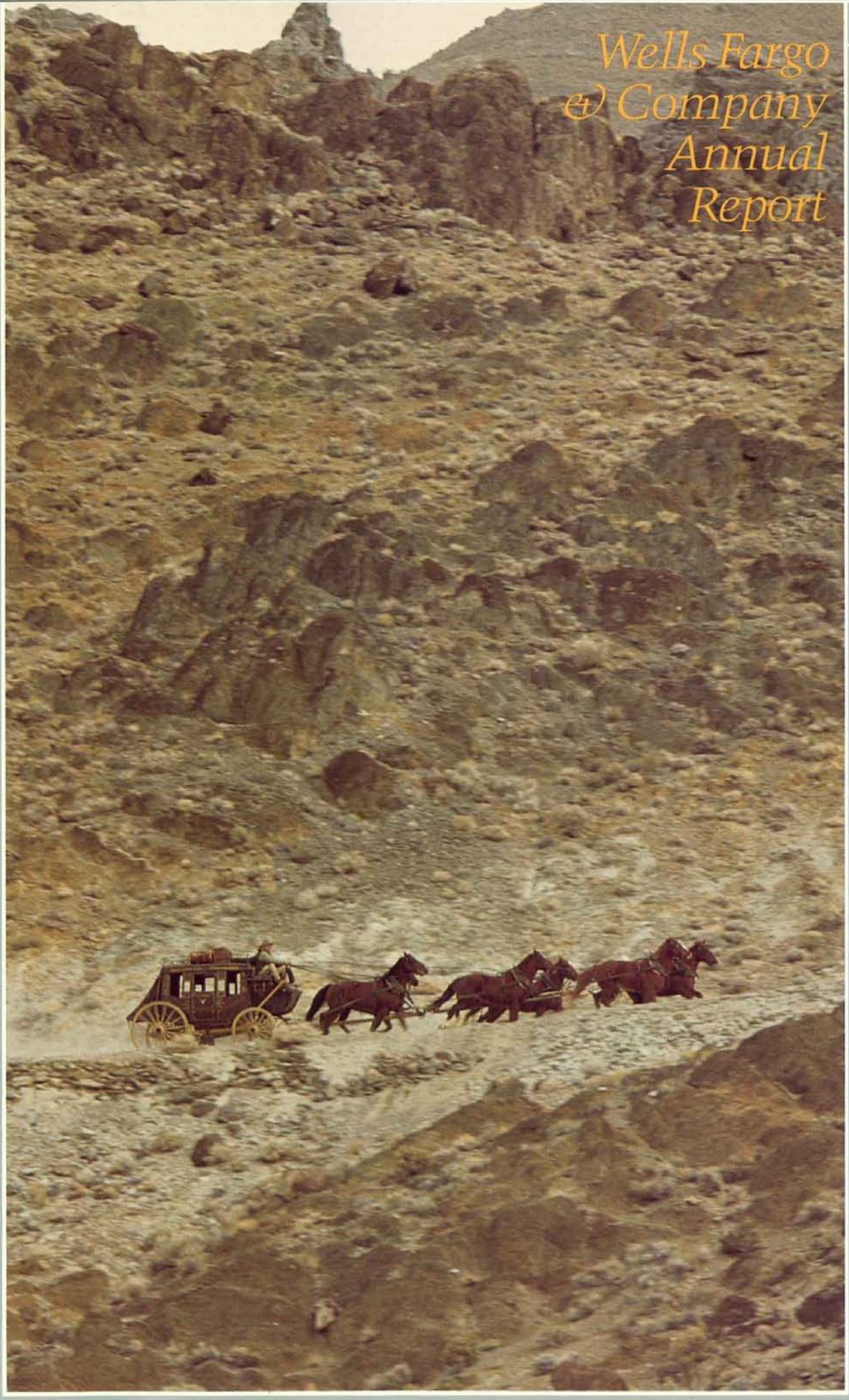
Wells Fargo & Company Annual Report 1977



Your Personal Banker

In 1977, Wells Fargo introduced a Personal Service Program in order to better serve its customers. Personal Banking Officer Carol Rudgers is one of the many outstanding graduates of a new training project that is part of the program.

Contents

HIGHLIGHTS

Wells Fargo & Company and Subsidiaries

(Dollars in Thousands Except Per Share Data)	*1977*	*1976*	*Change* Amount	*Change* Per Cent
For the Year				
Income before Securities Transactions	$ 87,300	$ 63,471	$ 23,829	37.5
Securities Transactions Net of Tax	(1,020)	40	(1,060)	—
Net Income	$ 86,280	$ 63,511	$ 22,769	35.9
Dividends Declared	$ 24,388	$ 19,888	$ 4,500	22.6
Per Share (1):				
Income before Securities Transactions	$4.03	$3.16	$0.87	27.5
Net Income	$3.98	$3.16	$0.82	25.9
Dividends Declared	$1.12	$0.99	$0.13	13.1
At Year End				
Assets	$15,358,768	$12,968,664	$2,390,104	18.4
Deposits	$12,477,522	$10,446,453	$2,031,069	19.4
Loans	$10,230,139	$8,458,644	$1,771,495	20.9
Investments	$1,919,446	$1,726,720	$192,726	11.2
Stockholders' Equity	$664,257	$545,862	$118,395	21.7
Book Value Per Share	$29.77	$27.08	$2.69	9.9

(1) Based on average number of common shares outstanding of 21,681,585 for 1977 and 20,061,601 for 1976.

Members of the Executive Office directing the day-to-day affairs of Wells Fargo & Company are, left to right: James K. Dobey, chairman of the Board; Ralph J. Crawford, Jr., vice chairman of the Board, and Richard P. Cooley, president and chief executive officer.

LETTER TO SHAREHOLDERS

Wells Fargo & Company in 1977 recorded the best year in its history. Wells Fargo Bank benefited from the particularly vigorous demand for mortgage loans. Consumer and international loan demand also was strong during the year.

The Company's net income before securities transactions rose to $87.3 million in 1977, equal to $4.03 per share. In the previous year, net income was $63.5 million, or $3.16 a share. The net income increase was 37.5 per cent, and the per-share increase was 27.5 per cent.

Income after securities transactions rose to $86.3 million, equal to $3.98 per share, compared with $63.5 million, or $3.16 a share, in 1976.

The smaller proportional increase in per-share earnings in 1977 was due to the additional common stock outstanding as a result of a public offering in April. The offering consisted of two million shares of common stock priced at 27⅛, and $50 million in 25-year sinking fund debentures which were offered at par to yield 8.6 per cent. Both offers sold out immediately. With the sale of the equity offering, the capital of the Company was increased to more than $600 million.

In line with the Company's rising earnings, Wells Fargo's directors raised the quarterly rate on the Company's common stock in February 1977 and again in February 1978. The 1977 increase was from 25 cents to 28 cents a share, a rise of 12 per cent. The dividend was increased 25 per cent this year to 35 cents a share.

Assets at the end of 1977 were $15.4 billion, compared with $13 billion in 1976. Deposits totaled $12.5 billion, up from $10.4 billion at the end of the previous year.

In 1977, all operating units of the Company contributed to our earnings increase, but the largest segment came from the Bank's Retail Banking Group. Deposits and loans generated by this Group reached record levels, and the branch offices were very successful in marketing Wells Fargo's innovative services. The Group continued its expansion program in Southern California, an effort that was highlighted with the Bank's bid to purchase eight branches that had been offered for sale by Bank of California, seven of them in Southern California, and the proposal to acquire First National Bank of Orange County, an 11-office institution. The Bank of California purchase was completed in February 1978, and the Orange County bank acquisition is awaiting the approval of regulatory authorities.

International Banking had an excellent year as it continued to be active in loan syndications, showed strong gains in loans and acceptances, and expanded its global network in the Far East and Europe. The International Banking Group has opened a branch in London and has sold its interest in Western American Bank, a merchant bank based in London, to two shareholders in that affiliation.

The Real Estate Industries Group, which handles the Bank's commercial real estate lending, benefited in 1977 from the large upswing in real estate and construction activity. The highlight of this Group's activities was the development of more than $700 million in new construction loans, some 38 per cent of them in Southern California.

The Trust and Investment Advisors Divisions also increased their contributions to the Bank's earnings in 1977, due to gains in managed assets and growth of fee-based advisory services provided to clients. Wells Fargo's pioneer Index Fund for Employee Benefit Trusts exceeded $800 million in assets at the end of the year, up from $400 million at the end of 1976.

Again in 1977, as was true in the two previous years, national corporate loan demand was weak as corporations increasingly turned to the commercial paper market for their short-term funding needs. This had an impact on the earnings of the Corporate Banking Group. However, demand for consumer, real estate and international loans more than offset the lack of corporate borrowing, with the result that average loan volume for the year was $9 billion, up 15 per cent from the previous year's average volume of $7.8 billion.

For several years, Wells Fargo has been studying the function of the prime rate, the base lending rate to major corporate customers. Now

that more sophisticated devices are available to us for pricing, following our cost of funds and evaluating the creditworthiness of individual borrowers, we have concluded that the prime rate is becoming less and less significant in loan pricing. Concurrently, we are increasingly emphasizing development of fee-based services that meet the changing and growing needs of our major corporate customers.

We also introduced a new short-term credit instrument for corporate borrowers in 1977, known as the Special Advance Facility. This new instrument is designed to complement corporate issuance of commercial paper by enabling creditworthy customers to borrow from the Bank for specific maturities ranging from 1 to 29 days.

Wells Fargo's principal non-bank subsidiaries turned in fine performances in 1977. Wells Fargo Mortgage Company acquired Ben G. McGuire & Company, a Houston-based mortgage banking firm. With this acquisition the mortgage company became the eighth largest in the nation based on its $2 billion servicing portfolio. The mortgage company also expanded its own activities and opened new offices in Phoenix, Arizona, and Reno, Nevada, during the year. Wells Fargo Leasing Corporation increased its income in a year in which competition was strong and in which we were required to adopt new lease accounting rules, which lowered reported earnings. Wells Fargo Realty Advisors, the subsidiary that advises Wells Fargo Mortgage and Equity Trust, a publicly owned real estate investment trust, also had a year of increased earnings both from its own real estate investments and from advisory fees.

During 1977, the financial industry once again was the subject of congressional attention, although no major legislation affecting banks was enacted by year end. A key issue of continuing national debate was whether to allow banks and thrift institutions to pay interest on demand deposits in the form of NOW (Negotiable Order of Withdrawal) accounts. Although the financial industry itself is divided on this subject, Wells Fargo during the year took a strong stand urging passage of NOW account authorization for both banks and thrift institutions, provided that it is coupled with parity in interest rates that can be paid, and with close alignment of other types of regulations that govern these two segments of the financial industry. We encourage the elimination of rate ceilings which discriminate against bank savers compared with savers in thrift institutions. There are 96 million bank savers today who receive one-quarter per cent less on their money than do those who save at thrift institutions. Annually, that amounts to roughly $1 billion discrimination against bank savers.

In general, we believe that removal of all ceilings on interest rates would be in the long-run best interest of the industry, the economy and consumers. Current ceilings on savings interest rates contribute to disintermediation, which refers to the flight of funds from financial institutions when rates on money market instruments are higher. Disintermediation thus shrinks the pool of funds available for home financing loans from banks and thrift institutions. We believe this phenomenon has been a major factor in the tremendous boom-and-bust cycles in the housing industry.

The question of bank ethics also was aired during 1977. As a result of the issues raised, Wells Fargo's management reviewed our Bank's practices and procedures and was able to report to the Board of Directors that none of the activities challenged, such as questionable use of corporate assets for political campaigns, were permitted in our organization. As the result of a long-standing project, the Bank completed and adopted a code of corporate ethics during the year that has now been made a part of our basic procedures manual.

As in past years, these and all other important policy issues were studied and monitored by our Board of Directors in 1977. A major transition on the Board took place during the year as Chairman Ernest C. Arbuckle retired from the Bank's management at the mandatory retirement age of 65 and turned over the chairmanship of the Board to James K. Dobey, who is 58. Mr. Dobey, a veteran of 31 years with our organization, assumed his new post on October 1. He is headquartered in Southern Califor-

Carl E. Reichardt, left, and Robert L. Kemper are executive vice presidents and also are members of the Executive Office.

nia, representing the Company's senior management in that fast-growing business area. Mr. Arbuckle continues as a member of the Board, thus assuring our organization of the continued benefits of his wide business experience and invaluable counsel. Ralph J. Crawford, Jr., 56, was named vice chairman of the Board, the post previously held by Mr. Dobey.

At the 1977 annual meeting in San Francisco, it was announced that two directors were not standing for re-election. Kenneth K. Bechtel, having reached mandatory retirement age, became a director emeritus. Mr. Bechtel, who had served on the Board of the Bank since 1943 and the Board of the Company since 1969, passed away on February 4, 1978. His valued advice and guidance will be sorely missed. Mrs. Helen K. Copley did not stand for re-election because of the increasing demands of her own business and the restrictions this placed upon her time for outside activities. We are grateful for her fine efforts on the Company's behalf during her time as a Board member.

Elected to fill the two vacancies thus created were two individuals who had been serving as advisory directors. They are: James F. Dickason, president of The Newhall Land and Farming Company, and John A. Young, president of Hewlett-Packard Company.

The Board welcomed another distinguished new member in 1977, when Wilson Riles, superintendent of public instruction for the State of California, accepted our invitation to serve on the Board. We are indeed pleased to have his wisdom and insights on important issues involving our organization.

Wells Fargo experienced the sad loss of a revered friend, former executive and director on February 16, 1978, with the death of I. W. Hellman. Mr. Hellman had served Wells Fargo in many capacities since joining the organization in 1920. He was president of the Bank from 1943 to 1960, chairman of the Board of Directors from 1960 to 1964, and continued on the Board as director or director emeritus until late 1974, when he retired. We deeply regret the passing of Mr. Hellman. His many contributions to our organization will keep his memory alive for Wells Fargo's management and staff.

The growth in both the variety and volume of our business convinced us in 1977 that it would be wise to expand our Executive Office. Accordingly, two additional members of senior management were named to the Company's Executive Office early in the year to aid Messrs. Cooley, Dobey and Crawford in the day-to-day management of Wells Fargo. They are: Robert L. Kemper, 49, executive vice president, Finance and Asset Management Group, and Carl E. Reichardt, 46, executive vice president with responsibility for credit policy and non-bank subsidiaries.

We owe a particular debt of thanks to our staff members for their outstanding performance in 1977. It was due to their fine efforts that we were able to take advantage of improving economic trends and to act swiftly to avail ourselves of new service opportunities during the year. Although it was exceedingly difficult in an inflationary environment, our management and staff cooperated all year to restrain increases in our operating expenses.

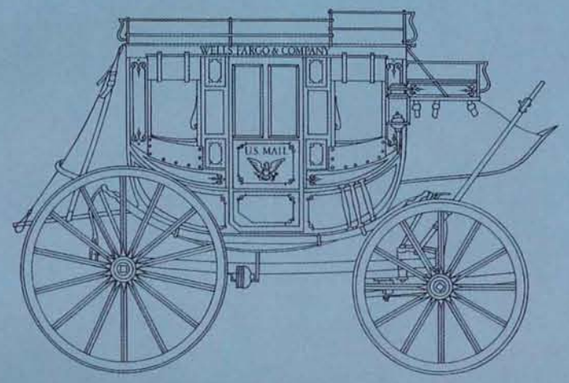
Wells Fargo looks forward to another strong year in 1978 as a result of both new business opportunities and careful cost control.

James K. Dobey
Chairman of the Board

Richard P. Cooley
President and Chief Executive Officer

March 1, 1978

REVIEW OF OPERATIONS



Richard D. Jackson, right, and Richard M. Rosenberg, executive vice presidents in charge of Wells Fargo's Retail Banking Group, visit the Cow Hollow office in San Francisco. A network of 346 branches provides California consumers a full range of banking services.

Retail Banking

The Retail Banking Group, which includes Wells Fargo's 346 branch banking offices in California and two rapidly growing specialized loan divisions, had a highly successful year in 1977. New records were set in deposits and loans, and the Bank hit two milestones as it signed on the millionth checking account and millionth credit card customers.

The Personal Service program launched in 1977, coupled with Wells Fargo's wide array of services tailored to specific customer needs, were important factors in the increased deposit and loan totals achieved by the Bank's branches during the year. In addition, the establishment of the Consumer Loan Division and the Commercial Banking Division in 1975 and 1976, respectively, is enabling the Bank to channel loan funds to its individual, business and agricultural customers in a more efficient and better coordinated manner.

Deposit services that grew strongly during 1977 were the Wells Fargo Reward, the Golden Guarantee program and Cash Mover accounts. The Reward program offers savers a package of banking services if they maintain a minimum savings or time deposit balance of $2,000. There are currently nearly 140,000 Reward accounts totaling $1.4 billion in qualifying deposits. The Golden Guarantee is a tax-deferred retirement service for individuals not covered by a pension plan. Golden Guarantee accounts numbered more than 11,000 at the end of 1977, with savings deposits of about $25 million. Cash Mover offers California business customers an excellent cash management tool through a business checking account and a related savings account with a combined activity statement. It has generated nearly $180 million in business savings deposits for Wells Fargo.

Passbook savings also continued to increase steadily during 1977. Total passbook savings were more than $3.3 billion at year end, a gain of $172 million over year-end 1976.

A major factor in the success of the Retail Banking Group in 1977 was the outstanding growth in demand deposits. The Group's demand deposits averaged $1.9 billion as contrasted to $1.6 billion in 1976.

The Retail Banking Group, over all, had an annual average of $6.8 billion in demand and savings deposits and consumer certificates of deposit in 1977. These "core" deposits provide a stable and solid base of funds for Wells Fargo.

The Consumer Loan Division had about $1.2 billion in outstandings at year-end 1977, spurred in part by the addition of Visa to the Bank's credit card program and the success of a new automobile dealer program. By the end of 1977, Wells Fargo had nearly 260,000 Visa card holders, with outstandings totaling almost $51 million.

The Bank's longstanding Master Charge credit card program had about 812,000 card holders with outstandings of some $297 million. A third successful credit card service offered by Wells Fargo is Custom Charge, in which we provide merchants a private label charge card with Wells Fargo handling the billing and other processing. At year end, Custom Charge outstandings totaled more than $71 million.

Wells Fargo's innovative WellService, which provides electronic check and credit card verification for merchants, steadily increased its customer base during 1977. By the end of the year there were 916 WellService merchants using 1,466 terminals. A total of nearly $88 million in checks and almost $142 million in credit card sales were cleared through the system during the year.

Express Credit, an open-end revolving line of credit for qualifying customers that was introduced in 1976, also showed good growth during the year. At the end of 1977, Express Credit commitments totaled nearly $50 million.

The Bank was the first in the West to introduce a Homeowner Loan Program in 1976, and the service has been well received. Homeowner Loans allow borrowers to convert the equity in their homes into funds for other purposes. By the end of 1977, the Homeowner Loan portfolio totaled nearly $124 million.

Wells Fargo continues to be an active lender for single-family homes in California, and the majority of these loans are made at the Variable Interest Rate (VIR). In 1977, the Retail Banking Group made over $1 billion in real estate loans. Of this amount, $652 million was invested in single-family loans. At year end, the total single-family loan portfolio amounted to nearly $2 billion. The losses in single-family loans have been minimal.

The Commercial Banking Division, which handles loans to mid-sized California business firms, completed its first full year of operation in 1977, with a total loan portfolio of $141 million. To consolidate the Bank's marketing effort with medium sized California companies, the Special Industries Department was moved from the Corporate Banking Group to the Retail Group at year end. Special Industries focuses on young, high-technology California business firms and will continue its operations as a section of the Commercial Banking Division.

The Retail Banking Group opened four new branch offices during the year, three in Southern California and one in the San Joaquin Valley agricultural community of Porterville. Although this was short of our announced goal of 10 new Southern California offices annually, Wells Fargo's branch locations specialists focused their attention during the year on analysis of and proposals for two acquisitions in Southern California. In July it was announced that Wells Fargo was the successful bidder for the purchase of a group of eight Bank of California branches, seven of them in Southern California. Later that month, Wells Fargo announced a proposal to acquire First National Bank of Orange County, which has 11 branches in that county. The acquisition of the Bank of California offices was completed on February 13, 1978, and the other merger has received necessary approval by shareholders of the Orange County bank. It now awaits clearance by regulatory authorities.

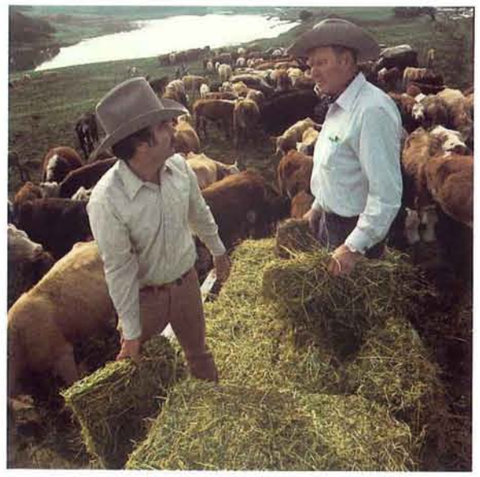
Wells Fargo, the nation's fourth largest commercial bank agricultural lender, continues to expand its agribusiness financing. In keeping with this effort, the Bank plans to open several more offices in agricultural areas in 1978 and forthcoming years.

Programs designed to analyze and improve the level of service provided to customers of the Retail Banking Group were intensified during 1977. As a key part of the Personal Service program, designated branch staff members are enrolled in a five-week personal banker training program that better equips them to handle a broad range of banking needs of their customers. By the end of the year, 135 staff members had completed the training and had been appointed Personal Banking Officers, and both sales results and customer comments indicate that the program is highly successful.

Training activities were stepped up throughout the Retail Banking Group during 1977. Some 3,000 of the Group's 7,600 staff members attended seminars designed to improve their skills in banking and customer service during the year, and 150 first-time supervisors were graduated from a new supervisory training program.

As part of Wells Fargo's continuing effort to provide first-rate service, "Operation Streamline", a project that involves examination of each banking procedure to determine whether it remains appropriate or has become outmoded, was expanded in 1977 to the Retail Group's loan production centers. Associated with this effort is the ongoing forms revision program, in which all forms are reviewed for clarity and effectiveness. During 1977, some 300 forms were eliminated and 130 others were rewritten.

It is a continuing mission of the Retail Banking Group to ensure both that it is organized in the most effective ways to serve its varied markets, and that it has the resources and skills to provide its customers with the best possible banking service.



Wells Fargo is the nation's fourth largest commercial bank in agricultural lending. Roy Fellows, assistant vice president, Agricultural Department, left, assists Chet Behen distribute supplemental feed to his cattle.

The Corporate Banking Group lends to major U.S. firms such as Arcata National Corp., whose president and chief executive officer, J. Frank Leach, right, talks with R. Thomas Decker, executive vice president, Corporate Banking Group, in the lobby of Arcata's Menlo Park headquarters.

Corporate Banking

Moderate loan demand by large corporate borrowers was experienced again in 1977 as many U.S. corporations continued to rebuild liquidity and add to retained earnings. Short-term borrowing needs were satisfied primarily in the commercial paper markets rather than by borrowing from commercial banks.

To accommodate the changing manner in which these large corporations were meeting their financial needs, Wells Fargo Bank in 1977 introduced a new short-term lending program designed to complement corporate borrowing activities in the commercial paper market. This new service is referred to as the Special Advance Facility. Creditworthy customers, who qualify under this program, may borrow from the Bank for specific maturities ranging from 1 to 29 days. The interest rate remains fixed over the term of the loan and is based on a spread over the Bank's internal cost of funds. This program is consistent with Wells Fargo's stated goal of pricing its loans on an individual basis with less emphasis on the prime rate. In pricing its loans the Bank intends to continue to consider each particular circumstance, taking into account Wells Fargo's cost of funds, the competitive situation and other market trends.

While maintaining its position in the large U.S. domestic borrowing market, the Corporate Banking Group in 1977 energetically undertook a major marketing thrust toward medium sized corporations, or those with annual sales ranging from $50 million to $250 million. The results of this effort are expected to make up for slack loan demand from the country's largest companies.

Important to this new thrust is the success of the Cash Management Department, a unit which was formed in 1976 and made fully operational by mid-1977. Its purpose is to market a wide range of non-credit financial services such as lock box, account reconcilement and Wells Fargo's Information Express Service, a service which enables companies with several bank accounts to get daily information on their balances.

An additional service, which greatly aided penetration of the mid-corporate market, was that provided by Wells Fargo's Corporate Finance Department. This group offers financial counseling, private placements and evaluation studies for both existing and potential customers of the Bank. Significant activity and profitability were realized during the past year.

Irvine Ranch, a 77,000-acre development property in Southern California's booming Orange County, fills the view from the Real Estate Industries Group's Irvine office. In 1977, REIG led a nationwide group of banks in financing its purchase. Examining plans are Robert L. Altick, Jr., center, REIG's executive vice president, and John C. Kelterer, left, and D. Pat McGuire, senior vice presidents for Southern and Northern California, respectively.

Real Estate Industries

Accelerated housing and construction activity in California in 1977 provided the setting for increased earnings for the Real Estate Industries Group, which originates and administers Wells Fargo's commercial real estate lending. In 1977, Real Estate Industries originated more than $700 million in new construction loans, 38 per cent of them in Southern California. At the end of the year, the Group's loan portfolio amounted to $799 million, compared with $638 million at the end of the previous year.

The Group participated in one of Wells Fargo's major financial undertakings during the year when it led a group of banks financing the purchase of the Irvine Company in Southern California by Taubman-Allen-Irvine, a nationwide consortium of investors. This transaction, one of the largest involving real estate in California history, involved some 77,000 acres in Orange County, which were purchased for more than $337 million.

The Southern California Division's offices in Los Angeles, Irvine and San Diego also financed a number of other large commercial developments in the southern part of the state in 1977, including a major regional shopping center in Orange County. At the end of its first full year of operation, the Southern California Division's outstandings accounted for about one-third of the Group's total portfolio. Because the south accounts for about two-thirds of California's real estate activity, the potential for future loan growth there is sizable.

The Real Estate Industries Group continued to work down the amount of commitments and loans outstanding to real estate investment trusts (REITs) during 1977. Total commitments to REITs at the end of the year were $254 million, compared with $304 million at the end of 1976. Outstandings were $110 million, compared with $180 million at the end of the previous year. REIT loans currently not accruing interest amount to $49 million compared with $57 million at the end of 1976, and those earning interest below the contracted rate total less than $25 million compared with $66 million a year ago.

A number of the better managed REITs have now improved their financial positions substantially and are once again paying returns to their investors. Wells Fargo continues to support those REIT customers that have demonstrated sound management and investment policies.

The International Group has more than 50 banking offices, representative offices and affiliates around the world and does business in more than 90 countries under the direction of Executive Vice Presidents Carlos Rodriguez-Pastor, left, and his deputy, Gerrit E. Venema.

International Banking

The International Banking Group provides financial services on a wholesale level to foreign governments, foreign and domestic correspondent banks, multinational corporations and local businesses both in the U.S. and abroad. Its growth over the past 10 years has been a major factor in helping Wells Fargo achieve a more balanced loan portfolio. The Group in 1977 contributed 19.6 per cent of after-tax earnings. Average loans and acceptances, the basic earning assets of the Group, increased 22 per cent to $2.6 billion.

In 1977, the International Group managed or co-managed 41 syndicated credits for $4.7 billion. Of this, Wells Fargo underwrote about $1.2 billion and retained $331 million for its own account.

Correspondent banking business includes extension of short-term trade credit to banks, processing trade documents and various other services such as providing for the collection and remittance of funds, and sales of Wells Fargo's international money order.

Lending to governments, central banks and other foreign public sector agencies amounted to about 55 per cent of the international loan portfolio at year end. In the private business sector, Wells Fargo provides a wide variety of financial services to multinational customers both directly and through its worldwide network of affiliates.

The International Group continues to implement a program of balanced growth in its business. The portfolio is carefully managed to achieve a broad geographic diversification, a balanced maturity structure and a good mix of customers. By avoiding undue concentrations of business, risks are reduced and earnings stabilized.

Although economic conditions improved in 1977 in many of the foreign countries where Wells Fargo does business, the International Banking Group continues to maintain close watch on each country in which it has a risk exposure. A formal country review process monitors economic, social and political conditions in foreign countries, and evaluates country risk. The Bank directs its attention to countries which demonstrate sound management and economic potential, and there are guidelines on the total exposure in each country.

The International Group serves its U.S. customers from its headquarters in San Francisco, from the Southern California headquarters in Los Angeles, and from international banking subsidiaries in New York and Miami. In 1977, a representative office was also opened in Chicago. Overseas, the Bank opened branches in Singapore and London in 1977, adding to its roster of overseas branches in Tokyo, Luxembourg and Nassau, and wholly owned subsidiaries in London and Toronto. During the year, new representative offices were established in Manila, Jakarta, Istanbul and Copenhagen, bringing the total to 15.

In 1977, the Bank made considerable progress toward consolidating its foreign equity investments into those affiliates which meet marketing, risk and return objectives. During the year shares in affiliates in Venezuela, the Philippines, Ecuador and El Salvador were sold at a modest net capital gain. In January 1978, Wells Fargo also sold its interest in Western American Bank, a London-based consortium bank. For future growth the International Group is emphasizing development of its own staff and facilities and placing less emphasis on minority-owned affiliates.

An International Advisory Council comprised of business leaders from around the world has been formed to advise and assist the Bank's International Group in the growth and expansion of its operations abroad. Members of the Council are listed on page 76.

Trust and Investment Advisory Services

Wells Fargo's trust and investment advisory activities showed strong progress in 1977. In a year when security prices generally declined, accounts for which the Bank is trustee and investment manager gained strongly in terms of fee revenue and total market value. The increases were largely due to new business developed from a national marketing program, revenue increases from higher fee schedules and assets added to existing accounts. Although their contribution to net earnings of Wells Fargo is small, the contribution of the two groups doubled in 1977 over 1976.

In 1977, revenue from the Bank's trust and investment advisory operations reached a new high of $23 million, an increase of 13 per cent over 1976. Over the past five years, income has increased at an average compound rate of 11 per cent annually.

Trust Division

During 1977, the Trust Division increasingly stressed development of services and procedures tailored to particular markets and customers. The Division is now organized into three major groups with responsibilities for services for individuals, services for corporate and institutional customers, and support activities, which include marketing, trust and tax accounting, and record keeping.

At the end of 1977, the Division was preparing to establish two new money market funds, one for the use of personal trusts and one for employee benefit trusts. The purpose of the new funds is to facilitate the temporary investment in money market instruments of cash held in trust accounts. Investments will typically be in Treasury bills, commercial paper and certificates of deposit of banks and other savings institutions.

The market for employee benefit plans has significant long-term growth potential. The Trust Division's pension assets during 1977 rose from $2.1 billion to $3 billion, an increase of 43 per cent.

Wells Fargo's Trust Division has traditionally been an industry leader in providing probate services throughout Northern California. A recent nine-county Bay Area survey of estates amounting

Responsible for the direction of the components of Wells Fargo Bank's Trust & Investment Group are, left to right, James R. Vertin, senior vice president, Investment Advisors Division; Ronald E. Eadie, executive vice president, and manager of the Group; George F. Casey, Jr., senior vice president, Investment Division, and George A. Hopiak, senior vice president, Trust Division.

Largest Common Stock Holdings in Fiduciary Accounts

December 31, 1977

Issuer of Security	Market Value ($000)	Shares (000)	% of Common Shares Outstanding
*Hewlett-Packard	215,056	2,936	10.35
IBM	129,137	472	.32
American Telephone & Telegraph	98,028	1,620	.25
Exxon	83,153	1,728	.39
General Motors	74,151	1,179	.41
General Electric	72,402	1,452	.64
Caterpillar Tractor	60,782	1,108	1.28
Procter & Gamble	56,239	655	.79
Standard Oil of California	54,571	1,404	.82
Eastman Kodak	35,905	702	.43
Stauffer Chemical	35,324	971	4.45
Standard Oil of Indiana	35,008	707	.48
Phillips Petroleum	31,539	1,030	.67
Mobil	30,824	484	.46
Atlantic Richfield	30,385	591	.56
Texaco	28,705	1,034	.38
**Wells Fargo & Co.	27,648	1,029	4.62
Minnesota Mining & Mfg.	25,711	530	.46
Gulf Oil	24,325	909	.47
Sears Roebuck	24,292	868	.27
Ford Motor Company	24,017	525	.44
BankAmerica	21,774	952	.65
R. J. Reynolds	21,264	359	.75
Citicorp	20,818	910	.73
American Express	19,949	556	.78
American Home Products	19,376	698	.45
Shell Oil	19,181	573	.40
General Telephone	18,993	610	.45
Johnson & Johnson	18,651	243	.42
Philip Morris	17,568	284	.47
McDonalds	17,316	336	.83
Dow Chemical	17,289	646	.35
Lucky Stores	16,903	1,197	2.85
Pacific Gas & Electric	16,239	677	.70
E. I. DuPont	15,727	131	.27
Merck	15,165	273	.36
Continental Oil	14,733	491	.46
Deere & Co.	14,644	592	.99
Union Carbide	14,262	348	.54
Levi Strauss	13,775	459	2.09
American Cyanamid	13,625	509	1.07
Murphy Oil	13,168	341	2.75
Tenneco	12,708	413	.45
Texas Eastern	12,597	272	1.10
Pepsico	12,524	447	.52
K Mart Corp.	12,499	457	.38
Continental Group	12,270	361	1.11
Safeway Stores	11,424	276	1.06
J. C. Penney	11,393	321	.49
Xerox	11,344	243	.31

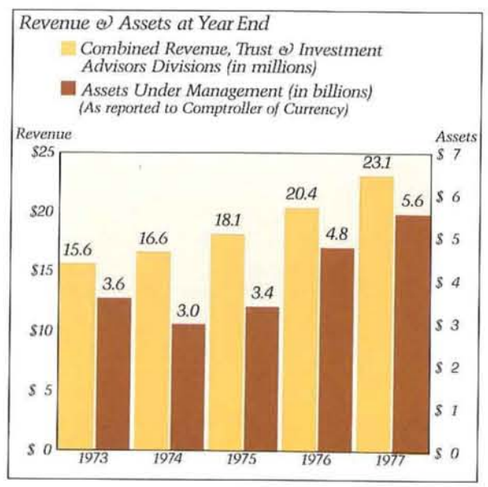
*Principally held in one estate.

**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.

to $200,000 or more showed that the Division has retained its primacy among corporate executors; Wells Fargo has almost 15 per cent of the total probate market compared with a share of some 8.5 per cent held by our nearest competitor.

Additional enhancements were made in the Division's accounting system during the year, and an expanded reporting capability for employee benefit accounts is now being implemented.

During the 10 years since the Bank began its Southern California market penetration, the Trust Division has opened five offices in the south and is now servicing trust assets amounting to nearly $500 million in that area.



Investment Advisors

In 1977, Wells Fargo Investment Advisors was selected as investment manager for the retirement plans of a number of large corporations, giving the Division a leading position among national asset management organizations. In large part, this reflects growing national recognition of the Division's investment management approach and the innovations it has pioneered in the investment process.

While Wells Fargo Investment Advisors is widely known for the well-publicized Index Fund, a significant portion of new clients selected the Division because of its judgmental investment management techniques. Investment Advisors seeks to add value to accounts by a carefully conceived investment approach which integrates the advances of modern capital market knowledge with classical finance concepts. The result is a disciplined process with many important improvements over traditional investment practice in the areas of security valuation, the management of risk in portfolios and the setting of investment objectives.

The Division held seminars across the country again in 1977. These seminars have proved to be an effective means of introducing prospective clients to the concepts underlying Wells Fargo's investment approach, and of providing information on the Index Fund and the Division's other investment products. The Division's marketing program for national accounts also was expanded during the year to include foundations and endowments as well as retirement plans.

At year end, Investment Advisors managed accounts totaling $4 billion, including more than $1 billion in index-matching funds in which investment portfolios are structured to track closely the rate of return of the stock market.

In response to requests for advice on retirement plans, a Corporate Counsel Service was organized during the year. This new fee-producing service primarily assists corporations in developing policy for the overall allocation of pension assets and is particularly suitable for funds that have more than one manager.

In 1977, the European office of Investment Advisors completed its first full year of operation. This office provides asset managers abroad with Wells Fargo's investment research, portfolio strategy and capital market analysis. Its international subscribers join about 100 banks, investment counselors, insurance companies, endowments, foundations and self-managed retirement plans using the Institutional Counsel Service in the United States.

Operations

Wells Fargo's Operations Group consists of several departments that furnish support to the entire organization. In an inflationary environment and while working to accommodate increased requests for support, the Group was able to hold its total cost increases under 6 per cent in 1977.

The major components of the Group are the Computer Systems Division and the Real Property Management Department. In addition, departments in the Group are responsible for automated business services, insurance, food services, purchasing and supply, and duplication.

New equipment, streamlining of workflow and consolidation of functions enabled the Computer Systems Division to free four floors of office space during 1977. Three more floors will be vacated during 1978. These moves will result in an annual saving of $2 million because the space can now be either leased to outside businesses or used by expanding Bank departments that would otherwise be forced to rent added space.

In 1978, the Computer Systems Division and the Real Property Management Department will be focusing attention on the Bank's Southern California expansion plans. Equipment at the Southern California computer center will be upgraded to provide the capacity for processing the increased transaction volume to be generated by the expanding branch system in that part of the state. Since the early 1970s, Real Property Management has emphasized premises research and construction efforts in Southern California to enable Wells Fargo to meet its goal of rapidly increasing its branches in that part of the state.

The Operations Group uses current technology, particularly in the telecommunications and electronic data processing fields, to enable Wells Fargo to participate efficiently and profitably in the complex business that modern banking has become. Thomas A. Bigelow, left, is executive vice president of the Group, and William F. Zuendt, senior vice president, is responsible for the Computer Systems Division.

Wells Fargo & Company has three principal subsidiaries in businesses other than banking. The presidents of these subsidiaries are, left to right, Frank H. McLaughlin, Wells Fargo Mortgage Company; Paul Hazen, Wells Fargo Realty Advisors, and Richard Oppenheimer, Wells Fargo Leasing.

Non-bank Subsidiaries

The non-bank subsidiaries of Wells Fargo & Company had an active and profitable year in 1977.

The principal non-bank subsidiaries contributed $8.8 million in net profits, after taxes, to the parent company, representing 10 per cent of total income before securities transactions. In 1976, they contributed $7 million, or 11 per cent of income before securities transactions.

Total assets of the subsidiaries were $495 million at the end of 1977. On that date, they were capitalized at $128 million of which $61 million was equity and $67 million subordinated debt. Their return on average assets was 2 per cent for 1977.

Wells Fargo Mortgage Company

The mortgage company continued its strong growth in 1977, reflecting a strengthened economy and an improved construction industry.

A key move in mid-year was the acquisition of Ben G. McGuire & Company, Houston, Texas. McGuire, one of the leading mortgage banking firms in the Southwest, services some $400 million in commercial real estate loans. Partially as a result of the McGuire acquisition, Wells Fargo Mortgage improved its rank from nineteenth to eighth largest mortgage company in the nation.

Since 1974, when the mortgage company was spun off from the Bank and became a separate subsidiary of Wells Fargo & Company, earnings have increased rapidly, partly due to growth in the company's servicing portfolio. In 1977, the portfolio increased 42 per cent to $2 billion from $1.4 billion in 1976. The company now services some 56,000 loans.

Wells Fargo Mortgage contributed $3.8 million in earnings to the Company, compared with $2.5 million in 1976.

In addition to the operation in Texas, Wells Fargo Mortgage expanded outside of California with the opening of loan production offices in Reno, Nevada, and Phoenix, Arizona. Including the company's 19 offices in California and two in Seattle, Washington, the mortgage company now has a total of 24 loan production offices.

Wells Fargo Leasing Corporation

In the face of strong competitive forces, Wells Fargo Leasing Corporation produced a record level of new business in 1977, its sixth year of operation. Leasing activity was strong but the general availability of funds for lease financing pushed rates down, which resulted in the lowest yields in several years. Reduced spreads and the implementation of new lease accounting rules curtailed earnings growth. Despite this, the corporation increased earnings to $3.4 million in 1977, from $3.2 million in the previous year.

From a credit and equipment quality standpoint, the portfolio is exceedingly strong. In 1977, Wells Fargo Leasing experienced no credit losses. During the year, the company sold equipment from expired and early terminated leases for a gain of 17 per cent over book value. Such sales are expected to produce a greater contribution to future earnings as a larger volume of leases reaches maturity.

The capital structure of the leasing company was strengthened by substituting half of the $50-million, 25-year senior debt issue of Wells Fargo & Company for short-term funds. At year end, short-term floating rate borrowings represented only 9.4 per cent of total capitalization.

During 1977, the company opened a new office in Cleveland, Ohio, to reach the industrial Midwest, and a new office in Fresno to fill the agricultural leasing needs of California's Central Valley. With its offices in Houston, Chicago, New York, Los Angeles and San Francisco, the leasing company now has seven facilities nationwide.

Wells Fargo Realty Advisors

The vigorous growth of the construction and real estate markets in the southwestern and Pacific Coast states, in which Wells Fargo Realty Advisors concentrates its activities, resulted in 1977 after-tax profits from this subsidiary of $1.6 million, an increase of 29 per cent from the previous year.

Realty Advisors was formed in 1970 to advise Wells Fargo Mortgage and Equity Trust, a publicly owned real estate investment trust. Realty Advisors manages both its own $295-million committed investment portfolio and the $267-million committed portfolio of the trust.

Wells Fargo Mortgage and Equity Trust, previously known as Wells Fargo Mortgage Investors, changed its name in 1977 when it filed an amended Declaration of Trust to permit greater flexibility in operations. In fiscal year 1977, ended last June 30, the trust enjoyed the benefits of a revival in the markets in which it invests and reported net income of $3.7 million, or 95 cents per share of beneficial interest. This compared with about $1.5 million, or 37 cents a share, in the previous fiscal year. The trust is listed on the New York Stock Exchange.

During 1977, Realty Advisors increased its network of regional offices to seven, adding facilities in Dallas, Denver and Seattle to existing offices in Houston, Phoenix, San Francisco, and its headquarters in Marina del Rey, California.

Representative of Wells Fargo's diverse community oriented activities and programs is this inner city rehabilitation project, inspected by Marianne Morrissey, assistant vice president in the Bank's 464 California Street office, and Harry Harrison of the San Francisco Redevelopment Agency.

Commitments to the Community

Wells Fargo in 1977 continued to devote considerable attention to its responsibility to the community in its day-to-day operations. The Company's Corporate Responsibility Committee, on which 12 officers from throughout the organization serve on a rotating basis, monitors the many programs already in place and reviews and recommends proposed new programs designed to serve Wells Fargo's customers, employees and the community at large.

The Company has well over 13,000 staff members worldwide. Our commitment to affirmative action in employment is reflected in the steadily increasing shares of our official staff represented by women and minorities. At the end of 1977, 32 per cent of Wells Fargo's staff were minorities and 69 per cent were women. In the category of officials, managers and professionals, more than 16 per cent were minorities and more than 45 per cent were women. Wells Fargo also has a policy of seeking to fill positions with Vietnam-era veterans, and has affirmative action programs directed toward hiring and advancing the handicapped.

Wells Fargo's affirmative action plan was examined by the Treasury Department in 1976-77. After careful review of the Bank's plan and programs, Treasury stated that we were in compliance with Executive Order 11246, which requires that government contractors have detailed affirmative action programs.

In its capacity as a lender, Wells Fargo has a number of programs designed to make funds available to creditworthy individuals who might not qualify under standard banking criteria. The Bank's minority business loan program was introduced in 1968 and has made 1,539 loans amounting to $58 million in its first decade. Of the total, 987 loans for $48 million were guaranteed by the Small Business Administration, and 552 loans totaling $9.8 million were direct loans without guarantees. These figures do not represent all of Wells Fargo's loans to minority-owned firms, but only those that do not meet our regular borrowing standards.

In addition, the Bank has a consumer lending program designated Low Income Finance Terms (LIFT). This program has special criteria that make loans available to individual borrowers who might not otherwise qualify. At the end of 1977, about $4 million in loans were outstanding in the LIFT portfolio.

Wells Fargo believes it has a commitment to help young people attain their educational goals, and so continues to have an active student loan program. By the end of 1977, the Bank had student loans outstanding totaling $41 million. To enable us to continue to have a pool of funds available for student loans, Wells Fargo has been selling packages of these loans to the federal Student Loan Marketing Association. In 1977, more than $11 million in loans were sold.

As another aspect of our concern with higher education, Wells Fargo matches employee gifts to institutions of higher learning up to a maximum of $1,000 per year. By the end of 1977, the Company had matched $80,000 in approximately 600 employee donations.

In its minority purchasing program, Wells Fargo in 1977 purchased $2.2 million in goods or services from minority-owned firms. As part of its environmental commitment, waste paper from the Bank's Data Processing Center and its Head Office complex was sold for repulping and reuse as second-grade paper. During 1977, some 986 tons of paper were recycled, and revenue from the sale of waste paper totaled $55,876.

In the interest of providing the best in attention and service to our customers, Wells Fargo's successful Customer Service Program, introduced in 1975, was expanded to a Customer Relations Center in 1977. Staff members at the Center work with customers and Bank departments to answer questions, solve problems and explain Wells Fargo's policies and procedures.

Late in 1976 and early in 1977, Wells Fargo introduced new programs designed to enable employees to expand their interests or enrich their leisure time, or to recognize outstanding volunteer efforts. In the Social Service Leave program, employees may take up to six months for work full-time with a civic, charitable or health organization. In 1977, seven staff members were granted Social Service Leaves. A Personal Growth Leave program also was adopted in which an employee who has been with the Bank 15 years or more may take three months to pursue an avocation or cultural activity full-time. The first Personal Growth Leave taken by an employee was recently completed, and two other staff members have also been granted Personal Growth Leaves. Under both these leave programs, employees continue to receive full pay and are guaranteed the same job upon return — or a job of the same grade, equivalent salary and comparable responsibility.

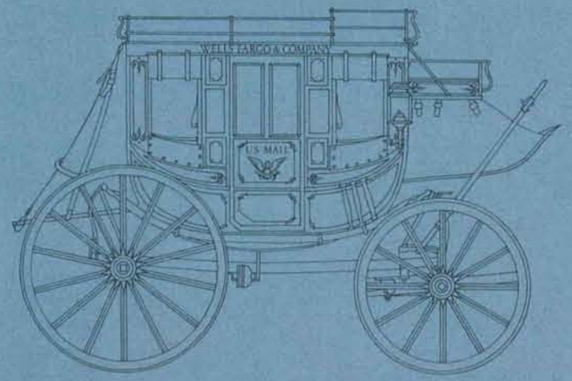
During the year, the first President's Award for Social Service was given to an employee who had devoted a sizable amount of personal time to outside volunteer efforts. The award went to Glen Wardhaugh, a vice president and trust officer in Oakland who, among his many other civic activities, was a founder of the United Cerebral Palsy Association in Alameda County. He has been involved with the Association on the local, state and national levels for 38 years.

These programs are in addition to Wells Fargo's ongoing commitment to the many projects that have been traditional in our communities, such as the United Way. The Company also has a corporate contributions budget that amounted to $1.1 million in 1977. Contributions are made to worthwhile civic, educational and cultural programs throughout California.

Wells Fargo has prepared a booklet on its wide range of corporate responsibility activities. Copies of the brochure are available upon request from the Public Relations Department.

Glen Wardhaugh was the first Wells Fargo employee to receive the annual President's Award for Social Service.

SIX-YEAR SUMMARY & MANAGEMENT'S ANALYSIS



Consolidated Six-Year Summary of Operations

Wells Fargo & Company and Subsidiaries

(Dollars in Thousands Except Per Share Data)[1]	1977	1976	1975	1974	1973	1972	Analysis: Change 1977/1976	Analysis: Five-Year Compound Growth Rate
Interest Income:								
Interest and Fees on Loans and Funds Sold	$829,844	$696,959	$696,755	$772,226	$549,571	$343,620	19.1%	19.3%
Interest and Dividends on Securities	116,029	108,225	103,964	101,016	80,224	60,874	7.2	13.8
Other Interest Income	62,184	73,696	68,231	92,608	78,461	37,939	(15.6)	10.4
Total Interest Income	1,008,057	878,880	868,950	965,850	708,256	442,433	14.7	17.9
Interest Expense:								
Interest on Deposits	463,733	414,832	438,261	520,442	367,592	216,689	11.8	16.4
Interest on Borrowings	74,176	64,980	81,515	173,512	120,830	29,922	14.2	19.9
Total Interest Expense	537,909	479,812	519,776	693,954	488,422	246,611	12.1	16.9
Net Interest Income	470,148	399,068	349,174	271,896	219,834	195,822	17.8	19.1
Provision for Loan Losses	41,028	46,379	50,429	21,864	11,086	7,880	(11.5)	39.1
Net Interest Income after Provision for Loan Losses	429,120	352,689	298,745	250,032	208,748	187,942	21.7	18.0
Other Operating Income	90,675	68,917	68,960	65,428	66,253	59,545	31.6	8.8
Other Operating Expense	359,011	297,059	276,902	246,298	209,982	191,506	20.9	13.4
Income before Income Taxes and Securities Transactions	160,784	124,547	90,803	69,162	65,019	55,981	29.1	23.5
Less Applicable Income Taxes	73,484	61,076	34,658	19,088	20,900	16,887	20.3	34.2
Income before Securities Transactions	87,300	63,471	56,145	50,074	44,119	39,094	37.5	17.4
Securities Gains (Losses) Net of Income Tax Effect	(1,020)	40	646	(2,705)	(660)	338	—	—
Net Income	$ 86,280	$ 63,511	$ 56,791	$ 47,369	$ 43,459	$ 39,432	35.9	17.0
Per Share:								
Income before Securities Transactions	$4.03	$3.16	$2.80	$2.53	$2.25	$2.10	27.5	13.9
Net Income	$3.98	$3.16	$2.83	$2.39	$2.21	$2.12	25.9	13.4
Dividends Declared	$1.12	$0.99	$0.96	$0.96	$0.91	$0.845		
Dividends Paid	$1.09	$0.98	$0.96	$0.96	$0.885	$0.83		
Average Shares Outstanding	21,681,585	20,061,601	20,017,813	19,801,448	19,633,968	18,643,285		
Ratios:								
Return on Average Stockholders' Equity	14.10%	12.16%	11.67%	11.20%	10.58%	10.89%		
Return on Average Total Assets	.62%	.52%	.48%	.43%	.43%	.49%		
Stockholders' Equity Per Share at Year End	$29.77	$27.08	$24.97	$23.10	$21.85	$20.47		
Market Prices of Common Stock:								
High for Year	$28⅞	$27	$20⅛	$27	$29½	$29½		
Low for Year	$24¼	$15⅞	$13¼	$9⅝	$19¾	$19¼		
Year End	$26⅞	$27	$15½	$13	$22¾	$28⅜		
Other Year-End Data:								
Number of Stockholders	17,008	17,447	18,329	18,354	16,077	15,909		
Company Staff (Full-Time Equivalent)	13,393	12,500	12,143	12,186	11,516	10,887		
Number of Bank Offices	341	335	322	316	303	299		

(1) Minor reclassifications 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.

Average Balances, Rates Paid and Yields (Taxable-Equivalent Basis/See Notes (1), (2) & (3))

(Dollars in Millions)	1977 Average Balance	1977 Yields or Rates	1977 Interest Income/ Expense	1976 Average Balance	1976 Yields or Rates	1976 Interest Income/ Expense	1975 Average Balance	1975 Yields or Rates	1975 Interest Income/ Expense	1974 Average Balance	1974 Yields or Rates	1974 Interest Income/ Expense	1973 Average Balance	1973 Yields or Rates	1973 Interest Income/ Expense
DOMESTIC OPERATIONS:															
Earning Assets:															
Securities:															
U.S. Treasury Securities	$ 1,107	6.32%	$ 69.9	$ 887	6.75%	$ 59.9	$ 387	7.23%	$ 28.0	$ 239	6.58%	$ 15.7	$ 346	5.96%	$ 20.6
Securities of Other U.S. Government Agencies & Corporations	232	7.12	16.5	355	7.11	25.2	515	7.12	36.7	610	6.85	41.8	444	6.35	28.2
Obligations of States & Political Subdivisions (1)	571	8.02	45.8	390	8.19	31.9	636	9.32	59.3	760	9.09	69.1	594	7.46	44.3
Other Securities	100	7.07	7.1	112	6.49	7.3	138	7.37	10.2	116	8.15	9.5	130	7.36	9.6
Trading Account Securities (2)	76	6.09	4.6	63	5.71	3.6	56	7.16	4.0	109	10.47	11.4	112	7.85	8.8
Funds Sold	111	5.79	6.4	65	5.38	3.5	197	6.89	13.6	148	9.34	13.8	32	7.94	2.5
Loans:															
Commercial Loans	2,339	7.58	177.3	2,297	7.46	171.3	2,512	8.63	216.7	2,755	11.19	308.3	2,525	8.55	215.9
Real Estate Loans	2,900	8.45	245.0	2,368	7.98	188.9	2,211	7.86	173.8	2,100	7.79	163.6	1,738	7.12	123.8
Consumer Loans	1,470	11.78	173.2	1,180	11.61	137.0	1,096	11.63	127.4	988	11.14	110.0	787	9.83	77.3
Fees and Sundry Interest on Loans	—	—	46.5	—	—	35.4	—	—	23.0	—	—	19.0	—	—	18.5
Direct Lease Financing (3)	303	11.84	35.9	274	12.72	34.9	264	12.49	33.0	168	11.63	19.6	109	10.31	11.2
Total	$ 9,209	8.99	828.2	$ 7,991	8.75	698.9	$ 8,012	9.06	725.7	$ 7,993	9.78	781.8	$6,817	8.22	560.7
Funding Sources:															
Interest-Bearing Liabilities:															
Deposits:															
Savings Deposits	$ 3,605	5.00	180.1	$ 3,051	5.00	152.4	$ 2,351	4.98	117.1	$ 1,897	4.97	94.3	$1,739	4.63	80.5
Savings Certificates	1,489	6.61	98.4	1,358	6.48	88.0	1,343	6.54	87.8	1,198	7.01	84.0	977	5.76	56.3
Certificates of Deposit	1,612	5.87	94.6	1,705	6.26	106.8	1,849	7.73	142.9	1,272	10.49	133.4	733	8.41	61.6
Other Time Deposits	342	5.02	17.2	345	5.64	19.4	360	6.43	23.1	525	9.11	47.8	593	6.77	40.2
Funds Borrowed	760	5.68	43.2	745	5.08	37.9	894	5.96	53.3	1,433	10.01	143.5	1,197	8.61	103.1
Commercial Paper	176	5.55	9.8	145	5.54	8.0	147	6.77	10.0	115	10.65	12.2	52	8.33	4.3
Long-Term Debt	308	6.89	21.2	290	6.58	19.1	286	6.40	18.3	274	6.49	17.8	203	6.60	13.4
Funds Transferred to International Operations (4)	(1,403)	(5.49)	(77.0)	(1,540)	(5.97)	(91.9)	(938)	(6.91)	(64.8)	(332)	(10.96)	(36.4)	(278)	(8.34)	(23.2)
Total Interest-Bearing Liabilities	6,889	5.62	387.5	6,099	5.57	339.7	6,292	6.16	387.7	6,382	7.78	496.6	5,216	6.45	336.2
Non-Interest-Bearing Sources	2,320	—	—	1,892	—	—	1,720	—	—	1,611	—	—	1,601	—	—
Total Domestic Sources	$ 9,209	4.21	387.5	$ 7,991	4.25	339.7	$ 8,012	4.84	387.7	$ 7,993	6.21	496.6	$6,817	4.93	336.2
Domestic Interest Differential		4.78%	$ 440.7		4.50%	$359.2		4.22%	$338.0		3.57%	$ 285.2		3.29%	$224.5
INTERNATIONAL OPERATIONS:															
Earning Assets:															
Overseas Deposits	$ 432	5.65%	$ 24.4	$ 605	6.22%	$ 37.7	$ 472	7.11%	$ 33.5	$ 772	8.69%	$ 67.1	$ 963	6.39%	$ 61.5
International Loans	2,247	7.77	174.6	1,919	8.15	156.3	1,518	9.23	140.1	1,336	11.68	156.0	1,174	9.43	110.8
Fees and Sundry Interest on Loans	—	—	6.9	—	—	4.5	—	—	2.1	—	—	1.4	—	—	1.1
Total	$ 2,679	7.68	205.9	$ 2,524	7.86	198.5	$ 1,990	8.83	175.7	$ 2,108	10.65	224.5	$2,137	8.11	173.4
Funding Sources:															
Interest-Bearing Liabilities:															
Deposits in Overseas Offices	$ 1,189	6.17	73.4	$ 846	5.69	48.2	$ 953	7.06	67.3	$ 1,670	9.64	160.9	$1,781	7.24	129.0
Funds Transferred from Domestic Operations (4)	1,403	5.49	77.0	1,540	5.97	91.9	938	6.91	64.8	332	10.96	36.4	278	8.34	23.2
Total Interest-Bearing Liabilities	2,592	5.80	150.4	2,386	5.87	140.1	1,891	6.99	132.1	2,002	9.86	197.3	2,059	7.39	152.2
Non-Interest-Bearing Sources	87	—	—	138	—	—	99	—	—	106	—	—	78	—	—
Total International Sources	$ 2,679	5.61	150.4	$ 2,524	5.55	140.1	$ 1,990	6.64	132.1	$ 2,108	9.36	197.3	$2,137	7.12	152.2
International Interest Differential		2.07%	$ 55.5		2.31%	$ 58.4		2.19%	$ 43.6		1.29%	$ 27.2		.99%	$ 21.2
DOMESTIC AND INTERNATIONAL OPERATIONS:															
Earning Assets	$11,888	8.70%	$1,034.1	$10,515	8.53%	$897.4	$10,002	9.01%	$901.4	$10,101	9.96%	$1,006.3	$8,954	8.20%	$734.1
Funding Sources	$11,888	4.53	537.9	$10,515	4.56	479.8	$10,002	5.20	519.8	$10,101	6.87	693.9	$8,954	5.46	488.4
Domestic and International Interest Differential		4.17%	$ 496.2		3.97%	$417.6		3.81%	$381.6		3.09%	$ 312.4		2.74%	$245.7

(1) Reflects an income tax adjustment of $23,302,000 for 1977, $16,103,000 for 1976, $30,140,000 for 1975, $35,038,000 for 1974 and $22,433,000 for 1973.

(2) Reflects an income tax adjustment on the municipal trading account securities of $210,000 for 1977, $122,000 for 1976, $441,000 for 1975, $4,149,000 for 1974 and $2,169,000 for 1973.

(3) Income has been adjusted to reflect the tax effect of the investment tax credit.

(4) Represents pooled funds and pooled costs associated with the funding of the Company's international lending operations.

Management's Analysis of Financial Operations

This section analyzes details of the Company's financial operations and should be read in conjunction with the "Consolidated Six-Year Summary of Operations" on pages 28 and 29, and the schedule of "Average Balances, Rates Paid and Yields" on pages 30 and 31.

In 1977, Wells Fargo & Company's net income and dividends paid were the highest in the Company's history and for the first time, total interest income exceeded $1 billion.

Income before securities transactions (earnings) was $87,300,000 in 1977, a 37.5 per cent increase over the $63,471,000 reported in 1976. This represents $4.03 per share in 1977, an increase of 27.5 per cent over the 1976 per share earnings of $3.16. The percentage increase in per share earnings is lower than the total earnings increase because two million additional shares of common stock were issued in April of 1977.

The 1976 earnings increased 13.0 per cent over 1975 earnings. Earnings for 1975 were $56,145,000 and $2.80 per share.

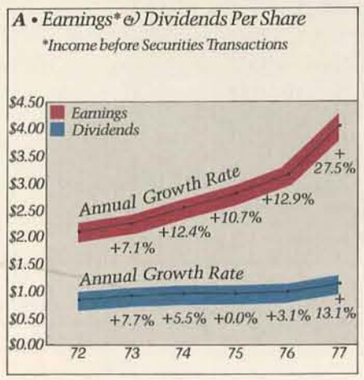
The most significant single transaction affecting comparisons of 1977, 1976 and 1975 earnings was the loss attributable to the Company's holdings in Allgemeine Deutsche Credit-Anstalt (ADCA). There were no losses due to ADCA in 1977, whereas after-tax losses amounted to $11,041,000 in 1976 and $3,353,000 in 1975. Without the ADCA losses in the earlier two years, 1977 earnings growth would have been 17.2 per cent, and 1976 growth would have been 25.2 per cent.

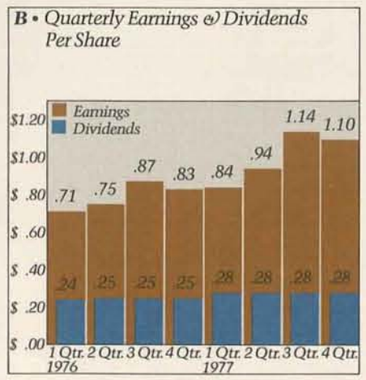
Despite ADCA, the Company has experienced a five-year compound earnings per share growth rate of 13.9 per cent. Dividends declared per share rose 13.1 per cent to $1.12 in 1977 from $.99 in 1976. However, because of the additional two million shares of common stock issued in April of 1977, the total amount of dividends rose 22.6 per cent. The $24,388,000 in dividends declared in 1977 represented 28.3 per cent of net income and the $19,888,000 in 1976 was 31.3 per cent of net income. In February of 1978, the quarterly dividend rate was raised to $.35 a share, a 25 per cent increase.

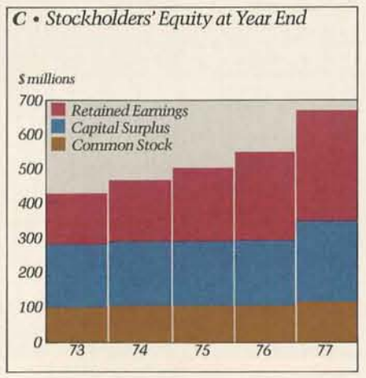
The issuance of two million shares of common stock in 1977 increased stockholders' equity by approximately $52,000,000 of which $10,000,000 is in common stock and $42,000,000 is in capital surplus. Of the $52,000,000 in proceeds from the issuance, $44,000,000 was used to provide additional equity capital to Wells Fargo Bank, N.A. The remainder was used to provide additional equity to Wells Fargo & Company's finance subsidiaries.

The additional influx of capital has provided a strong capital position on which the Company can base future earnings growth. The combination of the new capital and earnings retention provided an increase in 1977 in average stockholders' equity of 18.6 per cent as contrasted to the growth in average earning assets and total average assets of 13.1 per cent and 14.2 per cent, respectively.

Growth and earnings improvement were dramatic in 1977 over 1976, and were widespread throughout the Company. Management has emphasized improvements in net interest spreads, reliance on dependable funding sources and the monitoring of noninterest expenses. Adherence to these strategies has allowed Wells Fargo to improve performance ratios.







Return on stockholders' equity—earnings as a percentage of average stockholders' equity—increased to 14.10 per cent in 1977 from 12.16 per cent in 1976.

The Company's leverage ratio—assets divided by stockholders' equity—has been strengthened. The ratio was 23.1 at December 31, 1977, a marked improvement from the higher ratio of 27.1 that existed at year end in 1973 and 1974.

Return on average assets for the Company—earnings divided by average total assets—rose to .62 per cent in 1977 from the 1976 level of .52 per cent.

Table 1: Condensed Average Balance Sheet

(In Millions)	Year Ended December 31, 1977	1976	1975
Assets:			
Cash and Due From Banks	$ 1,357	$ 1,137	$ 1,105
Total Earning Assets (1)	11,888	10,515	10,002
Other Assets (2)	788	633	562
Total Assets	$14,033	$12,285	$11,669
Liabilities and Stockholders' Equity:			
Demand Deposits	$ 3,048	$ 2,733	$ 2,562
Total Interest-Bearing Liabilities (1)	9,481	8,485	8,183
Other Liabilities	885	545	443
Stockholders' Equity	619	522	481
Total Liabilities and Stockholders' Equity	$14,033	$12,285	$11,669

(1) See Schedule of Average Balances, Rates Paid and Yields for detail of total earning assets and total interest-bearing liabilities.
(2) Other assets above are reported net of average reserve for loan losses of $84,000,000 in 1977, $73,000,000 in 1976 and $57,000,000 in 1975.

Interest Differential & Spread

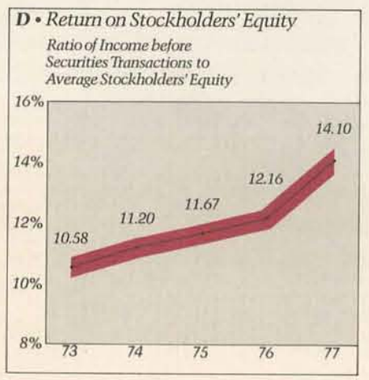
Interest differential is the difference between interest income on a taxable-equivalent basis plus fees, and interest expense. *Spread* is computed by dividing the interest differential by total average earning assets. Interest differential is directly affected by the volume and mix of interest earning assets and interest-bearing liabilities and the yields and rates paid.

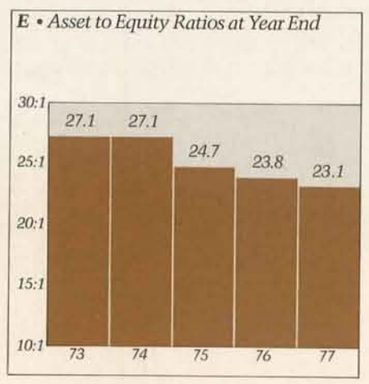
The Company is committed to maximizing the interest differential, taking into consideration the proper matching of asset and liability maturities. To do this, the Company emphasizes the use of low cost funding sources and closely relates the pricing of loans to the current cost of funds for similar maturities.

The Company's interest differential has increased in each of the last three years, going from $381,600,000 in 1975, to $417,600,000 in 1976, to $496,200,000 in 1977, representing increases of 9.4 per cent in 1976 and 18.8 per cent in 1977. The increases were due to increased volume and to improved spreads. Graph H shows the improvement in spread from 1973 to 1977.

Table 2 shows the changes in the components of the interest differential caused by changes in volume and changes in rates using a taxable-equivalent basis. Changes in the interest differential due to changes in both volume and rate are allocated equally to volume and rate.

Domestic interest income increased 18.5 per cent in 1977 over 1976. Most of the increase was due to higher volumes of real estate loans, consumer loans and investment securities. Increased yields on real estate loans contributed to the increase but not as much





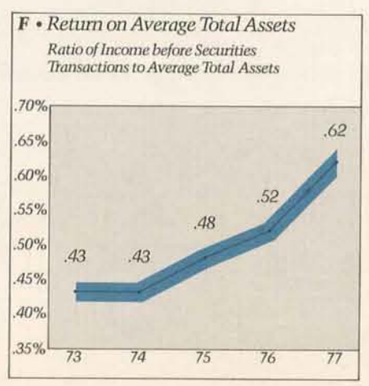


Table 2: Analysis of Changes in Interest Differential

(In Thousands)	Year Ended December 31, 1977 Over 1976 Volume	Rate	Total	1976 Over 1975 Volume	Rate	Total
Domestic Operations						
Increase (Decrease) in Interest and Fee Income:						
Securities:						
U.S. Treasury Securities	$ 14,359	$ (4,304)	$ 10,055	$34,959	$ (3,050)	$31,909
Securities of Other U.S. Government Agencies and Corporations	(8,726)	18	(8,708)	(11,398)	(58)	(11,456)
Obligations of States and Political Subdivisions	14,672	(815)	13,857	(21,533)	(5,792)	(27,325)
Other Securities	(815)	614	(201)	(1,803)	(1,101)	(2,904)
Trading Account Securities	766	263	1,029	452	(862)	(410)
Funds Sold	2,571	362	2,933	(8,094)	(1,974)	(10,068)
Loans:						
Commercial Loans	3,175	2,797	5,972	(17,286)	(28,121)	(45,407)
Real Estate Loans	43,686	12,362	56,048	12,393	2,707	15,100
Consumer Loans	33,923	2,261	36,184	9,875	(139)	9,736
Fees and Sundry Interest	—	11,025	11,025	—	12,192	12,192
Direct Lease Financing	3,556	(2,544)	1,012	1,267	626	1,893
Total Increase (Decrease)	107,167	22,039	129,206	(1,168)	(25,572)	(26,740)
Increase (Decrease) in Interest Expense:						
Deposits:						
Savings Deposits	27,678	—	27,678	34,881	492	35,373
Savings Certificates	8,589	1,864	10,453	967	(821)	146
Certificates of Deposit	(5,661)	(6,489)	(12,150)	(10,055)	(26,103)	(36,158)
Other Time Deposits	(169)	(2,139)	(2,308)	(898)	(2,777)	(3,675)
Borrowings:						
Funds Borrowed	798	4,506	5,304	(8,209)	(7,196)	(15,405)
Commercial Paper Outstanding	1,721	18	1,739	(122)	(1,795)	(1,917)
Long-Term Debt	1,219	934	2,153	264	523	787
Funds Transferred to International Operations	7,823	7,036	14,859	(38,751)	11,663	(27,088)
Total Increase (Decrease)	41,998	5,730	47,728	(21,923)	(26,014)	(47,937)
Increase in Domestic Differential	65,169	16,309	81,478	20,755	442	21,197
International Operations						
Increase (Decrease) in Interest and Fee Income:						
Overseas Deposits	(10,288)	(2,976)	(13,264)	8,884	(4,773)	4,111
International Loans	26,148	(7,875)	18,273	34,822	(18,584)	16,238
Fees and Sundry Interest	—	2,450	2,450	—	2,413	2,413
Total Increase (Decrease)	15,860	(8,401)	7,459	43,706	(20,944)	22,762
Increase (Decrease) in Interest Expense:						
Deposits in Overseas Offices	20,342	4,886	25,228	(6,807)	(12,308)	(19,115)
Funds Transferred from Domestic Operations	(7,823)	(7,036)	(14,859)	38,751	(11,663)	27,088
Total Increase (Decrease)	12,519	(2,150)	10,369	31,944	(23,971)	7,973
Increase (Decrease) in International Differential	3,341	(6,251)	(2,910)	11,762	3,027	14,789
Increase in Domestic and International Interest Differential	$ 68,510	$10,058	$ 78,568	$32,517	$ 3,469	$35,986

as did the increased volume of real estate loans. In 1976, domestic interest income declined by 3.7 per cent primarily because of lower yields on commercial loans.

Domestic interest expense increased 14.1 per cent in 1977, primarily due to increased volume of interest-bearing deposits supporting the Company's growth. A portion of the growth in savings deposits was used to reduce the volume of higher costing certificates of deposit. In 1976, domestic interest expense declined 12.4 per cent primarily due to lower volumes and rates for certificates of deposit and funds borrowed.

International interest income increased 3.7 per cent in 1977 over 1976, but rose 13.0 per cent in 1976 over 1975. The increase in 1977 was smaller than the increase in 1976 primarily because of the smaller proportional growth of interest earning assets in 1977. In both years, yields were lower than the preceding year but increased volumes resulted in an overall increase in interest income.

International interest expense increased 7.4 per cent in 1977, and 6.1 per cent in 1976. The increase in 1977 was due to higher volume of deposits in overseas offices, but it was partially offset by a reduction in funds transferred (primarily certificates of deposit and money market borrowings) from domestic operations. In 1976, the increase was due to higher volume of funds transferred from domestic operations, but was also partially offset by lower rates.

Loan fees and sundry loan related interest increased 33.8 per cent in 1977 over 1976 and 58.8 per cent in 1976 over 1975. Most of the increases were in real estate loan fees. In 1977, approximately 33.9 per cent of the real estate loan fees were generated from single family home loans. Sundry interest represents cash collections of interest on loans, which are on non-accrual status or were previously charged off, and other loan related items. Table 3 shows the income received on loan fees and sundry interest.

Table 3: Loan Fees and Sundry Interest

(In Thousands)	Year Ended December 31, 1977	1976
Loan Fees:		
Real Estate Loan Fees	$28,892	$17,372
Commercial Loan Fees	8,733	10,860
Other	6,333	5,480
Sundry Interest	9,389	6,158
Total	$53,347	$39,870

Interest differential is also affected by the level of non-accrual and renegotiated loans. If interest due on all non-accrual loans and renegotiated loans had been accrued at the original contractual rate, it is estimated that earnings would have been $7,300,000 ($.34 per share) higher in 1977 and $8,740,000 ($.44 per share) higher in 1976.

Other Operating Income

Other operating income increased 31.6 per cent in 1977 over 1976 primarily because of an equity investment loss on the Company's investment in ADCA in 1976. Table 4 shows the components of other operating income.

Table 4: Breakdown of Other Operating Income

(In Thousands)	Year Ended December 31, 1977	1976	Change
Service Charges on Deposit Accounts	$25,511	$24,254	$ 1,257
Trust Income	21,635	19,649	1,986
International Commissions, Syndication Fees and Foreign Exchange	13,439	14,847	(1,408)
Service Fees	11,582	8,562	3,020
Domestic Commissions	5,107	4,168	939
Equity Investment Income (Loss)	4,803	(14,327)	19,130
Escrow Fees	2,511	2,099	412
Trading Profits and Commissions	(268)	1,690	(1,958)
All Other	6,355	7,975	(1,620)
Total	$90,675	$68,917	$21,758

Trust income increased 10.1 per cent in 1977 over 1976, and 11.9 per cent in 1976 over 1975. The growth in 1977 was largely due to increases in court approved fees and pension trust income. In 1976, the growth was primarily due to an increase in the volume of assets managed.

International syndication fees, commissions and foreign exchange income fell 9.5 per cent in 1977. The largest single item in this category was syndication fees, which dropped to $4,500,000 in 1977 from $7,300,000 in 1976. Part of the reason for this change was an increase in deferred syndication fee income of $1,400,000 at December 31, 1977 over December 31, 1976.

Service fees increased 35.3 per cent in 1977. Service fees are primarily for real estate loan servicing and for business accounting services, and the increase was evenly split between these two types of services.

In 1976, the Company decreased its equity investment in ADCA to reflect its share of ADCA losses and a decrease in percentage ownership from 17.2 per cent to 8 per cent. The total charge to equity investment income resulting from ADCA was $17,459,000. The decrease in ownership was part of an agreement with another shareholder in ADCA. No write-downs were recorded in 1977 and none will be necessary in the future because the major shareholder of ADCA has agreed to purchase the remaining interest in ADCA at the Company's request at a specified time or times at the then current carrying value. In 1977, the investment in ADCA was accounted for on the cost method.

Other Operating Expense

Other operating expense increased 20.9 per cent in 1977. This compares to increases of 7.3 per cent in 1976 and 12.4 per cent in 1975.

Salaries and employee benefits increased 17.6 per cent in 1977. This compares to 8.1 per cent in 1976 and 12.3 per cent in 1975. The greater increase in 1977 was due to several factors including increasing employer taxes, extended health benefits, higher cost of employee incentive plans and general growth of the Company.

Net occupancy expense increased 10.4 per cent in 1977 and 6.7 per cent in 1976. Those increases are attributed primarily to general growth of the Company, along with the effects of inflation in the economy. These are also the primary causes of the increases in *equipment expense, postage, stationery and supplies, telephone and telegraph, and travel and entertainment.*

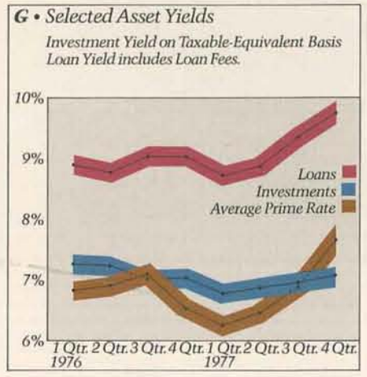
Table 5: Breakdown of Other Operating Expense

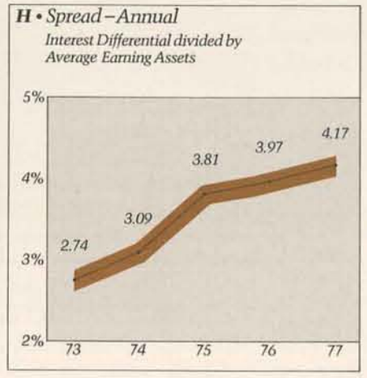
(In Thousands)	Year Ended December 31, 1977	1976	Change
Salaries	$168,085	$145,746	$22,339
Employee Benefits	41,028	32,126	8,902
Net Occupancy Expense	34,919	31,636	3,283
Equipment Expense	20,648	19,234	1,414
Postage, Stationery and Supplies	20,407	16,360	4,047
Telephone and Telegraph	10,061	7,953	2,108
Outside Data Processing Expense	9,253	5,206	4,047
Travel and Entertainment	8,140	6,698	1,442
Professional Services	6,385	6,238	147
Advertising	7,599	5,932	1,667
Federal Deposit Insurance	3,711	3,395	316
Protection	2,945	2,802	143
All Other	25,830	13,733	12,097
Total	$359,011	$297,059	$61,952

Outside data processing increased 77.7 per cent in 1977 and 77.3 per cent in 1976. The increases were primarily due to increased volume of transactions being processed by outside service bureaus for items such as VISA and Master Charge.

Advertising increased 28.1 per cent in 1977 and 13.0 per cent in 1976. The 1977 increase was primarily due to expanded media coverage in Southern California and new programs of the Bank, such as VISA. The 1976 increase was primarily due to greater volume of advertising in general.

The 1977 increase in *all other* expense is due in part to Company growth and to inflation. It is also attributable to specific increases, such as the cost of purchasing monthly payment loans from dealers of $3,600,000, outside consulting and other services costing $1,700,000, expenses related to other real estate owned of $900,000 and miscellaneous operating losses of $2,400,000. Miscellaneous operating losses in 1976 were lower than normal because in a prior year the Company accrued for an expected loss which, when realized, was less than originally expected. Therefore, 1976 included an $800,000 reversal of expense. The 1976 increase was small because of certain nonrecurring cost saving programs and the lack of start-up costs of significant expansionary activity.





Investment Portfolio

Table 6 shows the maturities and yields of the components of the investment portfolio on a taxable-equivalent basis.

At December 31, 1975, market depreciation in the portfolio was $67,300,000, or 4.0 per cent. This was reduced to $8,200,000 or 0.5 per cent, at December 31, 1976 and was $39,800,000, or 2.1 per cent, at December 31, 1977.

Certificates of Deposit

The Company manages its mix of certificates of deposit in the context of the overall portfolios and maturities of assets and liabilities. The maturities of the large time deposits are varied so as to provide low-cost funding sources with adequate liquidity and minimal interest-rate risk. Time certificates of deposit of $100,000 or more had maturities as follows:

(In Thousands)	December 31, 1977
Three months or less	$1,235,588
Over three through six months	529,334
Over six months through twelve months	124,476
Over twelve months	143,088

Internal Profitability

Graphs I and J represent the comparative contributions made by major Groups to Company operations for 1976 and 1977. The contributions are expressed as percent-

Table 6: Maturities & Yields (Taxable-Equivalent Basis) As Of December 31, 1977

(In Thousands)	Total Amount	Average Maturity (In Yrs.-Mos.)	One Year or Less Amount	Yield	After One Year Through Five Years Amount	Yield	After Five Years Through Ten Years Amount	Yield	After 10 Years Amount	Yield
Book Value:										
U.S. Treasury	$ 881,081	1-7	$238,812	6.6%	$ 642,269	6.5%	$ —	—%	$ —	—%
Federal Agencies	199,995	1-9	55,452	7.4	144,429	6.8	—	—	114	7.9
States and Political Subdivisions	738,813	5-6	97,546	6.5	389,174	8.3	134,863	8.4	117,230	9.0
Other Bonds, Notes and Debentures	86,415	4-8	13,296	6.3	46,966	7.6	—	—	26,153	6.5
Total	1,906,304		$405,106		$1,222,838		$134,863		$143,497	
Stocks	13,142									
	$1,919,446									
Market Value:										
Investments with Maturities	$1,867,500		$406,233		$1,210,686		$124,523		$126,058	
Stocks	12,137									
Total	$1,879,637									

ages of Company earnings and average assets employed.

Group profitability measurement has been adopted as a significant element of the financial planning and evaluation process. It is used in part to set financial goals and to measure and evaluate results against plans. It is an aid to management control and is based on reported results.

The Company has developed percentages of Group performance for 1976 and 1977 using the following procedures, estimates and assumptions:

- Assets and liabilities and the related interest income or expense are transferred from the Group where they are domiciled for customer servicing convenience to the responsible Group.
- Groups of the Bank which make loans have been charged with a portion of the Bank's loan loss provision based on actual and expected loan loss experience.
- Appropriate transfers of income and expense have been made to reflect services provided among Groups.
- Capital funds of the Bank and administrative overhead expenses have been allocated based on each Group's share of total Bank assets.
- An internal funds transfer price, using the actual average cost of purchased funds during each quarter of the year, has been used to compensate or charge each Group for the excess funds they provide or receive.
- All income and expense items have been adjusted for tax equivalence.

Although the Group breakdowns of earnings and assets provide a general picture of the relative contribution of Groups to the Company's overall operating results, the underlying assumptions and estimates may be revised in the future to reflect the most appropriate methods and procedures for responsibility reporting. The earnings and assets by Group have been adjusted from those reported in the 1976 annual report to reflect the allocation of capital funds and overhead.

The important changes in internal financial performance from 1976 to 1977 were:

- The increase in the portion of the Company's earnings provided by the International Group. This increase reflects the absence in 1977 of losses due to ADCA.
- The decline in the relative earnings contribution of the Corporate Banking Group, caused by slack loan demand.
- The lower percentage of earnings contributed by the Investment Division, the result of net bond trading losses and lower spreads on the Bank's investment portfolio.
- The rise in the relative size of the Retail Banking Group in terms of both earnings and assets. This development occurred primarily as a result of the strong demand for real estate and consumer loans in 1977 and the growth of demand and savings deposits.

Fourth Quarter Data

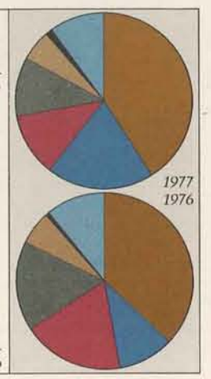
Rates, yields and volumes were all generally higher in the fourth quarter of 1977 than in the previous quarter and in the fourth quarter of 1976. Interest differential in the fourth quarter of 1977 was 7.6 per cent greater than the previous quarter and 23.2 per cent greater than the fourth quarter of 1976. The increase in interest differential in the fourth quarter as compared to the previous quarter was equally due to increases in both volumes and rates. Between the fourth quarters of 1977 and 1976, the increase was principally due to volume.

The reduction in earnings due to non-accrual and renegotiated loans is estimated to be $1,400,000 ($.07 per share) in the fourth quarter of 1977, $1,945,000 ($.09 per share) in the previous quarter, and $2,150,000 ($.11 per share) in the fourth quarter of 1976.

Table 7 presents the average balances, yields and rates paid on a taxable-equivalent basis for the quarters indicated.

I • Earnings by Group

	1977	1976
Retail Banking	40.9%	37.0%
International Banking	19.6	10.2
Corporate Banking	11.6	18.6
Investment Division	10.8	16.5
Real Estate Industries	5.8	6.2
Trust & Investment Advisory Services	1.2	0.6
Non-bank Subsidiaries	10.1	10.9
	100.0%	100.0%



J • Average Assets by Group

	1977	1976
Retail Banking	41.1%	39.0%
International Banking	23.6	24.1
Investment Division	16.2	15.7
Corporate Banking	9.8	11.9
Real Estate Industries	5.8	6.2
Trust & Investment Advisory Services	0.2	0.3
Non-bank Subsidiaries	3.3	2.8
	100.0%	100.0%

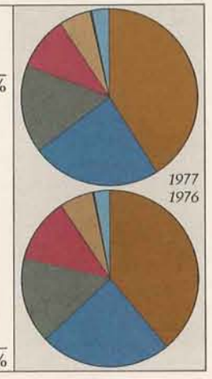


Table 7: Average Balances, Rates Paid and Yields – Condensed
(Yields on Taxable-Equivalent Basis)

(Dollars in Millions)	Fourth Quarter – 1977 Average Balances	Yields or Rates	Interest Income/ Expense	Third Quarter – 1977 Average Balances	Yields or Rates	Interest Income/ Expense	Fourth Quarter – 1976 Average Balances	Yields or Rates	Interest Income/ Expense
Earning Assets:									
Overseas Deposits	$ 443	6.35%	$ 7.033	$ 414	5.54%	$ 5.737	$ 639	5.81%	$ 9.280
Total Investment Securities	2,121	7.07	37.467	2,136	6.96	37.147	1,754	7.02	30.791
Trading Account Securities	53	7.12	.944	74	6.34	1.173	96	5.59	1.341
Funds Sold	195	6.75	3.291	69	5.92	1.021	56	5.20	.728
Total Loans	9,665	9.76	235.787	9,197	9.36	215.120	8,122	9.03	183.341
Direct Lease Financing	311	11.88	9.240	305	11.22	8.552	277	13.01	9.007
Total Earning Assets	$12,788	9.19	293.762	$12,195	8.82	268.750	$10,944	8.57	234.488
Funding Sources:									
Interest-Bearing Liabilities:									
Interest-Bearing Deposits	$ 8,829	5.95	131.426	$ 8,523	5.66	120.679	$ 7,414	5.61	103.905
Funds Borrowed	898	6.60	14.822	742	5.87	10.892	893	4.82	10.768
Commercial Paper	180	6.61	2.973	173	5.71	2.470	187	5.25	2.455
Long-Term Debt	320	7.01	5.610	321	6.98	5.601	273	6.70	4.575
Total Interest-Bearing Liabilities	10,227	6.06	154.831	9,759	5.72	139.642	8,767	5.55	121.703
Portion of Non-Interest-Bearing Funding Sources	2,561	—	—	2,436	—	—	2,177	—	—
Total Funding Sources	$12,788	4.84	154.831	$12,195	4.58	139.642	$10,944	4.45	121.703
Interest Differential		4.35%	$138.931		4.24%	$129.108		4.12%	$112.785
Non-Earning Assets:									
Cash and Due From Banks	$ 1,437			$ 1,513			$ 1,163		
Other	837			841			721		
Total Non-Earning Assets	$ 2,274			$ 2,354			$ 1,884		
Non-Interest-Bearing Funding Sources:									
Demand Deposits	$ 3,270			$ 3,126			$ 2,866		
Other Liabilities	906			1,024			652		
Stockholders' Equity	659			640			543		
Non-Interest-Bearing Funding Sources used to Fund Earning Assets	(2,561)			(2,436)			(2,177)		
Total Net Non-Interest-Bearing Funding Sources	$ 2,274			$ 2,354			$ 1,884		

Table 8: Consolidated Statement of Income – Condensed

(In Thousands)	Fourth Quarter 1977	Fourth Quarter 1976
Interest Differential*	$138,931	$112,785
Less Taxable – Equivalency Adjustment	7,981	4,515
Net Interest Income	130,950	108,270
Provision for Loan Losses	10,461	9,597
Net Interest Income after Provision for Loan Losses	120,489	98,673
Other Operating Income:		
Trust Income	7,348	7,207
Service Charges on Deposit Accounts	6,525	6,091
Trading Account Profits and Commissions	66	360
Other Income	11,685	1,560
Total Other Operating Income	25,624	15,218
Other Operating Expense:		
Salaries	44,428	38,277
Employee Benefits	10,890	7,105
Net Occupancy Expense	9,419	9,059
Equipment Expense	5,360	5,265
Other Expense	30,844	19,150
Total Other Operating Expense	100,941	78,856
Income before Income Taxes and Securities Transactions	45,172	35,035
Less Applicable Income Taxes	20,809	18,178
Income before Securities Transactions	$ 24,363	$ 16,857
Income Per Share before Securities Transactions	$1.10	$.83

*See Table 7 for details of interest differential.

Table 8 presents the taxable-equivalent adjustment and the details of non-interest related income and expense on a comparative basis.

The increase in *other income* in 1977 was principally due to a charge in 1976 of $9,959,000 in connection with ADCA. The increase in *other expense* in 1977 is primarily due to increases of: $2,700,000 in the cost of purchasing monthly payment loans from dealers; $1,300,000 in expenses related to other real estate; $2,300,000 in miscellaneous operating losses; and the general growth of the Company.

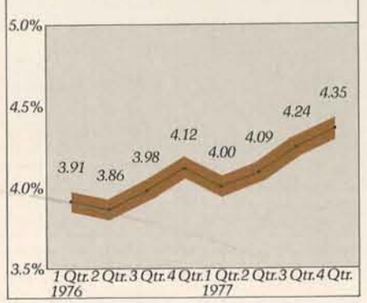
Loan Portfolio

Short-term loan demand from large corporations was weak throughout 1977, but loan demand in consumer related areas increased the total loan portfolio by 20.9 per cent in 1977. The 1977 increase in monthly payment loans was 40.6 per cent, and loans collateralized by 1-4 family residences increased 26.4 per cent. In 1976, the total loan portfolio had increased 11.0 per cent, with international loans increasing 29.2 per cent and real estate loans increasing 12.8 per cent.

The yield on consumer loans traditionally is the highest in the portfolio, and the increase in consumer loan volume was a major contributor to the 1977 increase in interest income. The maturity of consumer related loans is generally longer than commercial loans, but the Company believes this is offset by the liquidity afforded by the large cash flow from customer payments, the relatively high yields and the greater predictability of credit losses.

K • *Spread – Quarterly*

Interest Differential divided by Average Earning Assets



L • *Price Range of Common Stock*

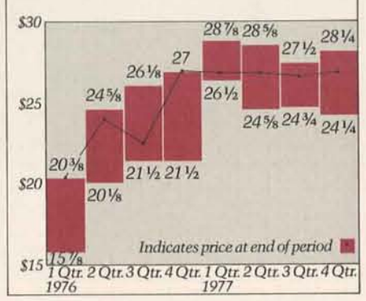


Table 9: Analysis of Loan Portfolio

(In Thousands)	December 31, 1977 One Year or Less	Over One Year Through Five Years: Predetermined Rate	Over One Year Through Five Years: Floating Rate	Over Five Years: Predetermined Rate	Over Five Years: Floating Rate	Total	December 31, 1976 Total
Selected Loan Maturities							
Construction and Land Development	$ 377,269	$ 26,168	$ 150,858	$ 9,284	$ 10,826	$ 574,405	$ 370,223
Other Real Estate Loans (Excluding Loans Secured by 1-4 Family Residential Properties)	36,292	99,149	25,850	322,748	75,938	559,977	480,143
Total Real Estate	413,561	125,317	176,708	332,032	86,764	1,134,382	850,366
REITs and Mortgage Companies	241,626	31,095	5,636	5,283	—	283,640	219,405
All Other Financial Institutions	119,533	9,257	20,876	2,051	—	151,717	214,387
Loans for Purchasing and Carrying Securities	253,930	1,404	374	—	13,721	269,429	163,368
Loans to Farmers	157,454	1,466	11,246	1,200	533	171,899	174,945
Other Commercial	1,074,141	110,782	331,949	69,436	106,766	1,693,074	1,627,784
Total Commercial	1,846,684	154,004	370,081	77,970	121,020	2,569,759	2,399,889
Total Domestic	2,260,245	279,321	546,789	410,002	207,784	3,704,141	3,250,255
Loans Attributable to Foreign Operations including Loans Domiciled in Domestic Offices	963,936	22,996	1,240,514	13,172	153,987	2,394,605	2,156,649
Total Selected Loan Maturities	$3,224,181	$302,317	$1,787,303	$423,174	$361,771	6,098,746	5,406,904
Other Loan Categories							
Secured by 1-4 Family Residential Properties						2,149,515	1,700,865
Monthly Payment Loans						1,525,017	1,084,793
Credit Card and Related Loans						456,861	266,082
Total Loans						$10,230,139	$8,458,644

Table 9 provides a breakdown of the various components of the portfolio.

Charge-Off Policies

To ensure that uncollectible loans are charged to the reserve for loan losses in a timely manner, the Company has established a number of policies for credit administration which are being followed at all levels of management. Consumer loans are generally charged off when payments are past due for 90 days. Credit card accounts are charged off if they have been delinquent in any fashion for six months and have not had a payment within the previous 60 days. Commercial and other loans are charged off when management judges the loan to be uncollectible. In addition to the above, it is also the Company's policy to charge-off any loan which is classified as a loss by our Internal Loan Examiners. This policy provides for a timely and independent review to ensure that appropriate charge-offs have been made.

During 1977, net charge-offs were $31,578,000 as compared to $31,309,000 during 1976. As a percentage of average loans outstanding, the net charge-offs were .35 per cent in 1977 and .40 per cent in 1976.

Table 10 provides a breakdown of loan losses and recoveries over the last five years by loan type.

Table 10: Net Charge-Offs by Loan Category

(In Thousands)	Real Estate: 1-4 Family Residential	Real Estate: Other	Commercial: REITs and Mortgage Companies (1)	Commercial: Other	Consumer: Monthly Payment	Consumer: Credit Card	International (2)	Total
1973:								
Loan Charge-offs	$62	$ 54	—	$ 9,513	$2,717	$2,801	$ 82	$15,229
Loan Recoveries	—	68	—	3,009	708	449	47	4,281
Net Charge-offs	$62	$ (14)	—	$ 6,504	$2,009	$2,352	$ 35	$10,948
Net Charge-offs as a Per Cent of Total	.5%	(.1)%	—	59.4%	18.4%	21.5%	.3%	100%
1974:								
Loan Charge-offs	$40	$ 25	$ 312	$13,606	$5,308	$5,378	$2,184	$26,853
Loan Recoveries	—	19	—	3,331	871	484	1,082	5,787
Net Charge-offs	$40	$ 6	$ 312	$10,275	$4,437	$4,894	$1,102	$21,066
Net Charge-offs as a Per Cent of Total	.2%	—	1.5%	48.8%	21.1%	23.2%	5.2%	100%
1975:								
Loan Charge-offs	$25	$ 55	$1,784	$26,713	$6,969	$7,018	$8,363	$50,927
Loan Recoveries	—	3	—	7,006	1,472	993	570	10,044
Net Charge-offs	$25	$ 52	$1,784	$19,707	$5,497	$6,025	$7,793	$40,883
Net Charge-offs as a Per Cent of Total	.1%	.1%	4.4%	48.2%	13.4%	14.7%	19.1%	100%
1976:								
Loan Charge-offs	$45	$2,724	$2,788	$17,266	$4,552	$6,081	$7,695	$41,151
Loan Recoveries	—	249	—	6,146	1,902	1,367	178	9,842
Net Charge-offs	$45	$2,475	$2,788	$11,120	$2,650	$4,714	$7,517	$31,309
Net Charge-offs as a Per Cent of Total	.1%	7.9%	8.9%	35.5%	8.5%	15.1%	24.0%	100%
1977:								
Loan Charge-offs	$ 7	$4,013	$7,774	$13,988	$7,859	$5,908	$1,005	$40,554
Loan Recoveries	2	55	—	5,885	1,555	1,176	303	8,976
Net Charge-offs	$ 5	$3,958	$7,774	$ 8,103	$6,304	$4,732	$ 702	$31,578
Net Charge-offs as a Per Cent of Total	—	12.5%	24.6%	25.7%	20.0%	15.0%	2.2%	100%

(1) All charge-offs were loans to REITs.
(2) Includes charge-offs for loans to REITs of $1,170,000 in 1976 and $4,600,000 in 1975.

Non-Accrual Policies

Commercial, international, real estate and consumer loans over $100,000 are normally transferred to non-accrual status when it becomes apparent that the payment of interest or recovery of principal is questionable or when a loan is rated unsatisfactory by the Internal Loan Examiners. As an additional requirement, any loan which has been delinquent for 90 days or more and has not been placed on a non-accrual status is considered an exception to policy and, as such, requires explicit approval of senior management.

Once an account is placed on a non-accrual status, any interest received may be credited to income on a cash basis or may be applied to the principal balance outstanding, depending upon management's judgment of the extent of the credit risk involved. Total loans in non-accrual status as of December 31, 1977 were $169,000,000. Non-accrual loans are restored to accrual status when, in the opinion of management, the financial condition of the borrower has improved to the extent that collection of both interest and principal appears probable.

In cases where borrowers are experiencing financial difficulties, but where collectibility of principal appears probable, loans may be renegotiated to provide terms significantly below the original contractual terms. Loans to customers of this type are classified as "renegotiated" and interest is accrued at the reduced contractual rate. If, after renegotiation, doubts arise as to the customer's ability to meet the revised payment schedule, the loan is classified as a "non-accrual" loan and the recognition of interest income is subject to non-accrual policies.

Table 11: Non-Earning & Partially Earning Loans

(In Millions)	December 31, 1977: Non-Accrual Loans	December 31, 1977: Renegotiated Loans (1)	December 31, 1976: Non-Accrual Loans	December 31, 1976: Renegotiated Loans (1)
Real Estate Loans	$ 18.5	$14.2	$ 34.0	$14.0
Commercial Loans:				
REITs and Mortgage Companies	48.7	25.3	57.3	66.1
Other	84.2	3.5	105.4	9.9
Consumer Loans	2.7	—	6.6	—
International Loans	14.9	—	25.5(2)	—
Total	$169.0	$43.0	$228.8	$90.0

(1) Loans over $500,000 in amount and with interest rate reduced significantly.
(2) Includes $3,976,000 loans to domestic REITs.

Table 11 presents comparative data for non-accrual and renegotiated loans by category at December 31, 1977 and 1976. Non-accrual loans and renegotiated loans were 26.1 per cent and 52.2 per cent lower at December 31, 1977 than at December 31, 1976. The reduction in non-accrual loans occurred through (1) payments which brought the loan current or paid in full ($73,800,000), (2) charge-offs ($20,500,000) and (3) swaps with REITs or foreclosures ($20,800,000). Other real estate owned increased $18,238,000 from $26,053,000 at December 31, 1976 to $44,291,000 at December 31, 1977. The increase was primarily attributable to swaps with REITs. The increase in 1976 was $2,432,000 or 10.3 per cent.

Loans to REITs were the only problem industry concentration in the loan portfolio at December 31, 1977. Total loans outstanding to REITs were approximately $110,000,000 and $180,000,000 and total REIT commitments were $254,000,000 and $304,000,000 at December 31, 1977 and 1976, respectively.

It should be recognized that management's classification of a loan as renegotiated or non-accrual does not necessarily mean that the loan principal will not be ultimately collected. In fact, loans in these categories represent a wide range of credit problems. Those which represent more serious problems are supervised by special departments of the Company whose staffs are skilled in working out problem loans.

Credit Risk Management

Current management of credit risk has a significant impact on the future quality of the loan portfolio and, hence the net income of the Company. The Company's practices in this area emphasize the importance of high quality and properly trained line lending officers, clearly understandable credit policies and responsive supervision systems that identify individual credit problems and portfolio trends early enough for corrective action to be implemented.

During 1977, the Company maintained the selective credit policies instituted in 1976 to ensure that new loans are of high quality. Management continually reviews the implementation of these policies, and is satisfied that exceptions have been kept at a minimum and that the overall quality of the portfolio is improving.

Country Risk Management

International loans involve exposures that are different from domestic loans. Unique international exposures include foreign exchange risks, adverse political changes and the risk that the borrower may be unable to generate sufficient foreign exchange to repay external debt. The Company follows the general policy of minimizing foreign exchange exposure by requiring that loans be repaid in U.S. dollars or by using foreign exchange contract hedges. In addition, foreign country exposure is minimized by the use of analytical techniques to evaluate the credit worthiness of each country and by limiting the amount of funds lent to a specific country. No single country concentration exceeds 2.7 per cent of the Company's total assets.

Table 12 provides a breakdown of international credits based on the extent of country development as measured by per capita income data obtained from the International Bank for Reconstruction and Development.

Table 12: International Loan & Acceptance Breakdown by Extent of Country Development

(Dollars in Millions Except Per Capita Data)	December 31, 1977 Amount	December 31, 1977 Per Cent	December 31, 1976 Amount	December 31, 1976 Per Cent
Major Industrialized (per capita income in excess of $2,000)	$1,045	37.8%	$ 961	39.8%
Other Developed (per capita income $750 to $2,000)	970	35.0	841	34.8
Oil Exporting	406	14.7	377	15.6
Developing:				
Higher Income (per capita income between $375 to $750)	210	7.6	149	6.2
Middle Income (per capita income between $200 to $375)	133	4.8	85	3.5
Lower Income (per capita income less than $200)	3	.1	3	.1
	$2,767	100.0%	$2,416	100.0%

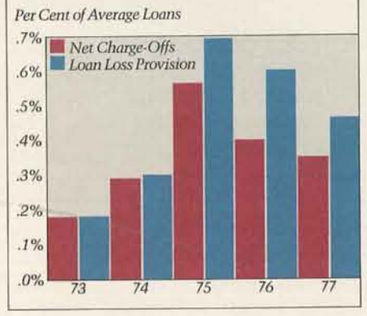
Reserve for Loan Losses

The *reserve for loan losses* is increased in two ways: (1) by adding to the reserve the amount of the provision for loan losses which has been charged against earnings; and (2) by adding to the reserve amounts recovered on previously charged off loans. The reserve is reduced by charging loan amounts deemed to be uncollectible to the reserve. The balance of the reserve for loan losses was $86,185,000 and $76,735,000 at December 31, 1977 and 1976, respectively. The *provision for loan losses* in 1977 was $41,028,000 compared to $46,379,000 in 1976. The amount of the provision is dependent upon the amount required to increase the reserve for loan losses to an adequate level after charge-offs. The reduction in the provision from 1976 to 1977 reflects improvements in the quality of the loan portfolio.

Table 13 provides information concerning changes in the reserve for loan losses over the last five years together with the ratio of reserves to loans during those years. The table also measures the reserve for loan losses as a percentage of total loans excluding real estate loans secured by 1-4 family residential properties. Management believes that this is a more relevant measure as losses in the 1-4 family category have been minimal during the past several years ($7,000 charged off in 1977) and it does not appear necessary at this time to maintain a significant reserve against these loans.

Management assesses the adequacy of the loan loss reserve on a quarterly basis by comparing loans previously classified by Internal Loan Examiners or by bank regulatory agencies to subsequent net losses (charge-offs less recoveries) in order to arrive at a loan loss experience factor for each quality classification.

***M** • Loan Loss Provision vs. Net Charge-Offs*



***N** • Ratio of Reserve for Loan Losses to Year-End Loans*

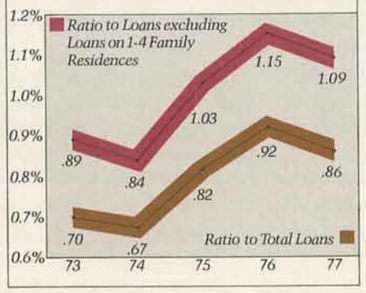


Table 13: Changes in the Reserve for Loan Losses

(Dollars in Thousands)	Year Ended December 31, 1977	1976	1975	1974	1973
Balance at Beginning of Year	$ 76,735	$ 61,665	$ 52,119	$ 48,681	$ 48,543
Additions:					
Charged to Expense	41,028	46,379	50,429	21,864	11,086
Reserves of Acquired Banks and Other Items	—	—	—	2,640	—
Total Additions	41,028	46,379	50,429	24,504	11,086
Deductions:					
Loans Charged off	40,554	41,151	50,927	26,853	15,229
Less Recoveries on Loans Charged off	8,976	9,842	10,044	5,787	4,281
Net Deductions	31,578	31,309	40,883	21,066	10,948
Balance at End of Year	$ 86,185	$ 76,735	$ 61,665	$ 52,119	$ 48,681
Total Loans at End of Year, Net of Unearned Discount	$10,094,976	$8,366,732	$7,522,845	$7,726,624	$6,923,322
Average Loans for the Year	$ 8,956,000	$7,764,000	$7,337,000	$7,179,000	$6,224,000
Reserve for Loan Losses as a Percentage of Total Loans at End of Year	.86%	.92%	.82%	.67%	.70%
Reserve for Loan Losses as a Percentage of Total Loans at End of Year, Exclusive of 1-4 Family Residential Properties	1.09%	1.15%	1.03%	.84%	.89%
Reserve for Loan Losses as a Percentage of Average Loans for the Year	.96%	.99%	.84%	.73%	.78%
Net Charge-offs as a Percentage of Average Loans Outstanding	.35%	.40%	.56%	.29%	.18%

These loss experience factors are then applied to current loan quality classifications. In addition, all classified loans, all non-accrual loans in excess of $100,000 and all renegotiated loans are reviewed in detail. The probable losses on these loans are then estimated. This total is combined with the estimates of net losses based on experience factors.

These procedures result in a reserve component that can be allocated to specifically identifiable accounts. The remaining portion of the reserve cannot be allocated in such a manner and is evaluated in light of portfolio trends, concentration, lending policies and general economic conditions. During times of economic difficulty, individual credit problems are more readily identifiable by the statistical methods, which use loss experience factors and specific review. As a result, the unallocated portion of the reserve will generally be smaller. When economic conditions improve, problem loans are not as easily identified and the unallocated portion may represent a larger portion of the total reserve.

A major concern of management is to provide for possible future losses through the reserve for loan losses. At any given date, the amount of the reserve for loan losses is less than total loans outstanding to borrowers who are experiencing varying degrees of financial difficulty. This is because experience has shown that the probability of all these loans becoming completely uncollectible is remote. Therefore, management determines a lesser amount which will be sufficient to absorb possible future loan losses.

Management considers the reserve for loan losses of $86,185,000 at December 31, 1977 adequate to cover probable losses on the loans outstanding as of that date. It must be emphasized, however, that the determination of the amount reserved for possible loan

losses using the Company's procedures and methods rests upon various judgments and assumptions about future economic conditions and other factors affecting loans. No assurance can be given that the Company will not in any particular period sustain loan losses which are sizable in relationship to the amount reserved or that subsequent evaluations of the loan portfolio, in light of conditions and factors then prevailing, will not require significant changes in the reserve for loan losses.

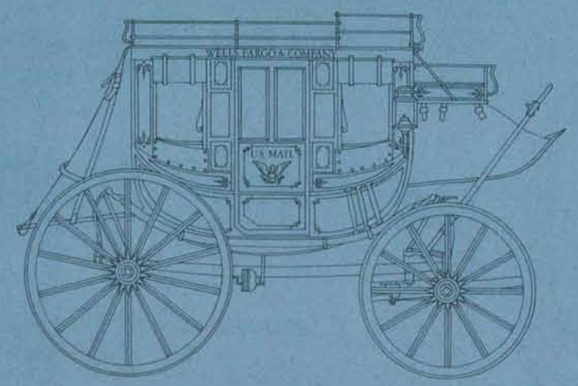
Table 14 provides a breakdown of the loan portfolio and the amount of the reserve that has been allocated against principal loan categories. Although the procedures and practices described above provide management with a consistent method for allocating a portion of the reserve, management believes that the adequacy of the reserve must be considered in its entirety.

Table 14: Allocation of the Reserve for Loan Losses

	December 31, 1977		*December 31, 1976*	
(In Thousands)	*Loans Outstanding*	*Allocation of the Reserve for Loan Losses**	*Loans Outstanding*	*Allocation of the Reserve for Loan Losses**
Real Estate Loans:				
Secured by 1-4 Family Residential Properties	$ 2,149,515	$ 100	$1,700,865	$ —
Other	1,134,382	2,800	850,366	4,000
Commercial Loans:				
REITs and Mortgage Companies	283,640	15,700	219,405	23,000
Other	2,286,119	16,900	2,180,484	17,000
Consumer Loans:				
Monthly Payment Loans	1,525,017	5,800	1,084,793	5,000
Credit Card	456,861	5,400	266,082	7,000
International Loans	2,394,605	16,700	2,156,649	10,000
Unallocated Portion of the Reserve for Loan Losses	—	22,785	—	10,735
Total	$10,230,139	$86,185	$8,458,644	$76,735

*Information prior to 1976 is not available.

FINANCIAL STATEMENTS & NOTES



Consolidated Balance Sheet

Wells Fargo & Company and Subsidiaries

Assets

(In Thousands)	December 31, 1977	1976
Cash and Due from Banks	$ 1,654,141	$ 1,348,184
Overseas Deposits	458,313	460,396
Investment Securities:		
U.S. Treasury Securities	881,081	982,654
Securities of Other U.S. Government Agencies and Corporations	199,995	244,052
Obligations of States and Political Subdivisions	738,813	396,948
Other Securities	99,557	103,066
Total Investment Securities	1,919,446	1,726,720
Trading Account Securities	14,846	66,140
Funds Sold	168,600	108,450
Loans:		
Commercial Loans	2,569,759	2,399,889
Real Estate Loans	3,283,897	2,551,231
Consumer Loans	1,981,878	1,350,875
International Loans	2,394,605	2,156,649
Total Loans	10,230,139	8,458,644
Less: Reserve for Loan Losses	86,185	76,735
Unearned Discount	135,163	91,912
Total Net Loans	10,008,791	8,289,997
Direct Lease Financing	317,852	282,975
Premises and Equipment, Net	135,714	133,392
Customers' Acceptance Liability	372,835	248,271
Accrued Interest Receivable	136,344	125,537
Other Real Estate Owned	44,291	26,053
Other Assets	127,595	152,549
Total Assets	$15,358,768	$12,968,664

The accompanying notes are an integral part of these statements.

Wells Fargo & Company and Subsidiaries

Liabilities and Stockholders' Equity

(In Thousands)	December 31, 1977	1976
Deposits:		
Demand Deposits	$ 3,536,899	$ 2,931,142
Savings Deposits	3,585,643	3,485,736
Savings Certificates	1,635,215	1,391,107
Certificates of Deposit	1,827,170	1,601,707
Other Time Deposits	424,592	313,811
Deposits in Overseas Offices	1,468,003	722,950
Total Deposits	12,477,522	10,446,453
Funds Borrowed:		
Federal Funds Borrowed and Repurchase Agreements	879,370	848,074
Other	101,586	118,902
Total Funds Borrowed	980,956	966,976
Commercial Paper Outstanding	178,411	191,280
Acceptances Outstanding	373,022	249,088
Accrued Taxes and Other Expenses	185,255	152,988
4½% Capital Notes of Wells Fargo Bank, N.A., due 1989	50,000	50,000
3¼% Convertible Capital Notes, due 1989	10,065	14,589
Debentures, Notes and Mortgages	258,986	208,356
Other Liabilities	180,294	143,072
Total Liabilities	14,694,511	12,422,802
Stockholders' Equity:		
Common Stock — $5 par value, authorized 30,000,000 shares, outstanding 22,316,305 shares and 20,158,265 shares at December 31, 1977 and 1976, respectively	111,581	100,791
Capital Surplus	234,292	188,579
Retained Earnings	318,384	256,492
Total Stockholders' Equity	664,257	545,862
Total Liabilities and Stockholders' Equity	$15,358,768	$12,968,664

The accompanying notes are an integral part of these statements.

Consolidated Statement of Income

Wells Fargo & Company and Subsidiaries

(In Thousands Except Per Share Data)	Year Ended December 31, 1977	1976
Interest Income:		
Interest and Fees on Loans	$ 823,415	$693,463
Interest on Funds Sold	6,429	3,496
Interest and Dividends on Investment Securities:		
U.S. Treasury Securities	69,938	59,883
Securities of Other U.S. Government Agencies and Corporations	16,520	25,228
Obligations of States and Political Subdivisions	22,504	15,846
Other Securities	7,067	7,268
Interest on Overseas Deposits	24,394	37,658
Interest on Trading Account Securities	4,419	3,478
Direct Lease Financing Income	33,371	32,560
Total Interest Income	1,008,057	878,880
Interest Expense:		
Interest on Deposits	463,733	414,832
Interest on Federal Funds Borrowed and Repurchase Agreements	35,193	33,019
Interest on Other Borrowed Money	17,751	12,882
Interest on Long-Term Debt	21,232	19,079
Total Interest Expense	537,909	479,812
Net Interest Income	470,148	399,068
Provision for Loan Losses	41,028	46,379
Net Interest Income after Provision for Loan Losses	429,120	352,689
Other Operating Income:		
Trust Income	21,635	19,649
Service Charges on Deposit Accounts	25,511	24,254
Trading Account Profits and Commissions	(268)	1,690
Other Income	43,797	23,324
Total Other Operating Income	90,675	68,917
Other Operating Expense:		
Salaries	168,085	145,746
Employee Benefits	41,028	32,126
Net Occupancy Expense	34,919	31,636
Equipment Expense	20,648	19,234
Other Expense	94,331	68,317
Total Other Operating Expense	359,011	297,059
Income before Income Taxes and Securities Transactions	160,784	124,547
Less Applicable Income Taxes	73,484	61,076
Income before Securities Transactions	87,300	63,471
Securities Gains (Losses), Net of Income Tax Effect of $(1,233) in 1977 and $48 in 1976	(1,020)	40
Net Income	$ 86,280	$ 63,511
Income Per Share (based on average number of common shares outstanding):		
Income before Securities Transactions	$4.03	$3.16
Securities Transactions, Net of Income Tax Effect	(.05)	—
Net Income	$3.98	$3.16

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Financial Position

Wells Fargo & Company and Subsidiaries

(In Thousands)	Year Ended December 31, 1977	1976
Sources of Financial Resources:		
Net Income	$ 86,280	$ 63,511
Sale of 2,000,000 Shares of Common Stock	51,885	—
Increase (Decrease) in:		
Deposits	2,031,069	622,142
Borrowings	47,217	(87,383)
Other, Net	67,064	952
	$2,283,515	$599,222
Applications of Financial Resources:		
Cash Dividends	$ 24,388	$ 19,888
Increase (Decrease) in:		
Cash and Due From Banks	305,957	(117,331)
Overseas Deposits	(2,083)	(23,992)
Securities (Including Trading)	141,432	21,684
Funds Sold	60,150	(130,400)
Total Net Loans	1,718,794	828,817
Direct Lease Financing	34,877	556
	$2,283,515	$599,222

Statement of Stockholders' Equity

Wells Fargo & Company (Parent)

Wells Fargo & Company and Subsidiaries

(In Thousands)	Common Stock	Capital Surplus	Retained Earnings	Total Stockholders' Equity
Balance December 31, 1975	$100,134	$185,377	$214,590	$500,101
Net Income — 1976			63,511	63,511
Conversion of Convertible Notes	647	3,172		3,819
Cash Dividends Declared			(19,888)	(19,888)
Stock Issued under Stock Option Plan	10	30		40
Other			(1,721)	(1,721)
Net Increase	657	3,202	41,902	45,761
Balance December 31, 1976	100,791	188,579	256,492	545,862
Sale of 2,000,000 shares of Common Stock	10,000	41,885		51,885
Net Income — 1977			86,280	86,280
Conversion of Convertible Notes	767	3,756		4,523
Cash Dividends Declared			(24,388)	(24,388)
Stock Issued under Stock Option Plan	23	72		95
Net Increase	10,790	45,713	61,892	118,395
Balance December 31, 1977	$111,581	$234,292	$318,384	$664,257

The accompanying notes are an integral part of these statements.

Consolidated Statement of Condition

Wells Fargo Bank, N.A. and Subsidiaries

Assets

(In Thousands)	December 31, 1977	December 31, 1976	Change
Cash and Due from Banks	$ 1,649,334	$ 1,332,586	$ 316,748
Overseas Deposits	458,313	460,396	(2,083)
Investment Securities:			
U.S. Treasury Securities	881,081	982,654	(101,573)
Securities of Other U.S. Government Agencies and Corporations	199,318	243,420	(44,102)
Obligations of States and Political Subdivisions	738,813	396,948	341,865
Other Securities	88,278	92,032	(3,754)
Total Investment Securities	1,907,490	1,715,054	192,436
Trading Account Securities	14,846	66,140	(51,294)
Funds Sold	168,600	108,450	60,150
Loans (Net of Reserve for Loan Losses and Unearned Discount)	9,715,728	8,074,132	1,641,596
Direct Lease Financing	147,860	134,472	13,388
Premises and Equipment, Net	133,506	132,320	1,186
Customers' Acceptance Liability	372,835	248,271	124,564
Accrued Interest Receivable	133,840	123,719	10,121
Other Real Estate Owned	34,332	13,668	20,664
Other Assets	103,939	131,711	(27,772)
Total Assets	$14,840,623	$12,540,919	$2,299,704

Liabilities and Stockholders' Equity

Demand Deposits	$ 3,543,141	$ 2,937,065	$ 606,076
Savings Deposits	3,585,808	3,485,886	99,922
Savings Certificates	1,635,215	1,391,107	244,108
Certificates of Deposit	1,827,420	1,601,707	225,713
Other Time Deposits	424,592	313,811	110,781
Deposits in Overseas Offices	1,468,003	722,950	745,053
Total Deposits	12,484,179	10,452,526	2,031,653
Funds Borrowed	897,189	924,501	(27,312)
Long-Term Debt	44,556	43,766	790
Acceptances Outstanding	373,022	249,088	123,934
Accrued Taxes and Other Expenses	142,756	122,064	20,692
Other Liabilities	171,904	122,890	49,014
Total Liabilities (Excluding Subordinated Notes)	14,113,606	11,914,835	2,198,771
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	300,036	251,512	48,524
Surplus Representing Convertible Capital Note Obligation Assumed by Parent Corporation	10,065	14,589	(4,524)
Undivided Profits	247,455	190,522	56,933
Total Stockholders' Equity	652,017	551,084	100,933
Total Liabilities and Stockholders' Equity	$14,840,623	$12,540,919	$2,299,704

The accompanying notes are an integral part of these statements.
Member of Federal Reserve System and Federal Deposit Insurance Corporation.

Balance Sheet

Wells Fargo & Company (Parent)

Assets

(In Thousands)	December 31, 1977	December 31, 1976
Cash	$ 5,291	$ 5,345
Security Repurchase Agreement	—	6,557
Marketable Securities	2,070	1,910
Commercial Paper Purchased — at cost (approximates market)	9,810	10,000
Dividends Receivable from Wells Fargo Bank, N.A.	6,894	6,139
Short-Term Advances to Subsidiaries	258,375	246,819
Loans to Subsidiaries	91,800	52,500
Investments in Common Stock of Principal Subsidiaries:		
Bank Subsidiary	663,327	566,386
Other Subsidiaries	62,878	46,028
Investment in Affiliate	575	413
Accrued Interest Receivable	3,110	1,256
Other Assets	7,521	3,911
Total Assets	$1,111,651	$947,264

Liabilities and Stockholders' Equity

Demand Notes Payable	$ 46,652	$ 41,880
Commercial Paper Outstanding	179,961	192,430
Accrued Expenses and Other Liabilities	1,327	67
Interest Payable	3,640	2,396
Dividends Payable	6,249	5,040
7½% Notes due 1979	20,000	20,000
8% Notes due 1980	4,500	—
7⅜% Sinking Fund Debentures due 1997	75,000	75,000
8⅛% Notes due 1998	50,000	50,000
8.60% Debentures due 2002	50,000	—
3¼% Convertible Capital Notes due 1989	10,065	14,589
Total Liabilities	447,394	401,402
Stockholders' Equity:		
Common Stock — $5 par value, authorized 30,000,000 shares, outstanding 22,316,305 shares and 20,158,265 shares at December 31, 1977 and 1976, respectively	111,581	100,791
Capital Surplus	234,292	188,579
Retained Earnings	318,384	256,492
Total Stockholders' Equity	664,257	545,862
Total Liabilities and Stockholders' Equity	$1,111,651	$947,264

The accompanying notes are an integral part of these statements.

Wells Fargo & Company (Parent)

Statement of Income

(In Thousands Except Per Share Data)	Year Ended December 31, 1977	1976
Income:		
Dividends from Wells Fargo Bank, N.A.	$27,576	$24,554
Interest Income:		
From Subsidiaries	21,517	14,483
From Others	654	495
Other Income	(15)	280
Total Income	49,732	39,812
Expense:		
Salaries and Employee Benefits	407	519
Interest Expense	26,987	20,125
Other Expense	1,266	1,326
Total Expense	28,660	21,970
Income before Income Tax Benefit and Undistributed Income and Securities Transactions of Subsidiaries	21,072	17,842
Income Tax Benefit	3,417	3,557
Income before Undistributed Income and Securities Transactions of Subsidiaries	24,489	21,399
Equity in Undistributed Income of Subsidiaries:		
Wells Fargo Bank, N.A.	53,961	35,103
Other Subsidiaries	8,850	6,969
Total Equity in Undistributed Income of Subsidiaries	62,811	42,072
Income before Securities Transactions	87,300	63,471
Securities Gains (Losses) of Wells Fargo Bank, N.A., Net of Income Tax Effect of $(1,233) in 1977 and $48 in 1976	(1,020)	40
Net Income	$86,280	$63,511
Income Per Share (based on average number of common shares outstanding):		
Income before Securities Transactions	$4.03	$3.16
Securities Transactions, Net of Income Tax Effect	(.05)	—
Net Income	$3.98	$3.16

The accompanying notes are an integral part of these statements.

Wells Fargo & Company (Parent)

Statement of Changes in Financial Position

(In Thousands)	Year Ended December 31, 1977	1976
Sources of Financial Resources:		
Operations:		
Net Income	$ 86,280	$ 63,511
Equity in Undistributed Net Income of Subsidiaries, Including Securities Transactions	(61,791)	(42,112)
Total Resources from Operations	24,489	21,399
Issuance of 2,000,000 Shares of Common Stock	51,885	—
Issuance of Long-Term Debt	50,000	—
Increase in Short-Term Debt and Demand Notes	9,272	38,476
Increase in Commercial Paper Outstanding	—	45,067
Conversion of 3¼% Convertible Capital Notes and Common Stock Issued Under Options	4,618	3,859
Decrease in Investments	6,747	—
	$147,011	$108,801
Applications of Financial Resources:		
Cash Dividends	$ 24,388	$ 19,888
Additional Capital Contribution to Subsidiaries:		
Bank	44,000	—
Finance Subsidiaries	8,000	—
Increase in Loans and Short-Term Advances to Subsidiaries	50,856	75,244
Decrease in Commercial Paper Outstanding	12,469	—
Decrease in 3¼% Convertible Capital Notes	4,523	3,819
Increase in Investments	—	11,461
Other, Net	2,775	(1,611)
	$147,011	$108,801

The accompanying notes are an integral part of these statements.

Combined Balance Sheet

*Wells Fargo Mortgage Company, Wells Fargo Realty Advisors and Wells Fargo Leasing Corporation

Finance Subsidiaries of Wells Fargo & Company*

Assets

(In Thousands)	December 31, 1977	1976
Cash — primarily on deposit with Wells Fargo Bank, N.A.	$ 6,351	$ 4,277
Marketable Securities — at cost (approximates market)	2,050	1,250
Accounts Receivable	3,102	2,496
Mortgage Loans:		
Loans in Inventory	71,778	52,443
Construction and Other Loans	44,253	59,731
	116,031	112,174
Reserve for Losses	(143)	(385)
	115,888	111,789
Real Estate Loans and Related Investments:		
Loans and Notes Receivable	177,994	106,177
Land Leased to Others — at cost	—	500
Foreclosed Properties	9,959	12,385
	187,953	119,062
Reserve for Losses	(1,004)	(2,188)
	186,949	116,874
Direct Lease Financing:		
Receivables due in Installments	190,854	167,017
Estimated Residual Value of Equipment Leased	19,997	17,184
Less: Unearned Income	(42,330)	(37,946)
Reserve for Losses	(3,824)	(2,894)
Leveraged Leases	5,215	3,997
Equipment Purchased Pending Lease Commencement	101	600
	170,013	147,958
Fixed Assets:		
Premises	682	—
Furniture and Equipment	1,607	983
Leasehold Improvements	610	387
	2,899	1,370
Accumulated Depreciation and Amortization	(773)	(372)
	2,126	998
Other Assets	8,631	4,500
Total Assets	$495,110	$390,142

The accompanying notes are an integral part of these statements.

Finance Subsidiaries of Wells Fargo & Company*

Liabilities and Stockholder's Equity

(In Thousands)	December 31, 1977	1976
Accounts Payable and Accrued Expenses	$ 7,720	$ 5,472
Other Liabilities	2,899	2,907
Installment Notes Payable	52,657	60,600
Mortgage Notes Payable	2,958	2,721
Short-Term Advances from Parent Company	258,375	212,150
Notes Payable to Parent Company	66,800	27,500
Due to Parent Company under Tax Allocation Agreement	3,854	583
Deferred Credits:		
Taxes on Income	32,720	28,630
Investment Tax Credit	4,329	4,027
Fee Income	2,029	1,575
	39,078	34,232
Total Liabilities	434,341	346,165
Stockholder's Equity:		
Common Stock	900	900
Additional Paid-In Capital	31,000	23,000
Retained Earnings	28,869	20,077
Total Stockholder's Equity	60,769	43,977
Total Liabilities and Stockholder's Equity	$495,110	$390,142

The accompanying notes are an integral part of these statements.

Combined Statement of Income & Retained Earnings

*Wells Fargo Mortgage Company, Wells Fargo Realty Advisors and Wells Fargo Leasing Corporation

*Finance Subsidiaries of Wells Fargo & Company**

(In Thousands)	Year Ended December 31, 1977	1976
Income:		
Interest and Fees on Loans	$30,894	$20,076
Direct Lease Financing Income	15,965	14,672
Loan Servicing Fees	5,607	4,452
Services to Affiliates	1,931	821
Other Income	2,882	2,506
Total Income	57,279	42,527
Expense:		
Interest and Fees:		
Wells Fargo & Company	17,831	11,640
Others	5,583	5,118
	23,414	16,758
Salaries and Employee Benefits	9,124	6,434
Occupancy Expense	982	641
Provision for Losses on Loans and Leases	1,455	1,370
Other Expense	5,037	3,513
Total Expense	40,012	28,716
Income before Income Taxes	17,267	13,811
Less Applicable Income Taxes	8,475	6,854
Net Income	8,792	6,957
Retained Earnings — Beginning of Year	20,077	13,120
Retained Earnings — End of Year	$28,869	$20,077

The accompanying notes are an integral part of these statements.

Combined Statement of Changes in Financial Position

*Wells Fargo Mortgage Company, Wells Fargo Realty Advisors and Wells Fargo Leasing Corporation

*Finance Subsidiaries of Wells Fargo & Company**

(In Thousands)	Year Ended December 31, 1977	1976
Sources of Financial Resources:		
Net Income	$ 8,792	$ 6,957
Items Not Using (Providing) Resources:		
Deferred Taxes, Net of Earned Investment Tax Credit	3,384	8,921
Provision for Losses on Loans and Leases	1,457	1,370
Other	(403)	(345)
Total Resources from Operations	13,230	16,903
Additional Capital Contributed by Parent	8,000	—
Lease Financing Receipts, Net of Earned Income Amounts	25,423	23,567
Increase in:		
Notes Payable	—	20,354
Short-Term Advances from Parent Company	46,225	40,175
Notes Payable to Parent Company	39,300	—
Due to Parent Company Under Tax Allocation Agreement	5,578	—
	$137,756	$100,999
Applications of Financial Resources:		
Direct Lease Financing	$ 48,205	$ 29,662
Increase in:		
Cash	2,074	3,866
Mortgage Loans	3,857	63,905
Real Estate Loans and Related Investments	71,817	1,016
Decrease in:		
Due to Parent Company under Tax Allocation Agreement	—	3,099
Notes Payable	7,706	—
Other, Net	4,097	(549)
	$137,756	$100,999

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Wells Fargo & Company (Parent), Wells Fargo & Company and Subsidiaries (Company) and Finance Subsidiaries of Wells Fargo & Company conform to generally accepted accounting principles. The following is a description of the most significant of these policies.

Consolidation

The consolidated financial statements of the Company include the accounts of Wells Fargo & Company, Wells Fargo Bank, N.A. and its subsidiaries (Bank) and nonbank subsidiaries. Foreign branches and subsidiaries of the Bank have been consolidated on a line-by-line basis. Significant inter-company accounts and transactions are eliminated in consolidation. Investments of the Parent in its principal subsidiaries are carried at cost plus changes in equity since formation or acquisition.

The Comptroller of the Currency's regulations require that goodwill arising from the Bank's acquisition of another entity be charged to Undivided Profits. In accordance with generally accepted accounting principles, this write-off is not reflected in the statements of the Company or the Parent. Goodwill is amortized over the estimated life of the asset, not to exceed 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. Gains or losses associated with hedged transactions are 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 exchange rate for the month. Exchange adjustments arising from translation are reported currently in the income statement.

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 Profits and Commissions" in the Consolidated Statement of 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 reported 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 range from 40-50 years for buildings, 5-15 years for equipment and the lease term for leasehold improvements.

Income Taxes

The Company files a consolidated federal income tax return. Taxable income is 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 based 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 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 term of the related lease.

Accounting for Leases

The Financial Accounting Standards Board (FASB) Statement of Financial Standards No. 13 — *Accounting for Leases* — affects the Company as a lessee and as a lessor.

As a lessee, the Company has lease arrangements, primarily for the use of real property, which are presently accounted for under the operating lease method. However, some of these leases would be classified as capital leases under the provisions of Statement No. 13. See Footnote 20 for the effects of capitalization on the financial statements.

As a lessor, the Company engages in direct lease financing in its banking operations and through Wells Fargo Leasing Corporation. Policies for the Leasing Corporation are disclosed under the heading Finance Subsidiaries. The Bank's direct lease financing consists primarily of automobile leasing to customers for various time periods. Income is recognized over the lease term using an interest method.

Reserve for Loan Losses

The Company provides for possible loan losses on the reserve method. For the Bank and other subsidiaries, the provision for loan losses charged to expense for financial statement purposes is based on a review and evaluation of various factors affecting the collectibility of loans.

Unearned Discount on Loans

Unearned discount on loans is shown as a reduction of "Total Loans" and is recognized as income on a declining basis (sum-of-the-digits method) over the term of the loan.

Other Real Estate Owned

Other real estate acquired through foreclosure or deed in lieu of foreclosure is carried at the lower of cost or market. Where market cannot be readily determined, the Company uses estimated net realizable value upon disposition. When the property is acquired, any excess of the loan balance over market or the estimated net realizable value is charged to the "Reserve for Loan Losses." Subsequent write-downs, if any, are charged to "Other Expense."

Income Per Share

Income per share is computed by dividing income by the average number of shares outstanding during the year. Income per share, assuming dilution for common stock equivalents or full dilution, is not presented as such dilution is not material.

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.

Finance Subsidiaries

Wells Fargo Mortgage Company: Mortgage loans held for sale are stated at the lower of cost or aggregate market value. Valuation adjustments are charged against or credited to operations. Actual gain or loss on sales of mortgage inventory is recorded when the loans are delivered to and paid for by the investors. Commitment fees are reflected as adjustments to sales prices.

Servicing fees are based on a contractual percentage of the outstanding monthly principal balance of loans serviced and are credited to income when the related payments are received.

Origination fees for residential loans are earned when collected from mortgagors. Fees for originating commercial loans are earned upon acceptance of the investor loan commitment by the borrower. Construction loan fees are deferred and amortized on a straight-line basis, which approximates the interest method, over the anticipated construction period.

The cost of acquiring servicing contracts is deferred and amortized over the period of estimated net servicing income. The straight-line method of amortization is used for those contracts acquired prior to January 1, 1976, and an accelerated method is used for those contracts acquired subsequent to that date.

Wells Fargo Realty Advisors: Commitment fees are deferred and recognized as income on a straight-line basis over a period based on the estimated life of the loan and the length of the commitment.

Loan origination fees are deferred and recognized as income on the interest method.

Wells Fargo Leasing Corporation: Leasing transactions are recorded on the financing method of accounting. A portion of lease income is recognized at the inception of the lease which approximates the cost of acquiring the lease and an estimated provision for possible losses. For pre-1977 lease agreements, the remainder of unearned lease income is recorded as income over the life of the related lease on a declining basis (sum-of-the-digits method) that provides an approximately level rate of return on the unrecovered investment. Effective January 1, 1977, in accordance with FASB Statement No. 13, the Corporation changed its method of accounting to amortize unearned lease income using an interest method. The accounting change does not have a material effect on 1977 combined net income.

2. INVESTMENT SECURITIES

The following data is provided with respect to consolidated investment securities:

(In Thousands)	Market Value December 31, 1977	1976
U.S. Treasury Securities	$ 874,683	$1,000,913
Securities of Other U.S. Government Agencies and Corporations	199,163	250,310
Obligations of States and Political Subdivisions	711,301	366,792
Other Securities	94,490	100,509
Total Investment Securities	$1,879,637	$1,718,524
Accumulation of Discount	$ 1,280	$ 879

Market value of U.S. Treasury and Other U.S. Government Securities is determined based on current quotations. Market value of Obligations of States and Political Subdivisions is determined based on current quotations, where available. Where current quotations are not available, market value is determined based on the present value of future cash flows, adjusted for the quality rating of the security and other factors.

Included in Obligations of States and Political Subdivisions at December 31, 1977 are the following securities for which a state or municipal issuer exceeds five per cent of stockholders' equity:

(In Thousands)	Book Value	Market Value
Municipalities within California*	$176,146	$168,496
State of California	82,234	77,776
Los Angeles Dept. of Water and Power	47,494	46,951
Total California	$305,874	$293,223

*None of which exceeds five per cent of stockholders' equity.

3. FOREIGN EQUITY SECURITIES

Foreign Equity Securities accounted for using the equity method and included in other assets on the Consolidated Balance Sheet, totaled $31,855,000 and $36,446,000, including unamortized goodwill of $2,787,000 and $2,864,000 at December 31, 1977 and 1976, respectively. Included in Foreign Equity Securities at December 31, 1976 is the investment in Allgemeine Deutsche Credit-Anstalt (ADCA) carried at $6,027,000. The carrying value was established in 1976 as the result of an agreement between the Company and another shareholder of ADCA whereby the Company's interest in ADCA was reduced from 17.2 per cent to 8 per cent in exchange for supervisory services to the Company concerning ADCA during the next seven years. In 1977, ADCA was accounted for on the cost method.

No adjustments to the carrying value of the ADCA investment were made during 1977. In 1976, the Company's pre-tax earnings were reduced by adjustments to the ADCA investment of $17,459,000 causing an after tax reduction of $11,041,000.

4. PLEDGED SECURITIES AND LOANS

United States government securities, other securities and loans carried at $961,175,000 on December 31, 1977 were pledged to secure U.S. government deposits, other public funds, trust deposits and for other purposes, as required or permitted by law.

5. PREMISES AND EQUIPMENT

The following table presents comparative data for consolidated premises and equipment:

(In Thousands)	Cost	Accumulated Depreciation & Amortization	Net
At December 31, 1977:			
Land	$ 27,602	$ —	$ 27,602
Bank Premises	83,299	29,711	53,588
Furniture and Equipment	74,968	41,207	33,761
Leasehold Improvements	31,148	10,385	20,763
Total	$217,017	$81,303	$135,714
At December 31, 1976:			
Land	$ 27,047	$ —	$ 27,047
Bank Premises	82,456	30,124	52,332
Furniture and Equipment	68,325	35,501	32,824
Leasehold Improvements	30,062	8,873	21,189
Total	$207,890	$ 74,498	$133,392

The amounts reported for federal tax purposes are substantially the same as amounts reported above.

Depreciation and amortization expense was $9,793,000 for the year ended December 31, 1977 and $9,318,000 for the year ended December 31, 1976.

6. LOANS AND RESERVE FOR LOAN LOSSES

Changes in the consolidated reserve for loan losses were as follows:

(In Thousands)	Year Ended December 31, 1977	1976
Balance at Beginning of Year	$76,735	$61,665
Additions:		
Provision Charged to Expense:		
Bank	40,300	45,708
Non-Bank Subsidiaries	728	671
Total Additions	41,028	46,379
Deductions:		
Net Charge-offs:		
Loans Charged off	40,554	41,151
Recoveries on Loans Charged off	(8,976)	(9,842)
Net Deductions	31,578	31,309
Balance at End of Year	$86,185	$76,735

The following table presents information concerning loans which are carried on a non-accrual or renegotiated status:

(In Thousands)	December 31, 1977	1976
Total non-accrual and renegotiated loans	$212,000	$318,800
Income which would have been recorded under original terms	$23,416	$ 25,222
Gross interest recorded	$ 7,309	$ 5,800
Commitments to lend additional funds	$ 5,192	$ 5,787

7. CAPITAL AND CONVERTIBLE CAPITAL NOTES

The 4½% Capital Notes of the Bank may be currently redeemed at the option of the Bank at 1.575 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 1.1375 per cent premium and at decreasing premiums 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.

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

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

8. DEBENTURES, NOTES AND MORTGAGES

The debentures, notes and mortgages of the Company consisted of the following obligations:

(In Thousands)	December 31, 1977	1976
7⅜% Sinking Fund Debentures due 1997	$ 75,000	$ 75,000
8⅛% Notes due 1998	50,000	50,000
8.60% Debentures due 2002	50,000	—
4¼% - 4½% Collateral Trust and Mortgage Bonds due to 1993 of ATC Building Company and Other Mortgages on Premises	21,720	22,865
6½% Euro Deutsche Mark Debentures due 1988 of Wells Fargo International Investment Corporation	20,766	18,991
8% - 10½% Senior Notes (with original maturities of more than three years) due in varying amounts to 1988 of Wells Fargo Leasing Corporation	41,500	41,500
Total	$258,986	$208,356

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

1978	1979	1980	1981	1982
$1,149	$5,271	$11,565	$11,615	$11,671

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

The 8⅛% Notes will require mandatory annual principal payments of $1,700,000 beginning November 1, 1983. At its option, beginning November 1, 1983, the Company has the non-cumulative right of increasing principal payments by $1,700,000 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 8.60% Debentures will require an annual sinking fund of $3,000,000 beginning April 1, 1987. Beginning April 1, 1987, the Company may at its option, at any time, redeem all or any part of the debentures prior to maturity at the then applicable optional redemption premium.

The 4¼% - 4½% Bonds are payable in annual installments of $1,000,000 until 1988 and then annual

installments of $500,000 until 1993. The Bonds are secured by deeds of trust on $39,099,000 of Bank premises, at cost. The Bonds can presently be redeemed at 1.555 per cent premium for the 4¼% Bonds and at 2.330 per cent premium for the 4½% Bonds.

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 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, $15,000,000 with an interest rate of 8 per cent may be currently prepaid at a 5.6 per cent premium and at lesser premiums until June 1, 1983 when the Notes may be redeemed at par. The remaining $26,500,000 of Senior Notes with interest at 9½ per cent to 10½ per cent may be prepaid under certain circumstances.

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 subsidiaries of the Company, the amount of funded debt and the payment of cash dividends. The Company was in compliance with the provisions of the borrowing agreements at December 31, 1977.

Installment Notes Payable of the Finance Subsidiaries were obligations of Wells Fargo Leasing Corporation and consisted of the following:

(In Thousands)	December 31, 1977	1976
8% - 10½% Senior Notes due to 1988	$41,500	$41,500
8⅛% - 10% Notes due 1978-1979	11,157	19,100
	$52,657	$60,600

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

1978	1979	1980	1981	1982
$9,157	$3,822	$8,105	$8,141	$8,182

Mortgage Notes Payable of the Finance Subsidiaries are obligations assumed in connection with foreclosed properties.

9. DEMAND NOTES PAYABLE AND COMMERCIAL PAPER OUTSTANDING

Demand notes are payable to various bank trust departments and are included with "Other Funds Borrowed" on the Consolidated Balance Sheet. Commercial paper represents obligations of the Parent with original maturities not to exceed 270 days. Outstanding amounts and rates were as follows:

	Year Ended December 31, 1977	1976
Average amount outstanding	$220,844,000	$176,126,000
Daily average rate	5.61%	5.53%
Highest month-end balance	$249,134,000	$234,310,000
Rate on outstandings at year end	6.77%	4.85%

In connection with these obligations, the Parent had available lines of credit with unaffiliated banks totaling $202,500,000 at December 31, 1977 and $182,000,000 at December 31, 1976. During 1977 and 1976, none of the lines of credit was used. In connection with these lines of credit, the Parent paid fees or maintained minimum dollar-day balances as required by the various line of credit agreements.

10. 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.

In connection with the 3¼% Convertible Capital Notes due 1989, the Company has reserved 341,164 shares of unissued common stock at December 31, 1977.

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 in an amount equal to the appreciation in the fair market value of the shares at that date over the option price at the date of grant.

The status of options outstanding, exercisable and exercised at December 31, 1977 is summarized below:

Outstanding Options

Year of Grant	Number of Shares	Option Price and Fair Value at Date of Grant: Per Share	Aggregate (In Thousands)
1974	194,800	$20.25	$3,945
1973	99,000	$21.88	2,166
Total	293,800		$6,111

Options Which Became Exercisable

Year Options Became Exercisable	Number of Shares	Option Price: Per Share	Aggregate (In Thousands)	Fair Value at Date Options Became Exercisable: Per Share	Aggregate (In Thousands)
1976	206,000	$20.25	$4,172	$22.25	$4,584

Options Exercised

Year Exercised	Number of Shares	Option Price: Per Share	Aggregate (In Thousands)	Fair Value at Date Options Exercised: Per Share	Aggregate (In Thousands)
1977	4,700	$20.25	$95	$26.60	$125
1976	2,000	20.25	40	25.88	52

Options granted in 1974 for 3,500 shares and 1,000 shares were forfeited in 1977 and 1976, respectively; the optionees elected to receive cash equal to the appreciation of the fair market value over the exercise price of the shares. At December 31, 1977, options for 99,500 shares were available for grant.

11. EMPLOYEE BENEFITS

The contributions to the Retirement Plan and to Profit Sharing Plans were as follows:

(In Thousands)	Year Ended December 31, 1977	1976
Retirement Plan:		
Consolidated	$4,645	$4,020
Finance Subsidiaries	$ 140	$ 96
Profit Sharing Plans:		
Consolidated	$7,275	$5,344
Finance Subsidiaries	$ 447	$ 372

At December 31, 1976, the date of the most recent actuarial calculation of the Retirement Plan, if the assets of the Retirement Plan had been liquidated and the proceeds used to purchase annuities at the then available rates of return, those proceeds would have been sufficient to provide for all vested Retirement Plan benefits.

All salaried employees of participating Wells Fargo companies hired on or before September 1, 1975 participate in the Profit Sharing Plans. Those hired after that date participate after three years of service.

During 1977, the Company established an Employee Stock Ownership Plan retroactive to January 1, 1976. Under this Plan, the Company is allowed to make certain reductions in its federal income tax payments if the savings are passed on to employees in the form of stock ownership through the Wells Fargo & Company Employee Stock Ownership Plan. All salaried employees of participating Wells Fargo companies that have worked for three continuous years are eligible to participate. The Company estimates a $436,000 contribution for 1977 and has made a contribution of $448,000 for 1976.

12. INCOME TAXES

Current and deferred income tax provisions (benefits), including the tax effect of securities transactions, were as follows:

(In Thousands)	Year Ended December 31, 1977	1976
Parent		
Current:		
Federal	$ (4,339)	$ (2,364)
State and Local	(942)	(401)
	(5,281)	(2,765)
Deferred:		
Federal	579	(549)
State and Local	52	(195)
	631	(744)
Total	$ (4,650)	$ (3,509)
Consolidated		
Current:		
Federal	$17,496	$21,616
State and Local	11,176	11,102
Foreign	16,211	8,744
	44,883	41,462
Deferred:		
Federal	26,277	15,175
State and Local	6,242	3,563
Foreign	(5,151)	924
	27,368	19,662
Total	$72,251	$61,124
Finance Subsidiaries		
Current:		
Federal	4,151	(551)
State and Local	1,045	(267)
	5,196	(818)
Deferred:		
Federal	2,584	6,013
State and Local	695	1,659
	3,279	7,672
Total	$ 8,475	$ 6,854

A reconciliation of the statutory federal income tax rate to the effective tax rate follows:

Per Cent of Pre-Tax Income before Securities Transactions

	Year Ended December 31, 1977	1976
Parent		
Statutory Federal Income Tax Rate	48.0 %	48.0 %
Decrease in Tax Rate Resulting from:		
Dividends from and Undistributed Earnings of Subsidiaries	(51.7)	(53.4)
Other	(.4)	(.5)
Effective Tax Rate	(4.1)%	(5.9)%
Consolidated		
Statutory Federal Income Tax Rate	48.0 %	48.0 %
Increase (Decrease) in Tax Rate Resulting from:		
State and Municipal Bond Income	(6.6)	(6.0)
State and Local Taxes on Income, Net of Federal Income Tax Benefit	5.6	6.0
Net Capital Losses	—	2.6
Other	(1.3)	(1.6)
Effective Tax Rate	45.7 %	49.0 %
Finance Subsidiaries		
Statutory Federal Income Tax Rate	48.0 %	48.0 %
Increase (Decrease) in Tax Rate Resulting from:		
State and Local Taxes on Income, Net of Federal Income Tax Benefit	5.2	5.2
Amortization of Investment Tax Credit	(4.5)	(4.4)
Other	(.1)	.8
Effective Tax Rate	48.6 %	49.6 %

The effective tax rate on securities gains or losses differs from the federal income tax rate of 48 per cent because of state income taxes net of federal income tax benefit.

For financial statement purposes, the Company had deferred investment tax credit for property purchased for lease to customers of $7,302,704 at December 31, 1977 and $7,725,000 at December 31, 1976.

The variances in the amounts as previously reported result principally from adjustments when the tax returns were filed.

At December 31, 1977, the Company and its subsidiaries had accrued income taxes payable of $108,499,000, net of $1,522,000 currently receivable due to previous payments of estimated tax. At December 31, 1976, the Company had accrued income taxes of $90,452,000 of which $8,352,000 was currently payable.

The deferred tax provisions are the result of certain items being accounted for in different time periods for financial reporting purposes than for income tax purposes. The components of the deferred income tax provisions and the tax effect of each were as follows:

(In Thousands)	Year Ended December 31, 1977	1976
Parent		
Cash Basis of Accounting for Tax Purposes	$ 631	$ (744)
Total	$ 631	$ (744)
Consolidated		
Cash Basis of Accounting for Tax Purposes	$ 2,259	$22,646
Deferred Income on Direct Lease Financing	12,785	12,207
Greater (Lesser) Loan Loss Deduction for Income Tax Purposes	6,730	(8,515)
Net Deferred Income (Losses) on Equity Investments	3,566	(7,412)
Other	2,028	736
Total	$27,368	$19,662
Finance Subsidiaries		
Cash Basis of Accounting for Tax Purposes	$ (2,119)	$ 1,835
Lesser Loan Loss Deduction for Income Tax Purposes	(485)	(496)
Deferred Income on Direct Lease Financing	5,965	6,212
Other	(82)	121
Total	$ 3,279	$ 7,672

13. DIVIDENDS AND UNDIVIDED PROFITS

Dividends payable by the Bank to the Parent without the express approval of the Comptroller of the Currency are limited to the Bank's net profits (as defined) for the current year combined with its retained net profits for the preceding two years. Under this formula, as of December 31, 1977, Wells Fargo Bank, N.A. could have declared additional dividends totaling approximately $139,290,000.

The retained earnings of the Parent included $208,557,000 and $146,766,000 of undistributed earnings of subsidiaries at December 31, 1977 and December 31, 1976, respectively.

14. PARENT COMPANY FINANCING

The subordinated notes and debentures receivable by the Parent from its subsidiaries were as follows:

(In Thousands)	December 31, 1977	1976
Wells Fargo Bank, N.A.:		
8¼% Subordinated Capital Note due 1998	$25,000	$25,000
Finance Subsidiaries:		
Wells Fargo Mortgage Company:		
8¼% Subordinated Note due 1998	$ 6,800	$ 2,500
Wells Fargo Realty Advisors:		
7½% Subordinated Debenture due 1997	2,800	2,800
8¼% Subordinated Note due 1998	7,200	7,200
8¾% Note due 2002	10,000	—
Wells Fargo Leasing Corporation:		
7½% Subordinated Note due 1997	15,000	15,000
8¾% Note due 2002	25,000	—
Total Finance Subsidiaries	66,800	27,500
Total	$91,800	$52,500

Short-term advances are made by the Parent under credit agreements with the subsidiaries. The rate charged approximates the costs incurred by the Parent in acquiring the funds advanced to the subsidiaries.

15. WELLS FARGO MORTGAGE COMPANY

Under an agreement with the Bank, Wells Fargo Mortgage Company (Mortgage) receives a 1 per cent brokerage fee on loans recommended to and accepted by the Bank. Mortgage received brokerage fees totaling $1,648,000 in 1977 and $250,000 in 1976. Mortgage may also acquire from the Bank up to 90 per cent participation in certain construction loans. Mortgage's participation in such loans was $28,626,000 at December 31, 1977 and $41,176,000 at December 31, 1976.

16. WELLS FARGO REALTY ADVISORS

Real Estate Loans and Related Investments consisted of the following:

(In Thousands)	December 31, 1977	1976
First Mortgage:		
Construction Loans	$116,423	$ 59,434
Land and Development Loans	28,281	24,782
Intermediate-Term Loans	23,941	17,977
Junior Mortgage:		
Development Loans	—	736
Other	4,035	515
Unsecured Loans	5,314	2,733
Total Loans and Notes Receivable	177,994	106,177
Land Leased to Others	—	500
Foreclosed Properties:		
Land	6,762	11,020
Apartments	885	889
Others	802	476
Total Foreclosed Properties	8,449	12,385
Total	$186,443	$119,062

The weighted average interest rate on the real estate loans and notes was 10.50 per cent and 9.83 per cent at December 31, 1977 and 1976, respectively. The loans and notes, which generally require only periodic payments of interest, mature as follows:

Year Ending December 31,	(In Thousands)
1978	$122,172
1979	38,825
1980	9,503
1981	327
1982	5,276
After 1982	1,891
Total	$177,994

Loans maturing in 1978 of approximately $6,929,000 are carried on a non-accrual or renegotiated basis.

17. WELLS FARGO LEASING CORPORATION

Wells Fargo Leasing Corporation is involved in the leasing of various types of equipment to customers. Lease periods range from 3 to 20 years.

At December 31, 1977, direct lease receivables were due in installments to 1992. Installments mature as follows:

Year Ending December 31,	(In Thousands)
1978	$ 41,736
1979	35,087
1980	30,136
1981	24,577
1982	17,646
After 1982	41,672
Total	$190,854

Unearned income included in income to offset initial direct costs charged against income was $1,283,000 in 1977 and $1,102,000 in 1976.

Total cost of equipment leased at December 31, 1977 was $241,673,000 of which direct financing and leveraged leases were $221,035,000 and $20,638,000, respectively.

18. INTERNATIONAL OPERATIONS

The Bank provides international banking services from its foreign and domestic based International Division offices. The aggregate exchange gains arising during the year and included in the determination of net income were $896,000 in 1977 and $756,000 in 1976. The following table presents the average assets and liabilities associated with international operations:

(In Millions)	Year Ended December 31,* 1977	1976
Assets:		
Overseas Deposits	$ 432	$ 605
Acceptances	$ 358	$ 230
Loans:		
Government Sector:		
Loans to or Guaranteed by Central Governments and Central Banks, including Government-Owned Banks	$ 744	$ 598
Loans to Other Governmental Entities	527	419
Private Sector:		
Loans to Private Banks	222	176
Loans to Other Private Entities	754	726
Total Loans	$2,247	$1,919
Liabilities:		
Deposits of Banks Located in Foreign Countries	$ 387	$ 268
Deposits of Foreign Governments and Institutions	581	419
Other Deposits	221	159
Total Deposits	$1,189	$ 846

*Balances are based on daily averages, except that the average loans and deposits by category have been determined principally on the basis of month-end averages.

Loans and customers' acceptances are distributed primarily on the basis of the location of the head office or residence of the borrower or, in the case of guaranteed loans or acceptances, the guarantor. Total Operating Revenue, Net Operating Income and Identifiable Assets by geographic area for the year ended or at December 31, 1977 were as follows:

(In Millions)	Domestic Operations	International Operations: U.S. and Canada	Europe	Latin America and Mexico	Asia and Pacific Basin	Middle East and Africa	Consolidated Total
Total Operating Revenue	$ 871.2	$ 23.6	$ 48.6	$ 87.8	$ 40.1	$ 27.4	$ 1,098.7
Net Operating Income	$ 150.6	$ 6.7	$ 6.3	$ 21.7	$ 9.1	$ 7.4	$ 201.8
Provision for Loan Losses							41.0
Applicable Income Taxes							73.5
Income before Securities Transactions							$ 87.3
Identifiable Assets:							
Loans	$ 7,835.5	$212.0	$431.8	$ 909.1	$505.2	$336.5	$10,230.1
Acceptances	—	16.2	1.5	104.2	222.7	48.5	372.8*
Overseas Deposits	—	9.7	264.3	157.4	15.2	11.7	458.3
Other	4,297.6	—	—	—	—	—	4,297.6
Total Identifiable Assets	$12,112.8*	$237.9	$697.6	$1,170.7	$743.1	$396.7	$15,358.8

*Acceptances of $20,300,000 are held for investment by the Bank and eliminated in consolidation.

19. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, there are various commitments outstanding and contingent liabilities, such as foreign exchange contracts and guaranteed commitments to extend credit, 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, 1977 totaled $274,985,000.

Actions are pending against the Bank and certain other subsidiaries of the Parent in which the relief or damages sought are very substantial. In addition, the Parent, the Bank and the other subsidiaries of the Parent are at all times subject to numerous pending and threatened legal actions and proceedings arising in the normal course of business. After reviewing with counsel pending and threatened actions and proceedings, management considers that the outcome of such actions or proceedings will not have a material adverse effect on the operations or financial condition of the Company, the Bank, the Parent and the Finance Subsidiaries.

As of December 31, 1977, Wells Fargo Mortgage Company was servicing approximately 56,000 loans totaling $2 billion. Fiduciary funds held and the related liabilities due investors totaled approximately $20,000,000. These monies were on deposit in Trustee Demand Depository Accounts of the Bank and are not included in the accompanying Combined Statements of the Finance Subsidiaries.

The Bank has agreed to merge with the First National Bank of Orange County and necessary board of director and shareholder approvals have been obtained. The merger is now awaiting approval by the Comptroller of the Currency. The Bank has also agreed to purchase eight branch offices of the Bank of California. The application for the purchase was approved by the Comptroller of the Currency in January 1978.

20. LEASE COMMITMENTS

Net rental expense was as follows:

(In Thousands)	Year Ended December 31, 1977	1976
Consolidated Net Rental Expense	$26,398	$24,300
Finance Subsidiaries Net Rental Expense	$ 1,331	$ 1,047

The future minimum payments under noncancelable leases with terms in excess of one year are as follows:

Year Ending December 31,	(In Thousands) Finance Subsidiaries	Consolidated
1978	$ 653	$ 15,348
1979	453	14,765
1980	407	14,000
1981	386	12,700
1982	187	11,476
After 1982	72	130,686
Total	$2,158	$198,975

Sublease income is insignificant in amount. Some of the lease commitments include the payment of taxes, insurance and other expenses in the total periodic payment.

The Company's lease arrangements generally do not involve contingent rentals or bargain purchase options. Many of the leases do allow for periodic adjustment of rentals based on changes in various economic indicators. The Company's leases do not contain restrictive clauses concerning dividends, debt financing or further leasing.

Some of the leases accounted for under the operating method would be classified as capital leases under the provisions of FASB Statement No. 13 — *Accounting for Leases.* Had the capitalization been effected, the following would have been recorded:

(In Thousands Except Per Share Data)	December 31, 1977	1976
Assets:		
Leased Property Under Capital Leases, Net of Accumulated Amortization of $27,656 and $23,376 for 1977 and 1976, respectively	$68,034	$68,201
Liabilities:		
Obligations Under Capital Leases	$78,676	$77,299
Deferred Taxes	(5,827)	(4,982)
Total	$72,849	$72,317
Retained Earnings	$ (4,815)	$ (4,116)
Reduction of Net Income	$ 699	$ 769
Reduction of Earnings Per Share	$.03	$.04

21. SUMMARY OF QUARTERLY FINANCIAL INFORMATION

The following financial information for the quarters of the years ended December 31, 1977 and 1976 is unaudited. In the opinion of management, all adjustments necessary to present fairly the results of operations for the periods shown have been made.

	Quarter Ended			
(In Thousands Except Per Share Data)	*March 31,*	*June 30,*	*September 30,*	*December 31,*
1977:				
Interest Income	$224,621	$236,129	$261,525	$285,782
Interest Expense	118,689	124,748	139,640	154,832
Net Interest Income	105,932	111,381	121,885	130,950
Other Income	19,121	22,086	23,844	25,624
Provision for Loan Losses	10,185	10,246	10,136	10,461
Other — Net*	97,916	102,598	110,169	122,832
Net Income	$ 16,952	$ 20,623	$ 25,424	$ 23,281
Per Share	$0.84	$0.94	$1.14	$1.05
1976:				
Interest Income	$212,328	$213,490	$223,089	$229,973
Interest Expense	117,834	118,236	122,039	121,703
Net Interest Income	94,494	95,254	101,050	108,270
Other Income	15,894	18,555	19,250	15,218
Provision for Loan Losses	12,156	12,316	12,310	9,597
Other — Net*	85,762	84,227	90,588	97,518
Net Income	$ 12,470	$ 17,266	$ 17,402	$ 16,373
Per Share	$0.62	$0.86	$0.87	$0.81

*Includes Other Expense, Income Taxes and Securities Transactions.

During 1976, adjustments were made to the Company's investment in ADCA which totaled $17,459,000. These quarterly adjustments, included in Other Income, were for the quarters ended March 31 — $1,500,000; June 30 — $3,000,000; September 30 — $3,000,000; December 31 — $9,959,000. The adjustment in the quarter ended December 31, 1976 was partially based upon an agreement reached with another shareholder of ADCA and is more fully described in Footnote 3.

Accountants' Report

The Board of Directors and Stockholders
of Wells Fargo & Company

We have examined the balance sheets of Wells Fargo & Company (Parent) as of December 31, 1977 and 1976 and the related statements of income, stockholders' equity, and changes in financial position for the years then ended; the consolidated balance sheets of Wells Fargo & Company and Subsidiaries as of December 31, 1977 and 1976 and the related consolidated statements of income, stockholders' equity, and changes in financial position for the years then ended; the combined balance sheets of the Finance Subsidiaries of Wells Fargo & Company as of December 31, 1977 and 1976 and the related combined statements of income and retained earnings 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, 1977 and 1976. 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.

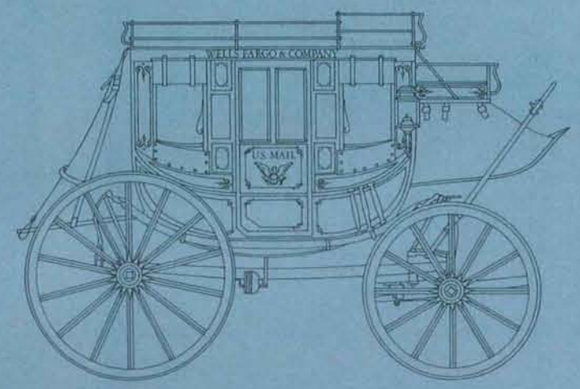
In our opinion, the aforementioned financial statements present fairly the financial position of Wells Fargo & Company (Parent), the consolidated financial position of Wells Fargo & Company and Subsidiaries, and the combined financial position of the Finance Subsidiaries of Wells Fargo & Company at December 31, 1977 and 1976 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, 1977 and 1976, 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 16, 1978

DIRECTORS & MANAGEMENT



Directors

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

Ernest C. Arbuckle
Retired Chairman of the Board
Wells Fargo & Company

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

Ralph J. Crawford, Jr.
Vice Chairman of the Board

James F. Dickason
President, The Newhall Land and Farming Company (agricultural, recreational, petroleum and land development)

James K. Dobey
Chairman of the Board

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

W. P. Fuller III
Retired Vice President,
Western Region of PPG Industries
(glass, paint and chemicals)

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

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

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

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

Edmund W. Littlefield
Chairman of the Board
Utah International Inc.
(mining and ocean shipping)

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

J. W. Mailliard III
Chairman of the Board
Bromar, Inc.
(manufacturers' agents, importers and brokers of food products)

Arjay Miller
Dean, Graduate School of Business
Stanford University

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

Robert T. Nahas
President, R. T. Nahas Company
(real estate and construction)

Ellen M. Newman
President
Ellen Newman Associates
(consumer relations consultants)

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

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

Wilson Riles
Superintendent of Public Instruction
State of California

John A. Young
President
Hewlett-Packard Company
(electronic equipment manufacturing and marketing)

Director Emeritus
Wells Fargo Bank

James M. Hait
Retired Chairman
FMC Corporation
(food machinery and chemicals)

Management

Wells Fargo & Company

420 Montgomery Street
San Francisco, California 94104

**Chairman of the Board*
James K. Dobey

**President and Chief Executive Officer*
Richard P. Cooley

**Vice Chairman of the Board*
Ralph J. Crawford, Jr.

Executive Vice Presidents
Robert L. Altick
Thomas A. Bigelow
Richard J. Borda
R. Thomas Decker
Ronald E. Eadie
Richard D. Jackson
*Robert L. Kemper
*Carl E. Reichardt
Carlos Rodriguez-Pastor
Richard M. Rosenberg
Gerrit E. Venema

Senior Vice President and Chief Financial Officer
Frank N. Newman

Senior Vice President and Treasurer
Donald E. Seese

Vice President and Secretary
Philip G. Bowser

Vice President and Chief Credit Examiner
Jack A. Byers

General Auditor
Orion A. Hill, Jr.

**Member of the Executive Office*

Wells Fargo Bank

Head Office: 464 California Street
San Francisco, California 94104

**Chairman of the Board*
James K. Dobey

**President and Chief Executive Officer*
Richard P. Cooley

**Vice Chairman of the Board*
Ralph J. Crawford, Jr.

**Executive Vice President*
Robert L. Kemper

**Executive Vice President*
Carl E. Reichardt

Vice President and Secretary
Philip G. Bowser

Vice President and Chief Loan Examiner
Jack A. Byers

General Auditor
Orion A. Hill, Jr.

**Member of the Executive Office*

SOUTHERN CALIFORNIA EXECUTIVE OFFICE

770 Wilshire Boulevard
Los Angeles, California 90017

Richard J. Borda
Executive Vice President

Gilman B. Haynes, Jr.
Senior Vice President

CORPORATE BANKING GROUP

R. Thomas Decker
Executive Vice President

Corporate Banking — United States
Harold B. Bray, Jr.
Senior Vice President

Corporate Banking — Northern California
Robert E. Hunter, Jr.
Vice President

Corporate Banking — Southern California
W. Peter McAndrew
Senior Vice President

Corporate Finance
Leonard A. Yerkes III
Vice President

Financial Institutions
James C. Flood
Senior Vice President

Cash Management Services
Peter G. Mills
Vice President

Loan Administration
Charles H. Green
Senior Vice President

CREDIT QUALITY CONTROL

Lewis W. Coleman
Senior Vice President

Loan Adjustment Department
Gordon S. Grout
Vice President

Wells Fargo Bank

FINANCE AND STAFF SUPPORT GROUP

Chief Financial Officer
Frank N. Newman
Senior Vice President

Controller's Division
Donald E. Seese
Senior Vice President and Controller

Management Sciences
Clyde W. Ostler
Vice President

Economics
William F. Ford
Senior Vice President and Chief Economist

Planning and Investor Relations
James G. Motter
Vice President

Legal Department
Guy Rounsaville, Jr.
Vice President and Chief Counsel

Public and Governmental Affairs
Jackson L. Schultz
Vice President and Manager

INTERNATIONAL BANKING GROUP

Carlos Rodriguez-Pastor
Executive Vice President

Global Resources and Services
Gerrit E. Venema
Executive Vice President

International Affiliates
Robert N. Bee
Senior Vice President

Loan Administration
Glenhall E. Taylor, Jr.
Senior Vice President

Europe Division
E. Alan Holroyde
Senior Vice President

Far East Division
Robert H. Morehouse
Senior Vice President

Latin America Division
Gerrit P. Vander Ende
Vice President

Middle East and Africa Division
Nikita D. Lobanov
Vice President

North America Division
John A. Bohn, Jr.
Vice President

OPERATIONS GROUP

Thomas A. Bigelow
Executive Vice President

Computer Systems
William F. Zuendt
Senior Vice President

Bank Operating Procedures Department
John C. Kilhefner
Vice President

PERSONNEL DIVISION

Robert L. Joss
Senior Vice President

PUBLIC RELATIONS

George F. Caulfield
Vice President

REAL ESTATE INDUSTRIES GROUP

Robert L. Altick, Jr.
Executive Vice President

Northern California Division
D. Pat McGuire
Senior Vice President

Southern California Division
John C. Kelterer
Senior Vice President

Loan Administration
DeWitt C. Moon
Vice President

RETAIL BANKING GROUP

Richard D. Jackson
Executive Vice President

Richard M. Rosenberg
Executive Vice President and Deputy Manager

Bay Division
George G. Skou
Senior Vice President

Commercial Banking Division
Russell F. Dwyer
Senior Vice President

Consumer Loan Division
Eugene E. Cochrane
Senior Vice President

Peninsula Division
Daniel S. Livingston
Senior Vice President

Southern California Division
John H. Griffith
Senior Vice President

Valley Division
James R. Gibson
Senior Vice President

Loan Administration
Leslie C. Smith
Senior Vice President

Real Estate Loans
Fielding McDearmon
Senior Vice President

Commercial Loans
Ralph E. Peters
Senior Vice President

Consumer Loans
Walter H. Ehlers
Vice President

Marketing Department
Edward M. Hall
Vice President

Urban Affairs
Robert J. Gicker
Vice President

Wells Fargo Bank International Facilities

TRUST AND INVESTMENT

Ronald E. Eadie
Executive Vice President

Investment Advisors Division
James R. Vertin
Senior Vice President

Trust Division
George A. Hopiak
Senior Vice President and Senior Trust Officer

Investment Division
George F. Casey, Jr.
Senior Vice President

SUBSIDIARIES:

Wells Fargo & Co. Canada Limited
1 First Canadian Place, Suite 4045
Toronto, Ontario M5X-1A9
Canada

Wells Fargo Bank International
40 Wall Street
New York, New York 10005

Wells Fargo Interamerican Bank
700 Brickell Avenue
Miami, Florida 33131

Wells Fargo Limited
Winchester House, 80 London Wall
London EC2 5ND, England

BRANCHES:

London Branch
Winchester House, 80 London Wall
London EC2 5ND, England

Luxembourg Branch
22, rue Zithe
Luxembourg, Luxembourg

Singapore Branch
2 Shenton Way
Singapore 1
Republic of Singapore

Tokyo Branch
Fuji Building
2-3, 3 chome, Marunouchi
Chiyoda-ku, Tokyo, Japan

Nassau Branch
Nassau, Bahamas

REPRESENTATIVE OFFICES:

Argentina: Buenos Aires
Australia: Sydney
Brazil: Sao Paulo
Colombia: Bogota
Denmark: Copenhagen
Germany: Frankfurt
Hong Kong
Iberian Peninsula: Madrid, Spain
Indonesia: Jakarta
Korea: Seoul
Mexico: Mexico, D.F.
Nicaragua: Managua, D.N.
Philippines: Manila
Turkey: Istanbul
Venezuela: Caracas

MAJOR AFFILIATES:

Allgemeine Deutsche Credit-Anstalt
Frankfurt, Germany

Arrendadora Serfin S.A. (formerly IDASA)
Mexico, D.F., Mexico

Ayala Investment & Development Corporation
Manila, Philippines

Banco de America
Managua, D.N., Nicaragua

Broadbank Corporation Limited
Auckland, New Zealand

Credit Chimique
Paris, France

Dubai Bank Limited
Dubai

Ecuatoriana de Financiamientos S.A.
Guayaquil, Ecuador

Banco Continental S.A.
Panama City, Panama

Martin Corporation Group Limited
Sydney, Australia

Shanghai Commercial Bank Limited
WMS Capital Corporation Limited
Hong Kong

The International Advisory Council

The International Advisory Council was established in 1977 to provide valuable advice and counsel in the international sphere of business of Wells Fargo Bank.

Chairman:
The Rt. Hon. Lord Sherfield GCB, GCMG
Chairman, Wells Fargo Limited
London, England

Ernest C. Arbuckle
Director and Retired Chairman of the Board
Wells Fargo & Company

Göran Ennerfelt
Executive Vice President
Johnson's
Stockholm, Sweden

Eugenio Garza-Laguera
Chairman of the Board
Valores Industriales
Monterrey, Mexico

Belton Kleberg Johnson
Chairman of the Board
Chaparrosa Agri-Service Inc.
San Antonio, Texas

Ahmed Juffali
Juffali Brothers
Jedda, Saudi Arabia

Sir Lawrence Kadoorie, C.B.E.
Sir Elly Kadoorie & Sons
Hong Kong

Dr. Adolf Kracht
Chairman of the Executive Office
Norddeutsche Landesbank
Hannover, Germany

Roger Lapham
Director, Wells Fargo & Company
Chairman and Managing Director
Rama Corporation Limited
Paris, France

Monroe E. Spaght
Royal Dutch Shell
London, England

Count Jean Terray
Honorary Chairman
Credit Chimique
Paris, France

William Turner
President and Chief Executive Officer
Consolidated-Bathurst Ltd.
Montreal, Quebec, Canada

Sir James Vernon, C.B.E.
Martin Corporation Limited
Sydney Cove, N.S.W., Australia

Wells Fargo & Company Non-Bank Subsidiaries

WELL FARGO LEASING CORPORATION

425 California Street
San Francisco, California 94104

Richard Oppenheimer
President

WELLS FARGO MORTGAGE COMPANY

600 Montgomery Street
San Francisco, California 94111

Henry F. Trione
Chairman of the Board

Frank H. McLaughlin
President

WELLS FARGO REALTY ADVISORS

330 Washington Street
Marina Del Rey, California 90291

Paul Hazen
President

WELLS FARGO REALTY SERVICES, INC.

527 East Green Street
Pasadena, California 91101

Thomas A. Gray
President and Chief Executive Officer

Arthur W. White
Executive Vice President and Chief Operating Officer

WELLS FARGO SECURITIES CLEARANCE CORPORATION

27 William Street
New York, New York 10005

Ronald G. Hillman
President

STOCK EXCHANGE LISTINGS

New York Stock Exchange
Pacific Stock Exchange
London Stock Exchange
Frankfurter Boerse

TRANSFER AGENTS

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

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

REGISTRARS OF STOCK

Bank of America N.T. & S.A.
San Francisco, California 94105

Citibank, N.A.
New York, New York 10015

NOTICE TO SHAREHOLDERS

The annual meeting of Wells Fargo & Company will be held at 2 p.m. on Tuesday, April 18, 1978, at The Century Plaza, 2025 Avenue of the Stars, Los Angeles, California.

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

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

WFC0378B