were 1,103 LIFT loans outstanding, totaling over $1 million.

Wells Fargo's Corporate Responsibility Committee continues to examine and make recommendations on all aspects of the Bank's activities.

The committee consists of 12 members from various areas of the Bank who serve on a rotating basis. On the current committee, members include a lending officer, a data processing officer, vice presidents from the Retail Group and Public Relations, the head of Personnel and an executive vice president. Two members are women, one is black and one is a Mexican-American. A total of 20 Bank officers and staff members have served on the committee since its inception in 1972.

In 1975, the committee addressed such diverse problems as lending criteria, disclosure policies, rules on the hiring of ex-convicts, collection practices, contributions policy, consumer education, employee assistance and social service leaves for employees. Among committee recommendations that were adopted in 1975 were the policy of not scheduling official bank functions at any facility that discriminates against women or minorities and the payment of interest on real estate impound accounts. Wells Fargo was the first bank in California to propose payment on real estate impound accounts, a move to benefit home loan customers who have this type of account. As of January 1, 1976, the Bank is paying 3 per cent interest on all impound accounts. The Corporate Responsibility Committee also monitors the Bank's Minority Purchasing Program, in which the various departments that purchase goods and services set annual goals for purchases from minority-owned firms.

In line with its continuing commitment to its employees, customers, shareholders and communities, Wells Fargo will continue to examine its many activities for problems or new opportunities in the area of corporate and community responsibility. As new areas for responsible action are found, additional programs will be adopted.



Non-bank subsidiaries of Wells Fargo & Company are active in a variety of industries. Among the more unusual undertakings of Wells Fargo Leasing Corporation in 1975 was the leasing of machines that grow crystals that are made into wafers for the semiconductor industry. They are used to produce integrated circuits for computers, cash registers, communications systems and electronic digital watches.

WELLS FARGO & COMPANY

comparative combined balance sheet
non-bank subsidiaries

(IN THOUSANDS)	DECEMBER 31, 1975	1974
Assets		
Cash	$ 29,821	$ 19,160
Loans (Net of Reserves)	149,720	158,542
Direct Lease Financing	142,295	111,646
Accounts Receivable	2,893	9,157
Premises and Equipment	788	821
Other Assets	17,468	4,513
Total Assets	$342,985	$303,839
Liabilities		
Advances from Wells Fargo & Company and Affiliates	$171,977	$177,525
Accrued Expenses and Other Liabilities	64,389	50,720
Notes Payable	40,100	15,000
Long-Term Subordinated Debt Payable to Wells Fargo & Company	27,500	27,500
Total	303,966	270,745
Stockholders' Equity		
Capital Stock	960	960
Capital Surplus	23,007	23,007
Retained Earnings	15,052	9,127
Total Stockholders' Equity	39,019	33,094
Total	$342,985	$303,839

non-bank subsidiaries

Wells Fargo & Company's non-bank subsidiaries have steadily developed into the category of being among the best managed and most profitable business organizations in their industries. Even in a difficult economic setting such as 1975, the three largest subsidiaries performed exceptionally well. This was particularly impressive in view of the depressed state of the real estate industry, in which two of the subsidiaries are heavily involved.

During 1975, the subsidiaries contributed $5,925,000 in net profits to the parent company, or 10.6 per cent of income before security transactions. This compared to a $3,846,000 contribution in 1974.

Wells Fargo's non-bank subsidiaries were capitalized at $66,519,000 at the end of the year, of which $39,019,000 was equity and $27,500,000 was subordinated debt. Assets totaled $343,000,000.

WELLS FARGO MORTGAGE COMPANY Although the housing industry began a slow recovery in 1975, total housing starts for the year were below those of 1974. Particularly hard hit were multiple-unit dwellings; investment in these dwellings was adversely affected by high interest rates, soaring construction costs and competition from low-rent projects.

Despite the troubled state of the industry, Wells Fargo Mortgage Company had the best year in its history, with its contribution to earnings about double the 1974 figure. The mortgage company generated $2.3 million in earnings in 1975 compared with $1.1 million the previous year. It originated $170 million in new loans during the year, many of them on government-sponsored housing projects.

The decision to pay 3 per cent interest beginning January 1, 1976, on impound accounts associated with mortgage loans being serviced represents an added cost to the mortgage company. However, it was believed this was an appropriate step for the company to take as a leader in the industry.

The mortgage company's success in recent years is attributable to the care with which it has analyzed its investment and servicing decisions. During 1974 and 1975, when many mortgage companies experienced unfavorable earnings and dropped out of the "purchased servicing" market, Wells Fargo Mortgage accelerated its efforts to acquire this type of business. Purchased servicing refers to business purchased at an agreed rate in order to perform the servicing function. In 1975, Wells Fargo Mortgage bought $90 million of servicing, and its servicing portfolio passed the $1 billion mark, representing 49,300 mortgage loans being serviced for more than 200 investors.

During the year, the mortgage company also expanded the operations of its insurance agency. The agency offers health, accident and mortgage redemption insurance to borrowers whose property does not exceed four units.

Although its activity in all areas was vastly stepped up during 1975, the mortgage company was able to hold staff and expenses to approximately the same level as in 1974. Wells Fargo Mortgage, headquartered in San Francisco, has 15 loan production offices throughout California as well as an operations center in Santa Rosa.

WELLS FARGO REALTY ADVISORS Wells Fargo Realty Advisors was formed in 1970 to advise Wells Fargo Mortgage Investors, a publicly owned real estate investment trust, and to conduct other real estate oriented activities. This subsidiary shared many of the troubles experienced by other firms in the real estate industry over the past year; however, it contributed $976,000 in after-tax earnings to the parent Company, compared to $1,029,000 in the previous year. The primary cause for the decline in earnings was a reduction in the advisory fee collected from the trust to $835,000 in the current year from $1,374,000 for the previous year.

In addition to the advisory services provided to the real estate investment trust, this company maintains a loan portfolio for its own account with approximately $152 million in committed investments, of which $115 million was funded at December 31, 1975.

Included in the loan portfolio are loans of $9,738,000 and foreclosed properties of $8,628,000 which are non-earning, and $4,126,000 in loans which are earning below the contractual rate of interest. The real estate investment trust advised by this subsidiary had loans and investments totaling $196,180,000 on December 31, 1975. The trust has reported nominal profits in its last three quarters of operations and in early January 1976 the trustees reinstituted dividends.

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

WELLS FARGO LEASING CORPORATION Despite the adverse capital spending trend during 1975, our equipment leasing subsidiary, Wells Fargo Leasing Corporation, contributed $2.6 million to corporate earnings, or double the income reported in the previous year. This subsidiary is now among the largest bank-affiliated equipment leasing companies in the nation.

The company specializes in leasing high collateral equipment, including machine tools, railroad rolling stock, over-the-road tractors and trailers, farm machinery, as well as maritime, materials handling, advanced technology medical and production equipment.

Operations are conducted through a nationwide network of offices located in San Francisco, Los Angeles, Houston, New York and Chicago. The Chicago office, which opened in early 1975, made an excellent profit contribution during its first year of operation.

Last year, management emphasized leasing of energy related and agricultural production machinery to complement the large transportation equipment portfolio. Private placement of over $25 million in term debt was successfully concluded in 1975.

OTHER SUBSIDIARIES Wells Fargo & Company has three other small subsidiaries operating largely in service fields. These are: Wells Fargo Realty Services, Inc.; Wells Fargo Securities Clearance; and Wellsco Data. These three subsidiaries made a small contribution to profits in 1975.

Wells Fargo Realty Services, a corporate trustee in the recreational real estate industry, provides service to 80 recreational land developers and administers more than $175 million in receivables.

Wells Fargo Securities Clearance Corporation was established in 1970 to act as Wells Fargo & Company's agent in the New York financial community. It has been affected in recent years by the difficult economic setting which has lessened activity in the stock market and the securities industry in general.

Wellsco Data Corporation today consists of a small data processing sales force. In 1974, its major data processing operations were returned to the Bank organization.

Although Wells Fargo & Company has no immediate plans for acquisition or establishment of new subsidiaries, the Company will continue to study firms that are involved in activities allied with banking and finance and which hold promise for controlled growth.

WELLS FARGO & COMPANY

comparative combined statement of income non-bank subsidiaries

(IN THOUSANDS)	YEAR ENDED DECEMBER 31, 1975	1974
Income		
Interest and Fees on Loans	$16,606	$17,348
Direct Lease Financing Income	13,811	10,013
Loan Servicing Fees	5,154	3,281
Advisory Fees	835	1,374
Other Income	5,404	2,042
Total Income	41,810	34,058
Expense		
Salaries and Other Employee Benefits	6,763	6,398
Interest and Fees Paid	15,938	15,597
Net Occupancy Expense	798	719
Provision for Losses	2,696	1,350
Other Expense	3,853	2,471
Total Expense	30,048	26,535
Income Before Income Taxes	11,762	7,523
Applicable Income Taxes	5,837	3,677
Net Income	$ 5,925	$ 3,846

WELLS FARGO & COMPANY

comparison of non-bank subsidiaries' profit

	1975 EARNINGS PER SHARE	1974 EARNINGS PER SHARE
Wells Fargo Mortgage Company	$0.116	$0.056
Wells Fargo Realty Advisors	0.041	0.052
Wells Fargo Leasing Corporation	0.132	0.061
All Other Non-Bank Subsidiaries	0.007	0.025
Total	$0.296	$0.194
Per Cent Contribution to Wells Fargo & Company Income before Security Gains or Losses	10.55%	7.69%

WELLS FARGO & COMPANY AND SUBSIDIARIES

consolidated six-year summary of operations*

(IN THOUSANDS)

	1975	1974	1973	1972	1971	1970	ANALYSIS CHANGE 1975/1974	ANALYSIS FIVE-YEAR COMPOUND GROWTH RATE
INCOME								
Interest and Fees on Loans and Funds Sold	$ 700,561	$ 773,770	$ 551,183	$ 344,231	$ 296,198	$ 300,509	(9.5)%	18.4%
Interest and Dividends on Investment Securities	103,964	101,016	80,224	60,874	56,693	47,328	2.9	17.0
Other Interest Income	68,231	92,608	78,461	37,939	33,066	18,609	(26.3)	29.7
Non-Interest Income	65,154	63,884	64,641	58,934	52,837	45,205	2.0	7.6
Total Income	937,910	1,031,278	774,509	501,978	438,794	411,651	(9.1)	17.9
EXPENSE								
Salaries and Benefits	164,572	146,541	128,966	117,527	104,120	95,147	12.3	11.6
Interest on Deposits, Borrowings, Capital Notes and Debentures	519,776	693,954	488,422	246,611	214,843	202,470	(25.1)	20.8
Provision for Loan Losses	50,429	21,864	11,086	7,880	6,479	5,937	130.6	53.4
Other Expense	112,330	99,757	81,016	73,979	63,682	57,429	12.6	14.4
Total Expense	847,107	962,116	709,490	445,997	389,124	360,983	(12.0)	18.6
INCOME BEFORE INCOME TAXES AND SECURITY GAINS OR LOSSES	90,803	69,162	65,019	55,981	49,670	50,668	31.3	12.4
Applicable Income Taxes	34,658	19,088	20,900	16,887	15,318	18,084	81.6	13.9
INCOME BEFORE SECURITY GAINS OR LOSSES	$ 56,145	$ 50,074	$ 44,119	$ 39,094	$ 34,352	$ 32,584	12.1	11.5
Security Gains (Losses) Net of Tax	646	(2,705)	(660)	338	(4,967)	147	—	—
Net Income	$ 56,791	$ 47,369	$ 43,459	$ 39,432	$ 29,385	$ 32,731	19.9	11.7
INCOME PER SHARE								
Income before Security Gains or Losses	$2.80	$2.53	$2.25	$2.10	$1.85	$1.77	10.7	9.6
Net Income	$2.83	$2.39	$2.21	$2.12	$1.58	$1.78	18.4	9.7
INCOME PER SHARE ASSUMING FULL DILUTION								
Income before Security Gains or Losses	$2.73	$2.46	$2.18	$2.03	$1.79	$1.71	11.0	9.8
Net Income	$2.76	$2.33	$2.15	$2.05	$1.54	$1.72	18.5	9.9
AVERAGE SHARES OUTSTANDING	20,017,813	19,804,343	19,633,968	18,643,285	18,543,162	18,421,480		
RATIOS:								
Income before Security Gains or Losses to Average Stockholders' Equity	11.67%	11.20%	10.58%	10.89%	9.99%	9.96%		
Stockholders' Equity per Share at Year End	$24.97	$23.10	$21.85	$20.47	$18.95	$18.16		
MARKET PRICES:								
High for Year	$20⅛	$27	$29½	$29½	$24⅜	$21¾		
Low for Year	13¼	9⅝	19¾	19¼	18½	14½		
Year End	15½	13	22¾	28⅜	20⅜	21		
OTHER DATA:								
Company Staff at Year End (Full-Time Equivalent)	12,143	12,186	11,514	10,887	10,441	10,262		
Number of Offices of Bank at Year End	322	316	303	299	287	275		

*Minor adjustments of prior period data have been made so that the data for these years will now conform with the present accounting policies of Wells Fargo & Company and Subsidiaries.

management's analysis of financial operations

Economic conditions in 1975 were difficult. A recession plagued the economy much of the year, commercial loan demand softened and the problems of a number of major companies disturbed the investment community. Against this background, Wells Fargo & Company continued to operate successfully under policies, adopted late in 1973, of controlling asset growth and improving capital and operating ratios and earnings.

Highlights for 1975 include:

Per share earnings before security gains or losses increased 10.7 per cent from the previous year.

The net interest differential—the difference between the total tax-equivalent income on earning assets and interest expense on the funds supporting these assets—increased by 22.7 per cent over 1974, which compares with a 27.0 per cent increase in 1974 over 1973.

Average passbook savings registered a 23.9 per cent gain over 1974, continuing the trend toward an ever-increasing market share of statewide passbook savings and contributing to a reduction in the overall cost of funds.

Average assets retreated 0.6 per cent from their 1974 level, compared with a gain of 13.7 per cent in 1974 over 1973.

Important capital ratios improved. Average return on assets increased from .42 per cent in 1974 to .48 per cent in 1975. Average return on stockholders' equity rose to 11.67 per cent in 1975 from 11.20 per cent in 1974. The average leverage ratio, which is average assets divided by average stockholders' equity, fell from 26.4 in 1974 to 24.4 in 1975.

The Company's liquidity was strengthened: the portion of the investment portfolio maturing within three years was increased from previous periods; the proportion of purchased funds used to support earning assets decreased noticeably from 1974 to 1975.

Because net charge-offs were up significantly from 1974, the provision for loan losses was 130 per cent greater than in 1974. This was sufficient to increase the reserve for loan losses to .81 per cent of loans outstanding at year-end 1975, compared with .67 per cent at the close of the prior year.

The text, charts and tables which follow are intended to facilitate analysis of the *Consolidated Six-Year Summary of Operations* on pages 22 and 23. Of particular note are Tables I and II, in which items of income and expense and changes in items of interest and expense for the most recent three years are presented on a taxable-equivalent basis, meaning sums have been added to non-taxed items to make them comparable with taxable items.

INCOME ON EARNING ASSETS Income on earning assets is influenced by the average volume of earning assets and by the yields obtained on these earning assets. Most of Wells Fargo & Company's earning assets are interest-sensitive. Fluctuations in the prime rate and other money market rates have a significant and immediate impact on the yields on these earning assets, as well as on the interest-paying liabilities that fund these assets. During the last three years, the prime rate—the interest rate charged the most credit-worthy borrowers—has fluctuated widely, shifting some 63 times between a low of 6 per cent in 1973 and a high of 12 per cent in 1974. The average prime rate for 1973 was 8.06 per cent and increased to 10.80 per cent in 1974. In 1975, the average fell back to 7.9 per cent.

For 1975, income from earning assets on a taxable-equivalent basis declined from 1974 levels. This decline was almost entirely attributable to a decrease in the yields on earning assets, because the average volume of the earning assets dropped only slightly. When earning assets are broken down into their various categories, there is some deviation from this pattern of falling yields and steady volumes. The volume of overseas deposits—which are interest-bearing deposits placed with various overseas financial institutions—was down significantly and so was the average yield on these deposits, resulting in a $33.5 million year-to-year decrease in income from this source. The volume of total investment securities declined modestly at the same time as changes were being made in the portfolio to improve yields and shorten maturities. The taxable-equivalent yield of the investment portfolio increased from the prior period, but not enough to offset the volume decline. Direct lease financing income increased by 68.7 per cent, with the improvement attributable to higher volume.

Loan volume—including money market loans—for 1975 was up over 1974, but a decline in yields resulted in a year-to-year decrease in income from this source. Fee income in all loan categories was up substantially from 1974 levels. Within the loan portfolio, the volume of commercial loans declined, while international loans showed an increase. The yield on both commercial and international loans declined in line with the falling prime rate. Real estate and consumer loans departed completely from the rest and showed both volume and yield increases.

At December 31, 1975, Wells Fargo had minimal exposure to the financial troubles of the City of New York, holding direct bonds for only about $7.5 million and these bonds are not subject to the moratorium on debt repayment. By contrast, the Company held at book value $272.9 million of state and municipal bonds of California obligors in support of local communities. This figure included $79.2 million in direct obligations of the State of California, which had a market value of $66.7 million, are rated "AAA" by the principal credit rating services and represented about 15.5 per cent of stockholders' equity at year end. The aggregate book value of the securities of no other state or municipal issuer

selected asset yields

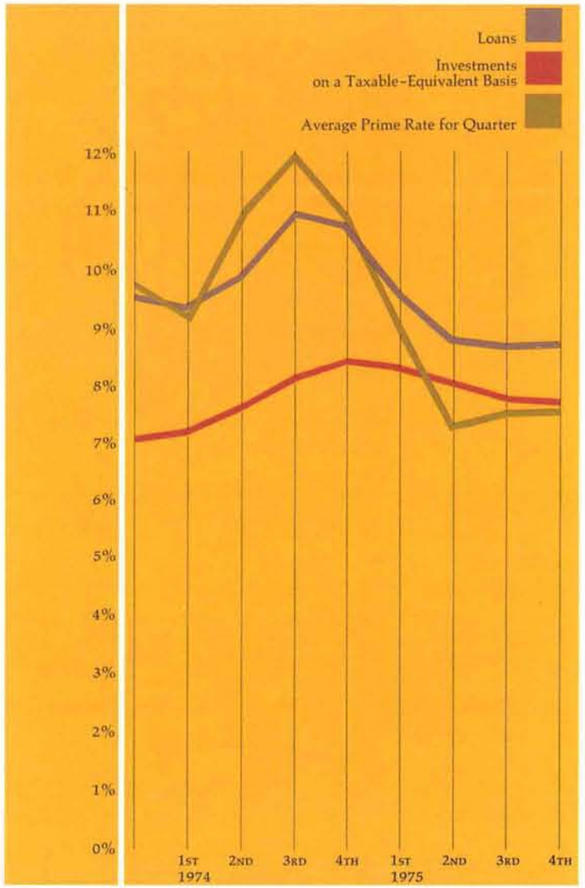


table I • income statement: taxable-equivalent basis

	1975 (IN THOUSANDS)	PERCENTAGE CHANGE	1974 (IN THOUSANDS)	PERCENTAGE CHANGE	1973 (IN THOUSANDS)
INCOME FROM:					
Loans (including Funds Sold)	$700,561	(9.5) %	$ 773,970	40.3%	$551,483
Investments	134,104	(1.4)	136,054	32.5	102,657
Overseas Deposits	33,547	(50.0)	67,072	9.0	61,516
Leases	32,971	68.7	19,543	73.8	11,242
Trading Account	4,010	(64.8)	11,407	29.8	8,786
Total Income from Earning Assets	905,193	(10.2)	1,008,046	37.0	735,684
LESS INTEREST EXPENSE:					
Interest on Deposits	438,261	(15.8)	520,442	41.6	367,592
Interest on Borrowed Funds	63,223	(59.4)	155,728	43.9	108,228
Interest on Long-Term Debt	18,292	2.9	17,784	41.1	12,602
Total Interest Expense	519,776	(25.1)	693,954	42.1	488,422
NET INTEREST DIFFERENTIAL	385,417	22.7	314,092	27.0	247,262
PLUS OTHER NON-INTEREST INCOME	62,215	(2.9)	64,096	(3.1)	66,128
LESS OTHER OPERATING EXPENSE	325,760	21.7	267,638	21.6	220,091
INCOME BEFORE INCOME TAXES	121,872	10.2	110,550	18.5	93,299
INCOME TAXES ON A FULL-RATE BASIS	65,727	8.7	60,476	23.0	49,180
INCOME BEFORE SECURITY GAINS OR LOSSES	$ 56,145	12.1	$ 50,074	13.5	$ 44,119

table II • analysis of the change in the interest differential: taxable-equivalent basis

	FROM 1974 TO 1975			FROM 1973 TO 1974		
(IN THOUSANDS)	VOLUME	YIELD/RATE	TOTAL	VOLUME	YIELD/RATE	TOTAL
CHANGE IN EARNING ASSET INCOME						
Commercial Loans	$ (27,192)	$ (62,305)	$ (89,497)	$ 25,737	$ 67,734	$ 93,471
Real Estate Loans	8,725	2,469	11,194	28,200	10,954	39,154
Consumer Loans	12,733	5,632	18,365	22,753	10,354	33,107
International Loans of U.S. Offices and Overseas Offices	14,355	(27,569)	(13,214)	19,073	26,404	45,477
Investment Securities	(5,459)	3,509	(1,950)	19,053	14,345	33,398
Overseas Deposits	(26,070)	(7,455)	(33,525)	(12,205)	17,761	5,556
Leases	11,990	1,438	13,428	6,862	1,439	8,301
Funds Sold	3,376	(3,633)	(257)	10,834	443	11,277
Trading Account	(5,549)	(1,848)	(7,397)	236	2,385	2,621
TOTAL	(13,091)	(89,762)	(102,853)	120,543	151,819	272,362
CHANGE IN INTEREST EXPENSE	(16,643)	(157,535)	(174,178)	91,825	113,707	205,532
NET DIFFERENCE	$ 3,552	$ 67,773	$ 71,325	$ 28,718	$ 38,112	$ 66,830

table III • maturities & yields: taxable-equivalent basis as of december 31, 1975

(IN THOUSANDS)	TOTAL AMOUNT	AVERAGE MATURITY (IN YRS.-MOS.)	WITHIN 1 YEAR AMOUNT	YIELD	1-3 YEARS AMOUNT	YIELD	4 AND 5 YEARS AMOUNT	YIELD	5-10 YEARS AMOUNT	YIELD	AFTER 10 YEARS AMOUNT	YIELD
U.S. Treasury	$ 721,244	1-8	$153,941	6.4%	$561,327	7.4%	$ 5,976	7.0%	$ —	—%	$ —	—%
Federal Agencies	438,102	1-7	203,811	6.9	189,063	7.2	44,297	7.2	—	—	931	7.5
States and Political Subdivisions	430,871	9-5	52,066	8.2	45,573	8.4	33,115	7.9	95,565	8.2	204,552	8.1
Other Bonds, Notes and Debentures	94,316	5-8	30,546	6.7	8,936	7.0	19,418	8.6	30	2.7	35,386	6.7
Total—Investments with Maturities	$1,684,533		$440,364		$804,899		$102,806		$95,595		$240,869	
Investments without Maturities (Stocks*)	10,442											
	$1,694,975											

*Foreign Investments included in "Other Assets."

table IV • write-offs and recoveries by loan category

(IN THOUSANDS)	COMMERCIAL LOANS	INTERNATIONAL LOANS*	REAL ESTATE LOANS	MONTHLY PAYMENT LOANS	CREDIT CARD LOANS	TOTAL
1973:						
Loan Write-offs	$ 9,513	$ 82	$116	$2,717	$2,801	$15,229
Loan Recoveries	3,009	47	68	708	449	4,281
Net Write-offs	$ 6,504	$ 35	$ 48	$2,009	$2,352	$10,948
Net Write-offs by Loan Category as a Per Cent of Total Net Write-offs	59.4%	.3%	.4%	18.4%	21.5%	100%
1974:						
Loan Write-offs	$13,918	$2,184	$ 65	$5,308	$5,378	$26,853
Loan Recoveries	3,331	1,082	19	871	484	5,787
Net Write-offs	$10,587	$1,102	$ 46	$4,437	$4,894	$21,066
Net Write-offs by Loan Category as a Per Cent of Total Net Write-offs	50.3%	5.2%	.2%	21.1%	23.2%	100%
1975:						
Loan Write-offs	$28,497	$8,363	$ 80	$6,969	$7,018	$50,927
Loan Recoveries	7,006	570	3	1,472	993	10,044
Net Write-offs	$21,491	$7,793	$ 77	$5,497	$6,025	$40,883
Net Write-offs by Loan Category as a Per Cent of Total Net Write-offs	52.6%	19.1%	.2%	13.4%	14.7%	100%

*Including loans in domestic offices.

held by the Company exceeded 5 per cent of year-end stockholders' equity.

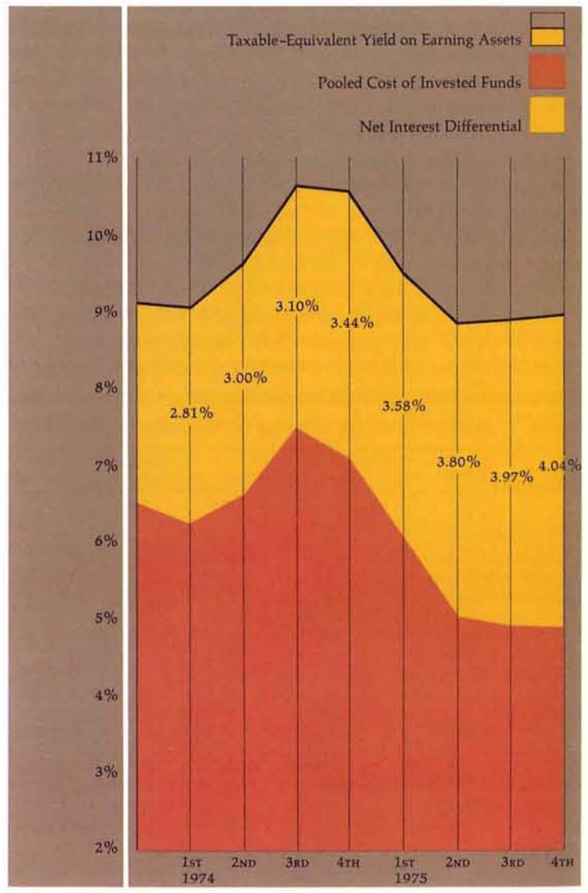
The increase in income on earning assets from 1973 to 1974 came both from improved yields due to the higher average prime rate which prevailed in 1974 and from a 12.8 per cent increase in the volume of average earning assets. Overseas deposits was the only major asset category that showed a decline in average volume from 1973 to 1974, but an increase in yields on these deposits more than offset the volume decline and income from them showed a year-to-year increase.

INTEREST EXPENSE The 25.1 per cent drop in the interest expense on deposits and borrowed funds from 1974 to 1975 was principally due to the decline in average rates paid, although the volume of interest-paying liabilities decreased by 2.4 per cent, as well. Rates on interest-paying liabilities were generally more sensitive to the downward movements in the money markets during 1975 than the yields on earning assets funded from these sources, contributing to the improvement in the net interest differential.

In 1975, Wells Fargo experienced handsome gains in consumer savings deposits from 1974 and this source of funds supplanted other, higher-cost sources in the overall funding operation. Wells Fargo also benefited from being able to use a higher proportion of interest-free sources in the funding of earning assets, principally because reserve requirements on demand deposits were below 1974 levels. The only categories that showed significant year-to-year declines were other time deposits and time deposits at overseas offices. The fall-off in the deposits in overseas offices was due to a substitution of less expensive domestic sources for funding international lending operations.

In comparing the change from 1973 to 1974, more than half of the interest expense increase was attributable to higher

interest differential—quarterly

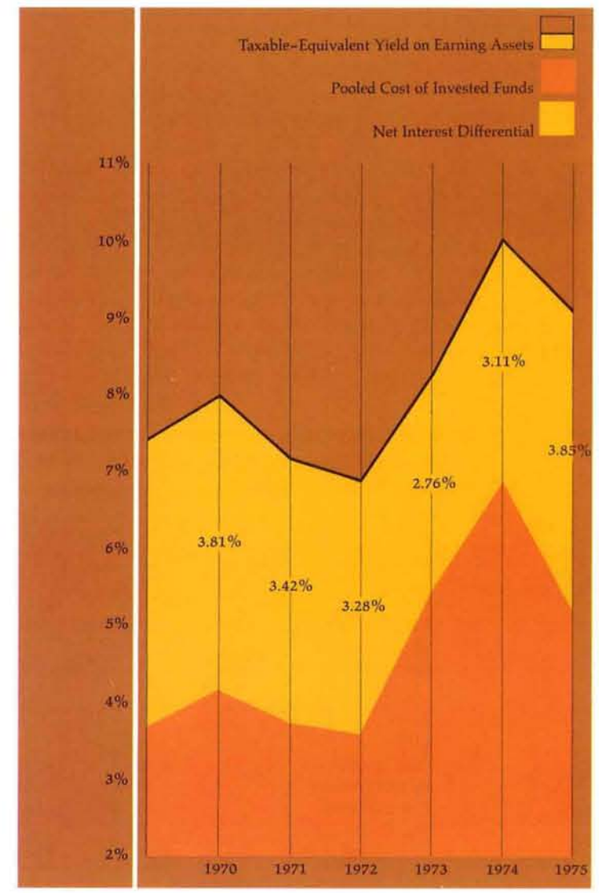


rates being paid due to the upward movement in the money markets during 1974. The remainder of the increase came from increased borrowings which were necessary to support the higher loan volume of that year.

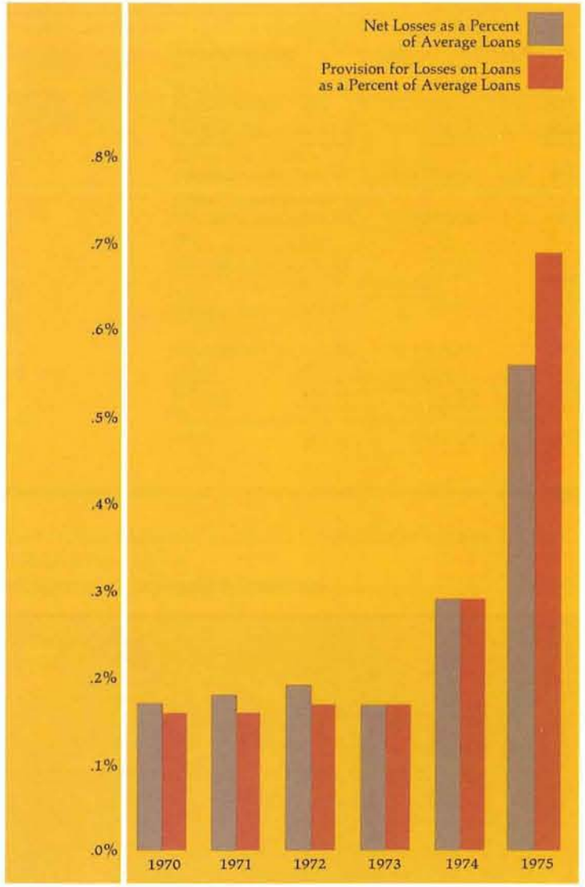
NET INTEREST DIFFERENTIAL Net interest differential is the difference between the amount of interest income derived from earning assets (loans, etc., by the Company) and the amount paid in interest charged for funds (borrowings by the Company) to support these earning assets. The amount of the net interest differential is influenced primarily by two factors: the volume of earning assets and the spread between rates of interest charged for earning assets and the rates of interest paid for funds. This spread is the net interest yield. From 1970 until 1973, the net yield on earning assets had shrunk while the volume of earning assets increased markedly. In line with a policy adopted late in 1973 to improve the net yield on earning assets and control earning asset growth, the 27 per cent increase in the net interest differential from 1973 to 1974 was attributable to both the moderate growth of earning assets and to an improvement in the net interest yields. In comparing 1974 with 1975, the net interest differential increased by almost 23 per cent, and the increase is entirely attributable to better net yields, since the volume of earning assets in 1975 actually dropped from their 1974 levels.

OTHER NON-INTEREST INCOME Service charges on deposit accounts—primarily those of individual depositors—showed only a modest rise in 1975 over 1974 because of the competition within California for demand deposits. However, Wells Fargo was the first to introduce a package of consumer banking services in the form of the Gold Account and has been able to consolidate its initial gains in this market with the Reward Account, in spite of the continued efforts of the competition.

interest differential—annually



loan loss experience



Trust fee income showed an increase of 9.3 per cent over its 1974 levels. The increase for the most part came from new business generated both from existing services and new services introduced in 1975.

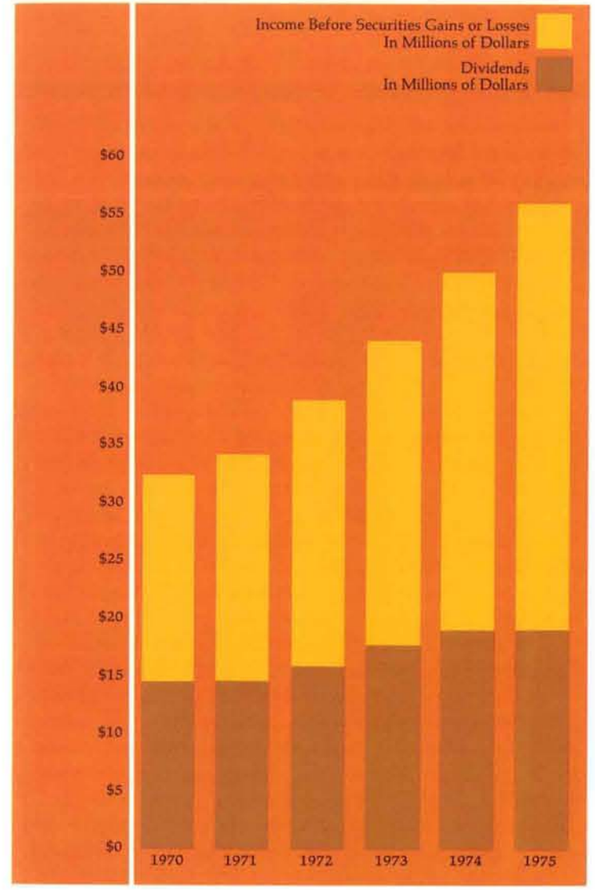
Except for income from foreign equity investments, the transactions included in other non-interest income for 1975 as shown in the *Consolidated Six-Year Summary of Operations* were up over 1974 levels, including a $1.6 million increase for trading account profit and commissions. As previously reported, one of the equity investments—Allgemeine Deutsche Credit-Anstalt—produced a loss of $5.5 million before tax benefit, which was charged against other non-interest income for 1975.

OTHER OPERATING EXPENSES Even though general cost-control procedures were in effect throughout 1974 and 1975, the inflationary economy was primarily responsible for increases in the salaries and benefits and other expense categories shown in the *Consolidated Six-Year Summary of Operations.*

PROVISION FOR LOSSES ON LOANS The $50.4 million provision for losses on loans in 1975 increased by $28.6 million over the 1974 period and was $9.5 million in excess of net write-offs for the year. Similarly, the 1974 period provision of $21.9 million was $10.8 million over the 1973 level and exceeded net write-offs by $0.8 million. (See the **Discussion of Loan Portfolio** section, which explains the loan losses in detail.)

Table IV shows a breakdown of write-offs and recoveries for the last three years, by detailed loan categories. It should be noted here that the 1975 international breakdown includes $4.6 million in write-offs for loans to real estate investment trusts (REITs). Other REIT write-offs of $1.7 million are included in the commercial loan category. Besides REITs, there were no other significant industry concentrations in the commercial loan write-offs.

income and dividends



INCOME TAXES The effective tax rate (the ratio of income tax expense to income before taxes) was 38.2 per cent in 1975, 27.6 per cent in 1974 and 32.1 per cent in 1973. The changes in this rate over the three-year period were inversely related to the additions or reductions in the municipal bond portfolio. From 1973 to 1974, the municipal portfolio went up and the effective rate declined, but in 1975, the municipal portfolio declined from its 1974 level, resulting in a higher effective tax rate.

Wells Fargo & Company accrued income taxes payable currently of $17.9 million in 1974 and $23.6 million in 1975. Of these totals, $2.5 million and $6.7 million, respectively, are federal taxes, with the balance going to state and foreign governments. One of the main reasons why Wells Fargo did not have current federal taxes payable equal to 48 per cent of income before taxes was its large holding of state and municipal obligations. Income from these obligations is not subject to federal income taxes. In effect, the Federal Government subsidizes qualifying states and municipalities by this favorable tax treatment, enabling the issuers to pay interest rates lower than if the interest were fully taxable. If Wells Fargo did not participate in this subsidy effort, it would certainly pay more current federal taxes, but states and municipalities would be denied a major source of funds for achievement of their objectives.

Another reason for Wells Fargo's current level of federal income taxes is the dollar-for-dollar tax credit allowed against current federal taxes for taxes paid to foreign governments. If this credit were not allowed, the Company would be subject to double taxation—foreign and domestic. This concept of "relief from double taxation" is recognized throughout the world and works with a degree of equity in that foreign companies operating here pay United States taxes and then are allowed to offset these taxes against their tax liability in their home country.

table V • 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
1974:							
First Quarter	$ .51	$ .51	$ .24	$ .24	$27	$22¾	$25⅜
Second Quarter	.66	.66	.24	.24	25¾	15¾	15¾
Third Quarter	.62	.62	.24	.24	17⅝	10¼	10¼
Fourth Quarter	.74	.60	.24	.24	14½	9⅝	13
Fiscal 1974	$2.53	$2.39	$ .96	$ .96	$27	$ 9⅝	$13
1975:							
First Quarter	$ .66	$ .66	$ .24	$ .24	$16⅞	$13¼	$15½
Second Quarter	.67	.67	.24	.24	20⅛	15¼	19
Third Quarter	.71	.62	.24	.24	19½	14¼	14⅝
Fourth Quarter	.76	.88	.24	.24	16	14¼	15½
Fiscal 1975	$2.80	$2.83	$ .96	$ .96	$20⅛	$13¼	$15½

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

table VI • breakdown of income before security gains or losses by business activity

	1975 (IN THOUSANDS)	PERCENTAGE CHANGE	1974 (IN THOUSANDS)	PERCENTAGE CHANGE	1973 (IN THOUSANDS)
NON-BANK SUBSIDIARIES	$ 5,925	54.1%	$ 3,846	34.3%	$ 2,864
INTERNATIONAL BANKING*	7,673	29.5	5,927	(20.8)	7,479
DOMESTIC BANKING	42,547	5.6	40,301	19.3	33,776
TOTAL	$56,145	12.1%	$50,074	13.5%	$44,119

*Includes allowance for overhead allocation.

INCOME BEFORE SECURITY TRANSACTIONS The domestic banking operation continued to be the Company's primary source of earnings (as shown in Table VI), accounting for approximately 76 per cent of total earnings in 1975, 81 per cent in 1974 and 77 per cent in 1973. The non-bank subsidiaries showed impressive earning gains from 1973 to 1975 and the international banking operation rebounded in 1975 after experiencing an earnings decline from 1973 to 1974.

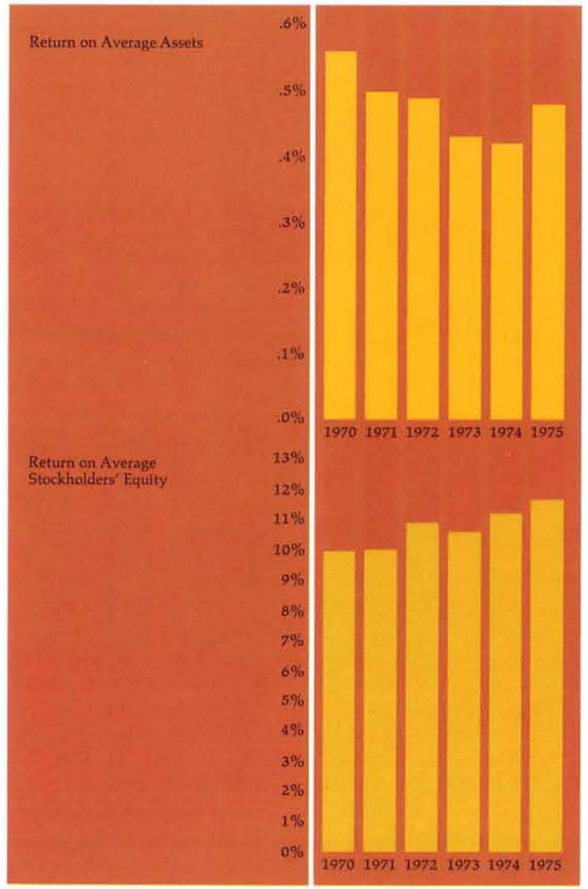
SECURITY TRANSACTIONS Security transactions, net of the related income tax effect, resulted in a gain of $646,000 in 1975, a loss of $2,705,000 in 1974 and a loss of $660,000 in 1973. In 1974 and 1975, security losses were incurred in the course of a program adopted by the Company to gradually sell off municipal bonds with maturities of more than 10 years and relatively unattractive yields. In 1975, however, these losses were more than offset when profit opportunities on the sale of U.S. Treasury securities were realized.

DISCUSSION OF LOAN PORTFOLIO One of the principal functions of a commercial bank is to grant credit to a broad range of customers. At December 31, 1975, loans outstanding to various customers amounted to 61.6 per cent of total assets, compared with 62.5 per cent at the close of the prior year. When any of these credits deteriorate and become worthless, then they must be written-off against the reserve for loan losses on the Company's *Consolidated Balance Sheet*. This reserve totaled $61,665,000 at December 31, 1975, $52,119,000 at December 31, 1974, and $48,613,000 at December 31, 1973.

To help assure the adequacy of this reserve for loan losses, Wells Fargo has established a number of policies with respect to credit administration which are to be followed at all levels of management. Commercial loans (including international loans) and real estate loans are normally transferred to non-accrual status when it becomes apparent that payment of interest or recovery of principal is questionable and in no event may a loan become more than 180 days delinquent without being transferred to non-accrual status. Once a commercial or real estate loan is placed on non-accrual status, any interest accrued for prior periods is charged against income unless there exist special circumstances that justify belief in the future collectibility of such interest. Interest payments on non-accrual loans are recognized only when cash is received. Also, some loans where borrowers are experiencing financial difficulties may be renegotiated to provide terms significantly below the original contractual terms.

A frequent topic of discussion in banking in 1975 was the amount of loans on non-accrual or renegotiated status and the impact of these loans on net income. At 1975 year end,

return on assets & on stockholders' equity



Wells Fargo had a total of $246.8 million in loans on non-accrual or renegotiated status and of this total approximately $87.6 million was accounted for by loans to REITs. Total loans outstanding to REITs at year end were approximately $190 million or about 2.5 per cent of the total loan portfolio, compared with $241.0 million at 1974 year end. If the interest due on all non-accrual loans (excluding loans charged off) and renegotiated loans had been accrued at the original contractual rates due, it is estimated that after-tax income would have increased by $7.5 million, or $0.38 per share. Of this total, approximately $2.2 million, or $0.11 per share, involved loans to REITs.

Most loans on non-accrual status are supervised by a special department of the Bank whose staff is experienced in working out problem loans. If, in the opinion of this department, the ultimate amount recoverable is less than the book value of such a loan, or the collection of the amount is expected to be protracted, the loan is written down by charging the reserve for loan losses.

In contrast to commercial loans and real estate loans, consumer loans are written off whenever it is judged that ultimate collectibility is doubtful or when the loan has been delinquent for 90 days on interest or principal, whichever occurs first. At the time of charge-off, accrued interest is charged against earnings and the loan balance, net of unearned discount, is charged to the reserve for loan losses.

The major matter of management judgment concerning loan losses is properly reflecting the probable effect of these losses in the provision for losses on loans in the *Consolidated Income Statement* and the reserve for loan losses in the *Consolidated Balance Sheet*. At any given date, it is normal for the amount in the reserve for loan losses to be exceeded by the total loans outstanding to borrowers experiencing varying degrees of financial difficulty. However, experience has shown that the probability of all these loans becoming completely uncollectible is remote. It, therefore, is the responsibility of management to determine some lesser amount which will be sufficient to absorb probable future loan losses.

The management of the Company uses several different methods in assessing the adequacy of its loan reserve. One of the principal methods relates loans classified in the past by an internal loan review department and bank regulatory agencies to subsequent net losses (charge-offs less recoveries). By statistically relating these, management can arrive at a loss factor representing estimates of ultimate net losses for each loan classification. These loss factors are updated annually and applied to the different loan classifications at least quarterly. The resulting total, after applying the loss factors, is then compared with the reserve for loan losses and management reviews very carefully the difference in making its determination of the provision for loan losses.

It is noteworthy that, over the long term, ultimate losses (adjusted for recoveries) have only amounted to 4.5 per cent of the total classified loan amounts.

Moreover, it should be emphasized that this is only one of the methods followed in evaluating the adequacy of the reserve for loan losses. Management's evaluation of the loan portfolio uses other methods taking into account such additional factors as particular credit exposure and economic conditions. Furthermore, the Company's outside independent certified public accountants perform a review of the adequacy of the reserve for loan losses in connection with their annual examination of the consolidated financial statements, including an examination of the Company's evaluation methods as well as additional audit tests.

At December 31, 1975, Wells Fargo's reserve for loan losses was $61.7 million or approximately .81 per cent of loans outstanding at that date. This compares with a reserve of $52.1 million at the end of the previous year, which was approximately .67 per cent of loans outstanding. The Company had $1.49 billion in fully amortizing loans secured by single family dwellings at the close of both years. Losses on loans of this type have been nominal. If these loans were excluded from loans outstanding in computing the reserve percentage, the figures corresponding to the .81 per cent and .67 per cent, above, would become 1.01 per cent and .82 per cent as of December 31, 1975 and 1974, respectively.

For 1975, net charge-offs for the year amounted to .56 per cent of average loans. This compares with a ratio of .29 per cent for 1974.

In light of present economic conditions, the management of the Company considers the reserve for loan losses as of December 31, 1975, adequate to cover probable losses on the loans outstanding as of that date.

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 practices 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 1974 financial statements have been reclassified for comparative purposes to conform with the 1975 account presentations, including the presentation of the *Reserve for Loan Losses*, which has been changed to be in conformity with recently mandated presentation requirements. The previous 1974 *Reserve for Loan Losses* has been divided into its three components: the amount previously designated as available to absorb loan losses is shown as a deduction from *Loans;* the two other components, the contingency portion and the deferred tax portion, are now included with *Retained Earnings* and *Accrued Taxes and Other Expenses* respectively.

Bank regulatory authorities required that goodwill arising from the acquisition of certain foreign equity investments and certain domestic banking assets be charged to the Bank's *Undivided Profits* at the time of purchase. In accordance with generally accepted accounting principles, this goodwill is restored in the Company's consolidated financial statements and is amortized over the estimated benefit period, not exceeding forty years.

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.

Assets and liabilities denominated in foreign currencies are translated principally at current rates of exchange; income statement items are translated monthly using the average rate. Exchange adjustments arising from translation are reported currently in the income statement. Exchange adjustments in the Bank's international investment subsidiary, previously deferred, have been charged to income in 1975.

SECURITIES

Securities are held for both investment and trading purposes. Trading account securities are valued on an individual basis at the lower of cost or market. Debt securities held for investment purposes are valued at cost adjusted for amortization of premium and accumulation of discount. Marketable equity securities held for investment are included in *Other Securities* and are carried at cost, which approximates market.

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

Foreign equity securities, all of which are less than majority-owned, are included in *Other Assets*. Investments wherein the Company exercises significant influence over operating and financial policies are accounted for under the equity method. The other foreign investments are accounted for under the cost method.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed primarily using the straight-line method. 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 domestic subsidiaries file a consolidated federal income tax return in which the taxable incomes of the various entities are computed primarily using the cash receipts and disbursements method of accounting as permitted by the tax statutes.

Deferred income taxes, included in *Accrued Taxes and Other Expenses*, are provided for timing differences between income as reported in the financial statements and as reported for income tax purposes.

Income taxes are accrued on the undistributed earnings of a foreign subsidiary and on 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 *Direct Lease Financing Income* over the terms of the related lease.

UNEARNED DISCOUNT

For loans, unearned discount is shown as a reduction of the loan balance and is recognized as income on a declining basis ("rule of 78s" method) over the term of the loan.

For leases, unearned income is netted against the related receivable and is accrued as income using a method that provides an approximately level rate of return on the unrecovered investment.

RESERVE FOR LOAN LOSSES

The Company and its subsidiaries provide for possible loan losses on the reserve method. For the Bank, the provision for loan losses charged to expense for financial statement purposes is based on a moving average ratio of loan loss experience for the most recent five years applied to average outstanding loans for the current year. Adjustments are made to the moving average provision, if, in the opinion of management, that amount does not reflect an appropriate provision based upon an evaluation of various factors affecting the collectibility of loans. The other subsidiaries of the Company calculate a provision based on a method most appropriate to practices within the subsidiary's industry.

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 antidilutive during substantially all of 1975 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.

consolidated statement of income

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1975	YEAR ENDED DECEMBER 31, 1974	CHANGE
INCOME			
Interest and Fees on Loans	$686,997	$ 759,949	$ (72,952)
Interest on Funds Sold	13,564	13,821	(257)
Interest and Dividends on Investment Securities:			
U.S. Treasury Securities	27,974	15,726	12,248
Securities of Other U.S. Government Agencies and Corporations	36,684	41,783	(5,099)
Obligations of States and Political Subdivisions	29,134	34,051	(4,917)
Other Securities	10,172	9,456	716
Interest on Overseas Deposits	33,547	67,072	(33,525)
Trading Account Income:			
Interest	3,569	7,258	(3,689)
Profits and Commissions	2,959	1,385	1,574
Direct Lease Financing Income	31,115	18,278	12,837
Trust Income	17,566	16,066	1,500
Service Charges on Deposit Accounts	24,537	24,245	292
Other Income	20,092	22,188	(2,096)
Total Income	937,910	1,031,278	(93,368)
EXPENSE			
Salaries	135,171	119,777	15,394
Pension and Other Employee Benefits	29,401	26,764	2,637
Interest on Deposits	438,261	520,442	(82,181)
Interest on Borrowed Money	63,223	155,728	(92,505)
Interest on Long-Term Debt	18,292	17,784	508
Net Occupancy Expense	29,648	28,393	1,255
Equipment Expense	19,389	17,063	2,326
Provision for Losses on Loans	50,429	21,864	28,565
Other Expense	63,293	54,301	8,992
Total Expense	847,107	962,116	(115,009)
INCOME BEFORE INCOME TAXES AND SECURITY GAINS OR LOSSES	90,803	69,162	21,641
Less Applicable Income Taxes	34,658	19,088	15,570
INCOME BEFORE SECURITY GAINS OR LOSSES	$ 56,145	$ 50,074	$ 6,071
Security Gains (Losses) Net of Income Tax Effect of $(782) and $3,276	646	(2,705)	3,351
Net Income	$ 56,791	$ 47,369	$ 9,422
INCOME PER SHARE			
Income before Security Gains or Losses	$2.80	$2.53	$.27
Security Gains (Losses), Net of Tax	.03	(.14)	.17
Net Income	$2.83	$2.39	$.44
INCOME PER SHARE ASSUMING FULL DILUTION			
Income before Security Gains or Losses	$2.73	$2.46	$.27
Security Gains (Losses), Net of Tax	.03	(.13)	.16
Net Income	$2.76	$2.33	$.43

The accompanying notes are an integral part of these statements.

WELLS FARGO & COMPANY AND SUBSIDIARIES

consolidated balance sheet

ASSETS (IN THOUSANDS)

	DECEMBER 31, 1975	DECEMBER 31, 1974	CHANGE
Cash and Due from Banks	$ 1,465,515	$ 1,238,589	$ 226,926
Overseas Deposits	484,388	498,520	(14,132)
Investment Securities:			
U.S. Treasury Securities	721,244	203,486	517,758
Securities of Other U.S. Government Agencies and Corporations	438,102	551,460	(113,358)
Obligations of States and Political Subdivisions	430,871	805,823	(374,952)
Other Securities	104,758	126,603	(21,845)
Total Investment Securities	1,694,975	1,687,372	7,603
Trading Account Securities	76,201	86,597	(10,396)
Funds Sold	238,850	479,592	(240,742)
Loans:			
Commercial Loans	2,437,561	2,847,531	(409,970)
Real Estate Loans	2,261,895	2,232,200	29,695
Consumer Loans	1,251,283	1,171,231	80,052
International Loans of U.S. Offices	989,285	511,796	477,489
Loans of Overseas Offices	680,287	1,059,613	(379,326)
Total Loans	7,620,311	7,822,371	(202,060)
Less: Reserve for Loan Losses	61,665	52,119	9,546
Unearned Discount	107,458	106,153	1,305
Total Net Loans	7,451,188	7,664,099	(212,911)
Direct Lease Financing	282,419	237,700	44,719
Premises and Equipment	131,746	128,054	3,692
Customers' Acceptance Liability	219,973	153,048	66,925
Accrued Interest Receivable	121,206	149,629	(28,423)
Other Assets	195,770	188,010	7,760
Total Assets	$12,362,231	$12,511,210	$ (148,979)

The accompanying notes are an integral part of these statements.

LIABILITIES AND STOCKHOLDERS' EQUITY (IN THOUSANDS)

	DECEMBER 31, 1975	DECEMBER 31, 1974	CHANGE
Demand Deposits	$ 2,906,705	$ 2,724,560	$ 182,145
Savings Deposits	2,571,437	2,005,727	565,710
Savings Certificates	1,384,953	1,311,889	73,064
Certificates of Deposit	1,721,376	1,894,209	(172,833)
Other Time Deposits	430,926	431,885	(959)
Deposits in Overseas Offices	808,914	1,372,020	(563,106)
Total Deposits	9,824,311	9,740,290	84,021
Funds Borrowed	1,092,447	1,395,613	(303,166)
Commercial Paper Outstanding	146,698	179,474	(32,776)
Acceptances Outstanding	220,489	153,787	66,702
Accrued Taxes and Other Expenses	153,425	175,419	(21,994)
4½% Capital Notes of Wells Fargo Bank, N.A., due 1989	50,000	50,000	—
3¼% Convertible Capital Notes, due 1989	18,408	18,902	(494)
Debentures, Notes and Mortgages	214,850	210,138	4,712
Other Liabilities	141,502	125,284	16,218
Total Liabilities	11,862,130	12,048,907	(186,777)
Stockholders' Equity:			
Common Stock—$5 par value, authorized 30,000,000 shares, outstanding 20,026,842 shares on December 31, 1975 and 20,010,109 on December 31, 1974	100,134	100,050	84
Capital Surplus	185,377	186,504	(1,127)
Retained Earnings	214,590	175,749	38,841
Total Stockholders' Equity	500,101	462,303	37,798
Total Liabilities and Stockholders' Equity	$12,362,231	$12,511,210	$ (148,979)

The accompanying notes are an integral part of these statements.

WELLS FARGO & COMPANY AND SUBSIDIARIES

consolidated statement of stockholders' equity

FOR THE TWO YEARS ENDED DECEMBER 31, 1975 (IN THOUSANDS)

	COMMON STOCK	CAPITAL SURPLUS	RETAINED EARNINGS	TOTAL STOCK-HOLDERS' EQUITY
BALANCE DECEMBER 31, 1973, as previously reported	$ 98,256	$184,483	$110,035	$392,774
Reclassification of Contingency Portion of Reserve for Loan Losses			36,581	36,581
BALANCE DECEMBER 31, 1973, after reclassification	98,256	184,483	146,616	429,355
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	$175,749	$462,303
Net Income—1975			56,791	56,791
Conversion of Convertible Notes	84	410		494
Cash Dividends Declared			(19,219)	(19,219)
To Reflect a Decrease in the Proportionate Ownership of Allgemeine Deutsche Credit-Anstalt (ADCA)		(1,537)		(1,537)
Other—Net of Tax			1,269	1,269
Net Increase (Decrease)	84	(1,127)	38,841	37,798
BALANCE DECEMBER 31, 1975	$100,134	$185,377	$214,590	$500,101

The accompanying notes are an integral part of these statements.

WELLS FARGO & COMPANY AND SUBSIDIARIES

consolidated statement of changes in financial position

FOR THE TWO YEARS ENDED DECEMBER 31, 1975 (IN THOUSANDS)

	1975	1974
SOURCES OF FINANCIAL RESOURCES		
Net Income	$ 56,791	$ 47,369
Deposits	84,021	723,396
Other Liabilities	—	63,794
Decreases in:		
Funds Sold	240,742	—
Loans	212,911	—
Overseas Deposits	14,132	568,863
Securities (including Trading)	2,793	72,936
Total	$611,390	$1,476,358
APPLICATION OF FINANCIAL RESOURCES		
Cash Dividends	$ 19,219	$ 19,059
Cash and Due from Banks	226,926	74,055
Direct Lease Financing	44,719	112,582
Loans	—	794,776
Funds Sold	—	376,692
Other—Net	(15,416)	72,934
Decreases in:		
Short-Term Borrowing	335,942	26,260
Total	$611,390	$1,476,358

The accompanying notes are an integral part of these statements.

consolidated statement of condition

ASSETS (IN THOUSANDS)	DECEMBER 31, 1975	DECEMBER 31, 1974	CHANGE
Cash and Due from Banks	$ 1,436,338	$ 1,225,566	$ 210,772
Overseas Deposits	484,388	498,520	(14,132)
Investment Securities:			
U.S. Treasury Securities	721,244	203,486	517,758
Securities of Other U.S. Government Agencies and Corporations	437,469	551,460	(113,991)
Obligations of States and Political Subdivisions	430,871	805,823	(374,952)
Other Securities	96,854	100,546	(3,692)
Total Investment Securities	1,686,438	1,661,315	25,123
Trading Account Securities	76,201	86,597	(10,396)
Funds Sold	238,850	479,592	(240,742)
Loans (Net of Reserve for Loan Losses and Unearned Discount)	7,301,881	7,513,686	(211,805)
Direct Lease Financing	140,124	126,055	14,069
Premises and Equipment	130,996	127,318	3,678
Customers' Acceptance Liability	219,973	153,048	66,925
Accrued Interest Receivable	120,223	148,643	(28,420)
Other Assets	152,292	151,507	785
Total Assets	$11,987,704	$12,171,847	$ (184,143)
LIABILITIES AND STOCKHOLDERS' EQUITY (IN THOUSANDS)			
Demand Deposits	$ 2,908,942	$ 2,727,695	$ 181,247
Savings Deposits	2,571,487	2,005,727	565,760
Savings Certificates	1,384,953	1,311,889	73,064
Certificates of Deposit	1,721,376	1,903,200	(181,824)
Other Time Deposits	430,926	431,885	(959)
Deposits in Overseas Offices	808,914	1,372,020	(563,106)
Total Deposits	9,826,598	9,752,416	74,182
Funds Borrowed	1,047,576	1,373,477	(325,901)
Long-Term Debt	68,350	70,138	(1,788)
Acceptances Outstanding	220,489	153,787	66,702
Accrued Taxes and Other Expenses	127,866	165,699	(37,833)
Other Liabilities	113,969	104,971	8,998
Total Liabilities (Excluding Subordinated Notes)	11,404,848	11,620,488	(215,640)
Subordinated Notes:			
8¼% Capital Note to Wells Fargo & Company, due 1998	25,000	25,000	—
4½% Capital Notes due 1989	50,000	50,000	—
Total Subordinated Notes	75,000	75,000	—
Stockholders' Equity:			
Capital Stock	94,461	94,461	—
Surplus	247,693	244,245	3,448
Surplus Representing Convertible Capital Note Obligation Assumed by Parent Corporation	18,408	18,902	(494)
Undivided Profits	147,294	118,751	28,543
Total Stockholders' Equity	507,856	476,359	31,497
Total Liabilities and Stockholders' Equity	$11,987,704	$12,171,847	$ (184,143)

The accompanying notes are an integral part of these statements.

notes to consolidated financial statements *(Except for per share amounts, dollar amounts are in thousands)*

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. INVESTMENT SECURITIES

The following data is provided with respect to investment securities:

	MARKET VALUE DECEMBER 31, 1975	MARKET VALUE DECEMBER 31, 1974
U.S. Treasury Securities	$ 727,247	$ 201,807
Securities of Other U.S. Government Agencies and Corporations	438,386	545,957
Obligations of States and Political Subdivisions	362,529	709,290
Other Securities	99,526	121,375
Total Investment Securities	$1,627,688	$1,578,429
Accumulation of Discount	$ 1,326	$ 1,943

Included in the Company's security holdings at December 31, 1975 were $79,200 of direct obligations of the State of California (market value $66,700). No other state or municipal issuer held by the Company exceeded 5 per cent of the year-end *Stockholders' Equity*.

2. FOREIGN EQUITY SECURITIES

Foreign equity securities accounted for on the equity method totaled $51,553 at December 31, 1975 and $57,552 at December 31, 1974, including unamortized goodwill of $9,339 and $14,223, respectively. During 1975, one of these investments carried on the equity method, Allgemeine Deutsche Credit-Anstalt (ADCA), produced a charge against consolidated income of $5,470, resulting in an after-tax loss of $3,353. In December of 1975, the Company's interest in ADCA decreased from 25 per cent to 17.2 per cent because of the issuance of additional capital shares by ADCA.

3. PLEDGED ASSETS

United States government securities, other securities and loans carried at $792,570 on December 31, 1975 and $818,344 on December 31, 1974 were pledged to secure U.S. government deposits, other public funds, trust deposits and for other purposes, as required or permitted by law.

4. PREMISES AND EQUIPMENT

The following table presents comparative data for premises and equipment:

	COST	ACCUMULATED DEPRECIATION AND AMORTIZATION	NET
At December 31, 1975:			
Land	$ 25,647	$ —	$ 25,647
Bank Premises	82,685	25,722	56,963
Furniture and Equipment	60,715	32,727	27,988
Leasehold Improvements	28,779	7,631	21,148
Total	$197,826	$66,080	$131,746
At December 31, 1974:			
Land	$ 25,699	$ —	$ 25,699
Bank Premises	83,246	25,262	57,984
Furniture and Equipment	55,408	28,399	27,009
Leasehold Improvements	25,120	7,758	17,362
Total	$189,473	$61,419	$128,054

5. RESERVE FOR LOAN LOSSES

New requirements for the presentation of the reserve for loan losses have been recently mandated as described in the *Summary of Significant Accounting Policies*. The following is presented in conformity with the new requirements:

	1975	1974
Balance at beginning of year	$52,119	$48,681
Additions:		
Charged to expense (including $1,829 and $364 for activities of non-bank subsidiaries)	50,429	21,864
Reserve for loans acquired from Beverly Hills National Bank and Commercial National Bank	—	2,640
Total additions	50,429	24,504
Deductions:		
Loans charged off	50,927	26,853
Less recoveries on loans charged off	(10,044)	(5,787)
Total deductions	40,883	21,066
Balance at end of year	$61,665	$52,119

For federal income tax purposes, the balance of the reserve for loan losses was $92,911 at December 31, 1975 and $89,070 at December 31, 1974.

The Bank's provision exceeded the moving average formula provision by approximately $26,600 and $6,300 for 1975 and 1974 respectively.

6. CAPITAL AND CONVERTIBLE CAPITAL NOTES

The 4½% Capital Notes of the Bank may be currently redeemed at the option of the Bank at a 2.025 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 1.4625 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.

7. DEBENTURES, NOTES AND MORTGAGES

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

	DECEMBER 31, 1975	1974
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	18,770	18,463
7¼% Swiss Franc Notes (SFr 80,000,000 par) due 1976 of Wells Fargo International Investment Corporation	30,480	31,200
6½% Euro-Deutsche Mark Debentures (DM 50,000,000 par) due 1988 of Wells Fargo International Investment Corporation	19,100	20,475
8%-10½% Senior Notes (with original maturities of more than three years) due in varying amounts to 1988 of Wells Fargo Leasing Corporation	21,500	15,000
	$214,850	$210,138

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

1976	1977	1978	1979	1980
$31,480	$1,000	$1,000	$4,811	$6,061

The 7⅜% Sinking Fund Debentures will require an annual sinking fund of $2,500 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 to exceed $2,500 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 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 a year. 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 until 1988 and then annual installments of $500 until 1993. The Bonds are secured by deeds of trust on $38,935 of Bank premises, at cost. The bonds can presently be redeemed at a 1.865 per cent premium for the 4¼% Bonds and a 2.640 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 currently be redeemed at a 1 per cent premium.

The Euro-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 Euro-Deutsche Mark Debentures has been guaranteed by the Company.

Of the Senior Notes of Wells Fargo Leasing Corporation, $15,000 with an interest rate of 8 per cent require annual principal payments of $1,500 beginning June 1, 1979 and may be currently prepaid at a 6.4 per cent premium and at lesser premiums until June 1, 1983, when the Notes may be redeemed at par. The remaining $6,500 of Senior Notes with interest at 10 to 10½ per cent, require principal repayments of $400 in 1979 and $1,650 in 1980 and after, and may be prepaid.

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.

8. COMMERCIAL PAPER

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, 1975	1974
Average amount outstanding	$151,892	$115,403
Average rate	6.41%	10.65%
Highest month-end balance	$175,690	$179,474
Rate on outstandings at year end	6.16%	9.86%

In connection with these obligations, the Company had available lines of credit with unaffiliated banks totaling $162,000 at year-end 1975 and $139,500 at year-end 1974. During 1975 and 1974, none of the lines of credit were used.

9. 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 were attached to the Euro-Deutsche Mark Debentures, are currently detachable and expire on October 1, 1988.

At December 31, 1975, 624,003 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 1975 and 1974. The following table summarizes the status of the option plan:

	NUMBER OF SHARES	PRICE PER SHARE	AGGREGATE VALUE
Shares under option at:			
December 31, 1975 and 1974	305,000	$20.25-$21.88	$6,337
Options granted:			
1975	None	—	—
1974	209,000	$20.25	$4,232
Options that became exercisable:			
1975	99,000	$21.88	$2,166
1974	None	—	—

The market value per share and in total at the date the shares became exercisable was $15.63 and $1,547 respectively. A maximum of 37,500 shares were available for future options at December 31, 1975 (35,000 shares at December 31, 1974).

10. EMPLOYEE BENEFITS

The cost of the Pension Plan totaled $2,923 in 1975 and $2,797 in 1974. Improvements were made in the plan in 1974 with additional improvements in 1975. The effect of the improvements on the 1974 and 1975 contributions to the plan was not significant. The effect on future contributions is estimated to be approximately $500 annually.

The provisions of the Employee Retirement Income Security Act of 1974 will be effective for the plan beginning in 1976. Based on the actuaries' studies of necessary changes to conform the Plan to the requirements of the Act, anticipated future costs of the plan will not be significantly affected.

Substantially all employees participate in profit sharing plans. Contributions to the plan are based in part on the Company's earnings performance and totaled $8,170 in 1975 and $8,435 in 1974.

11. FOREIGN EXCHANGE ADJUSTMENTS

The aggregate exchange gains arising during the year and included in the determination of net income for 1975 were $2,187 and $366 in 1974.

The Bank's international investment subsidiary charged against income exchange adjustments of $3,591 in 1975 and $1,273 in 1974.

12. INCOME TAX

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

	FEDERAL	STATE & LOCAL	FOREIGN	TOTAL
1975:				
Current	$ 6,671	$10,534	$ 6,419	$23,624
Deferred	7,553	745	2,736	11,034
	$14,224	$11,279	$ 9,155	$34,658
1974:				
Current	$ 2,545	$ 7,288	$ 8,061	$17,894
Deferred	3,258	762	(2,826)	1,194
	$ 5,803	$ 8,050	$ 5,235	$19,088

The variances in the amounts for 1974 from the previously reported estimates result from adjustments when the 1974 tax returns were filed and from the reclassification of investment tax credit amortization related to leasing activities.

At December 31, 1975, the Company had income taxes payable of $74,670 of which $8,299 was currently payable. At December 31, 1974, the Company had income taxes payable of $68,303 of which $8,534 was currently payable.

The components of the deferred income tax provision in 1975 and 1974 and the tax effect of each are as follows:

	1975	1974
Revenue and expense recognized on the accrual method for financial statements but on the cash basis for tax returns	$ 218	$ (15,069)
Conversion of leases from finance to operating method	11,268	10,957
Greater (lesser) loan loss deduction for income tax purposes	(4,080)	2,184
Net decrease in amortization of bond discount accretion	(515)	(1,695)
Investment tax credit claimed currently, but deferred for financial statement purposes	6,013	2,679
Other items	(1,870)	2,138
	$11,034	$ 1,194

The effective tax rates for 1975 and 1974 of 38.2 per cent and 27.6 per cent, respectively, are computed as follows:

	PER CENT OF PRE-TAX INCOME BEFORE SECURITY TRANSACTIONS	
	1975	1974
Tax provision at corporate federal income tax rate	48.0%	48.0%
Increases (reductions) in taxes resulting from:		
State and municipal bond income	(15.4)	(25.9)
State and local taxes on income, net of federal income tax benefit	5.9	5.9
Other items	(.3)	(.4)
	38.2%	27.6%

The effective tax rate on security gains or losses differs from the federal income tax rate of 48 per cent because of the state income tax effect, 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 $6,269 at December 31, 1975, and $5,382 at December 31, 1974. For federal income tax purposes, the Company had investment tax credit carryovers of $2,099 and $5,650 at December 31, 1975 and December 31, 1974, respectively, expiring 1978 through 1981.

13. 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, guaranteed 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, 1975 totaled $179,289.

14. LEASE COMMITMENTS

For disclosure purposes, the Company has classified lease arrangements as either "finance" or "operating" leases. Included in the net rentals for land, buildings and equipment of approximately $23,100 for 1975 and $22,300 for 1974 are finance and operating lease expenses of $10,164 and $3,703 respectively for 1975 and $8,896 and $3,778 for 1974. The amount of sublease income included in the above amounts is not material. Some of the lease commitments for leased premises include the payment of taxes, insurance and maintenance costs in the total periodic payment. A summary of noncancellable long-term lease commitments, primarily for the use of real property, follows:

	FINANCE LEASES		OPERATING LEASES		
	GROSS RENTS	SUB-LEASES	GROSS RENTS	SUB-LEASES	TOTAL
1976	$ 10,678	$ (332)	$ 3,813	$(179)	$ 13,980
1977	10,905	(235)	3,356	(73)	13,953
1978	11,145	(193)	3,051	(71)	13,932
1979	11,468	(158)	2,630	(20)	13,920
1980	11,421	(124)	2,311	—	13,608
1981-1985	50,736	(135)	6,587	—	57,188
1986-1990	48,423	(34)	3,703	—	52,092
1991-1995	31,746	(29)	2,304	—	34,021
1996 and succeeding	28,799	(12)	1,784	—	30,571
	$215,321	$(1,252)	$29,539	$(343)	$243,265

	INTEREST RATE USED IN PRESENT VALUE COMPUTATION			PRESENT VALUE OF FINANCE LEASES	
		WEIGHTED AVERAGE		DECEMBER 31,	
	RANGE	1975	1974	1975	1974
Finance Leases—Net of Taxes, Insurance and Other Expenses	6.0%-10.0%	8.25%	8.24%	$62,300	$63,807
Finance Leases—Including payments for Taxes, Insurance and Other Expenses	5.0%- 9.0%	7.87%	7.84%	$29,988	$30,577

The present values for the related subleases are insignificant.

The effect of the net financing lease commitments compared with charges for amortization and interest had the leases been capitalized on average income for 1975 and 1974 amounts to 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.

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, 1975 and 1974 and the related consolidated statements of income, stockholders' equity, and changes in financial position for the years then ended and the consolidated statements of condition of Wells Fargo Bank, N.A. and subsidiaries as of December 31, 1975 and 1974. 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 consolidated financial position of Wells Fargo & Company and subsidiaries at December 31, 1975 and 1974 and the results of their operations and changes in their financial position for the years then ended and the consolidated financial position of Wells Fargo Bank, N.A. and subsidiaries at December 31, 1975 and 1974, all 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 21, 1976

financial summary

AVERAGE BALANCES, RATES PAID AND YIELDS (Taxable-Equivalent Basis)

	1975		1974		1973		1972		1971	
	AVERAGE BALANCES (IN MILLIONS)	YIELDS OR RATES (INTEREST ONLY BASIS)	AVERAGE BALANCES (IN MILLIONS)	YIELDS OR RATES (INTEREST ONLY BASIS)	AVERAGE BALANCES (IN MILLIONS)	YIELDS OR RATES (INTEREST ONLY BASIS)	AVERAGE BALANCES (IN MILLIONS)	YIELDS OR RATES (INTEREST ONLY BASIS)	AVERAGE BALANCES (IN MILLIONS)	YIELDS OR RATES (INTEREST ONLY BASIS)
USES:										
Cash and Due from Banks	$ 1,105		$ 1,134		$ 984		$ 893		$ 890	
Overseas Deposits	472	7.11%	772	8.69%	963	6.39%	640	4.83%	400	6.47%
Securities:										
U.S. Treasury Securities	387	7.23	239	6.58	346	5.96	341	5.64	369	6.16
Securities of Other U.S. Government Agencies and Corporations	515	7.12	610	6.85	444	6.35	232	5.48	119	5.33
Obligations of States and Political Subdivisions	636	9.32	760	9.09	594	7.46	715	7.20	639	7.27
Other Securities (excluding Equity Investments)	138	7.37	116	8.15	130	7.36	62	5.68	88	5.16
Total Investment Securities	1,676	8.00	1,725	7.89	1,514	6.78	1,350	6.44	1,215	6.59
Trading Account Securities	56	7.16	109	10.47	112	7.85	43	5.58	84	5.99
Funds Sold	197	6.89	148	9.34	32	7.94	59	4.92	52	4.30
Loans:										
Commercial Loans	2,512	8.63	2,755	11.19	2,525	8.55	2,060	6.31	1,775	6.70
Real Estate Loans	2,211	7.86	2,100	7.79	1,738	7.12	1,393	6.79	1,233	6.67
Consumer Loans	1,096	11.79	988	11.32	787	10.04	579	9.68	459	10.43
International Loans of U.S. Offices	644	8.97	395	11.12	367	8.93	223	7.41	210	7.30
Loans of Overseas Offices	874	9.42	941	11.91	807	9.65	421	7.13	287	7.97
Total Loans	7,337	8.99	7,179	10.30	6,224	8.50	4,676	6.99	3,964	7.22
Direct Lease Financing	264	12.49	168	11.63	109	10.31	58	9.26	41	6.83
Total Earning Assets	10,002	8.78	10,101	9.78	8,954	7.99	6,826	6.67	5,756	6.99
All Other Assets	619		556		431		334		324	
Total Assets	$11,726		$11,791		$10,369		$ 8,053		$ 6,970	
SOURCES:										
Demand Deposits	$ 2,562		$ 2,503		$ 2,342		$ 2,136		$ 1,976	
Savings Deposits	2,351	4.98%	1,897	4.97%	1,739	4.63%	1,736	4.01%	1,612	4.30%
Savings Certificates	1,343	6.54	1,198	7.01	977	5.76	902	5.34	775	5.34
Certificates of Deposit	1,849	7.73	1,272	10.49	733	8.41	315	5.20	254	5.36
Other Time Deposits	360	6.43	525	9.11	593	6.77	555	4.73	460	4.89
Deposits in Overseas Offices	953	7.06	1,670	9.64	1,781	7.24	1,062	5.31	678	6.77
Funds Borrowed	894	5.96	1,433	10.01	1,197	8.68	545	4.38	406	4.67
Commercial Paper	147	6.77	115	10.65	52	8.33	4	4.33	3	6.29
Long-Term Debt	286	6.40	274	6.49	203	6.21	126	4.68	95	4.33
Total Interest Paying Liabilities	8,183	6.35	8,384	8.28	7,275	6.71	5,245	4.70	4,283	5.04
Other Liabilities	500		457		335		313		367	
Stockholders' Equity	481		447		417		359		344	
Total Liabilities and Stockholders' Equity	$11,726		$11,791		$10,369		$ 8,053		$ 6,970	
ANALYSIS:										
Yield on Earning Assets, including Fees		9.05%		9.98%		8.21%		6.88%		7.18%
Cost of Funds Supporting Assets		5.20		6.87		5.45		3.60		3.76
Net Spread		3.85%		3.11%		2.76%		3.28%		3.42%
Yield on Domestic Earning Assets, including Fees		9.09%		9.88%		8.27%		7.10%		7.13%
Cost of Funds Supporting These Assets		4.93		6.31		4.98		3.30		3.35
Net Domestic Spread		4.16%		3.57%		3.29%		3.80%		3.78%

directors

Wells Fargo & Company and its principal subsidiary, Wells Fargo Bank, N.A.

Ernest C. Arbuckle
Chairman of the Board

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

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

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

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)

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Vice President, Western Region of PPG Industries (glass, paint and chemicals)

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Partner, Heller, Ehrman, White & McAuliffe, Attorneys at Law

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Retired Chairman, FMC Corporation (food machinery and chemicals)

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

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

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Malcolm MacNaughton
Chairman of the Board, Castle & Cooke, Inc. (food processing, land development, merchandising and shipping services)

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Arjay Miller
Dean, Graduate School of Business, Stanford University

Paul A. Miller
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President, R.T. Nahas Company (real estate and construction)

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

Atherton Phleger
Partner, Brobeck, Phleger & Harrison, Attorneys at Law

management

Wells Fargo & Company

420 Montgomery Street
San Francisco, California 94104

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GENERAL AUDITOR
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*Member of the Executive Office

Wells Fargo Bank

Head Office: 464 California Street
San Francisco, California 94104

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

Henry Parish III
Managing Director

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R. Wickham Baxter
Vice President and
General Manager

Nassau Branch
Nassau, Bahamas

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Australia: Sydney
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Assistant Vice President and Representative

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Jacques de la Chauviniere
Assistant Vice President and Representative

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Assistant Vice President and Representative

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Vice President and Representative

Nicaragua: Managua
Peter R. Fowler
Assistant Vice President and Representative

Singapore
James D. Cullen
Assistant Vice President and Representative

Venezuela: Caracas
Walter A. Bustard
Vice President and Representative

AFFILIATES:

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Panama City, Panama

Banco de America
Managua, Nicaragua

Broadbank Corporation Limited
Auckland, New Zealand

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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

LOAN REVIEW AND EXAMINATION

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Vice President and Chief Loan Examiner

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George G. Skou
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Valley Division, Sacramento
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Eugene E. Cochrane
Senior Vice President

Real Estate Loan Division, San Francisco
Fielding McDearmon
Senior Vice President

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Chairman of the Board

John G. Montgomery
President

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President

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572 East Green Street
Pasadena, California 91101

Thomas A. Gray
President

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27 William Street
New York, New York 10005

Ronald G. Hillman
President

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

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Pacific Stock Exchange
London Stock Exchange
Frankfurter Boerse

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Morgan Guaranty Trust Company
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REGISTRARS OF STOCK

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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 April 20, 1976
at 420 Montgomery St.,
San Francisco, Ca.

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
California 94144