WELLS FARGO & COMPANY

1978 Annual Report

Contents

Highlights

Wells Fargo & Company and Subsidiaries

(Dollars in thousands, except per-share data)	1978	1977	Change Amount	Change Percent
FOR THE YEAR				
Income before securities transactions	$ 115,881	$ 86,381	$ 29,500	34.2
Securities transactions net of tax	(5,735)	(1,020)	4,715	—
Net income	$ 110,146	$ 85,361	$ 24,785	29.0
Dividends declared	$ 31,467	$ 24,388	$ 7,079	29.0
Per share[1]:				
Income before securities transactions	$5.16	$3.99	$1.17	29.3
Net income	$4.91	$3.94	$ .97	24.6
Dividends declared	$1.40	$1.12	$ .28	25.0
AT YEAR END				
Assets	$18,611,436	$15,421,771	$3,189,665	20.7
Deposits	$14,818,671	$12,477,522	$2,341,149	18.8
Loans	$12,895,669	$10,230,139	$2,665,530	26.1
Investment securities	$ 1,825,428	$ 1,919,446	$ (94,018)	(4.9)
Stockholders' equity	$ 742,602	$ 657,535	$ 85,067	12.9
Book value per share	$32.94	$29.46	$3.48	11.8

(1) Based on average number of common shares outstanding of 22,442,612 for 1978 and 21,681,585 for 1977.

Letter to Shareholders

Wells Fargo & Company achieved a significant milestone in 1978, when earnings exceeded $100 million for the first time in the organization's history. This also marked the 13th consecutive year of earnings increases for Wells Fargo.

The solid earnings were achieved in a year of mixed activity in financial markets. On the international scene, the U.S. dollar remained under almost constant pressure as foreign exchange markets reacted adversely to this year's high inflation rate in the United States.

Domestically, credit demands were once again quite strong, particularly for real estate and consumer loans, and this contributed to rapidly rising interest rates in these areas. The prime lending rate rose throughout the year in response to higher costs of funds to banks, as federal policy-makers sought to combat inflation by tightening money and credit.

For 1978, earnings (income before securities transactions) rose to $115.9 million, equal to $5.16 per share. This compares with restated earnings of $86.4 million, or $3.99 per share, in 1977 and represents a year-to-year increase of 34 percent for total earnings and 29 percent for per-share earnings. The increase in per-share earnings was smaller than that in total earnings because of the larger average number of common shares outstanding throughout 1978, resulting from the additional stock issued in April 1977.

Net income (after securities transactions) was $110.1 million, or $4.91 per share, compared with $85.4 million, or $3.94 per share, in 1977. That is an increase of 29 percent, or 25 percent per share. The net income is somewhat lower than the earnings figure due to the sale of approximately $325 million of relatively low-yielding bonds which were replaced at higher yields in 1978. These transactions will produce greater income in future years.

On February 20, 1979, Well Fargo's directors increased the quarterly dividend rate on the Company's common stock to 43 cents a share from 35 cents, an increase of approximately 23 percent. With this increase, Well Fargo's five-year compound annual growth rate in dividends declared per share is now more than 12 percent.

Assets rose to $18.6 billion in 1978 from $15.4 billion in 1977. Deposits totaled $14.8 billion at year end, compared with $12.5 billion at the end of 1977.

The Retail Banking Group, which handles all of Wells Fargo Bank's consumer, agricultural and small-to-medium size commercial banking in California, continued its dramatic growth during the year and contributed over half of the Company's earnings.

Other major operating units of the Bank also had an excellent year. The Corporate Banking Group and Real Estate Industries Group increased both outstandings and earnings in 1978. The Trust and Investment Advisors Divisions continued their healthy growth, and the International Banking Group continued to be active in global markets.

Wells Fargo shares the concern of other U.S. bankers and business people about the political, economic and social upheaval around the world. In Peru, bank loans have been restructured to allow that nation to continue to work toward resolution of its economic problems while assuring the banks of a reasonable repayment schedule. The banking community is in the process of developing a similar restructuring of debt with Turkey. The Company closely monitors its debt with nations experiencing political or other types of turmoil and believes that the principal amounts of loans to these nations will ultimately be repaid.

During 1978, two important changes in banking regulations affecting consumers took place, and Wells Fargo responded by introducing new services to take advantage of both.

Managing the growth 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.

Early in the year, financial regulations were amended to permit banks and thrift institutions to offer savings instruments with interest rates linked to Treasury bills. The purpose of this regulatory change was to avoid "disintermediation"; that is, to help financial institutions retain savings deposits during periods when other money market rates rise above legally permitted savings rates. In the past, such periods of disintermediation have seen funds flow out of financial institutions into other investment instruments, causing a shortage of credit for housing and other industries.

As a result of this regulatory change, banks are now permitted to offer savings certificates with an interest rate based on the yield for U.S. Treasury bills as determined at a weekly auction. On June 1, Wells Fargo introduced new 26-week Treasury Certificates, as permitted by the regulatory amendment, which require a minimum deposit of $10,000. The new certificates have been well accepted by consumers and helped the Bank retain and generate funds to lend to customers in 1978. At year end, Wells Fargo customers had invested about $334 million in the new certificates. As a result, Wells Fargo remained active in home lending in 1978 and will continue strong in this market in 1979.

The second major regulatory change affecting Wells Fargo took place in the fall and enabled bank customers to automatically transfer funds from savings to checking accounts, a practice previously banned by regulatory authorities. In response to this favorable change, Wells Fargo launched two new plans on November 1 — a Checking/Interest Plan and a Savings Overdraft Coverage Plan. Deposits in these new accounts totaled $51 million by the end of the year.

Wells Fargo has in recent years taken a strong stand in favor of removal of interest rate ceilings on savings accounts, amendment of regulations to permit payment of interest on checking accounts and elimination of the one-quarter percent interest rate differential which enables savings and loans and other thrift institutions to pay their savers higher rates than commercial banks. The regulatory changes in 1978 represent some progress in achieving these objectives.

On the legislative scene, there are two pieces of federal legislation that will affect banking in 1979. One is the Financial Institutions Regulatory Act, which restricts insider overdrafts and loans and bans certain other types of transactions by bank executives and board members. The other is the Community Reinvestment Act, which requires that banks define their geographic lending communities and services offered, and that they make aggressive efforts to provide bank services to all elements of their communities and document those efforts. Wells Fargo's internal review of its own practices indicates the Company has long been in compliance with the spirit of these laws, and systems are now being established to monitor and report on compliance with their specific provisions. Compliance with and documentation of complex and sometimes contradictory administrative regulations is increasingly burdensome and will ultimately result in added costs for consumers.

One of the most significant legislative events in California in 1978 was passage of Proposition 13, an initiative limiting the amount of property taxes that must be paid to local governments. Wells Fargo responded by making employment opportunities available to displaced local government workers and pledged that the Company would seek creative ways to return tax savings to the communities of California. In December, Wells Fargo distributed the $1.2 million saved on 1978 property taxes to three important community programs. Of this one-time donation, $400,000 went to public television stations for instructional programming in the classroom; $400,000 was given for emergency funding for agencies of United Way and similar organizations that experienced funding cutbacks due to Proposition 13; and $400,000 was given to the California Neighborhood Housing Services Foundation for high-risk loans for housing rehabilitation programs in California communities.

During the year, Wells Fargo & Company announced several organizational changes in the Bank, its major subsidiary, that were designed to continue to strengthen management depth.

In March, Richard P. Cooley became chairman and chief executive officer of the Bank, and Carl E. Reichardt was named president of the Bank. Mr. Cooley remains president and chief executive officer of Wells Fargo & Company, and James K. Dobey continues as chairman of the board of the Company and is chairman of the executive committee of the Bank. At the same time, Robert L. Kemper was named vice chairman of the Bank, and Paul Hazen, president of Wells Fargo Realty Advisors and of Wells Fargo Mortgage and Equity Trust, was elected an executive vice president of Wells Fargo & Company with responsibility for all its non-bank subsidiaries, a responsibility previously held by Mr. Reichardt. In January 1979, Mr. Hazen was also named an executive vice president of the Bank and will head its Real Estate Industries Group.

Messrs. Cooley, Dobey, Reichardt and Kemper, along with Ralph J. Crawford, Jr., vice chairman of the board of the Company, and Richard M. Rosenberg, executive vice president, are all members of the executive office, which directs the over-all management of the Company and the Bank. Mr. Rosenberg was elected to the executive office in October to provide the management team with additional depth and expertise. Formerly deputy head of the Retail Banking Group, Mr. Rosenberg now has responsibility for all the Company's marketing, credit card, business services, WellService, governmental affairs and economics departments.

In 1978, Wells Fargo took steps to more effectively position the Bank in Southern California markets. Since its entry into that large and growing area in 1967, Wells Fargo has steadily increased its share of business in the southern part of the state. During 1978, the Bank purchased eight offices of Bank of California, seven of them in Southern California, and acquired the 11 offices of First National Bank of Orange County. These acquisitions, plus our 10 de novo openings in Southern California, gave us 101 branches in that region by January 1979. The Bank is now in the process of acquiring the five offices of First Central Coast Bank in San Luis Obispo, pending approval by the regulatory authorities.

Wells Fargo's executive office, which is responsible for the over-all management of Wells Fargo & Company, includes the chairman, vice chairman, president, and, left to right, Richard M. Rosenberg, executive vice president; Robert L. Kemper, executive vice president; and Carl E. Reichardt, executive vice president of Wells Fargo & Company and president of the Bank.

To better administer the Bank's rapid growth and accelerated market penetration in the southern part of California, the Retail Banking Group was reorganized late in the year into three Areas. The Northern Area, headquartered in San Francisco, is now administered by Executive Vice President Leslie C. Smith. In the south, the Southern Central Area is headquartered in El Monte and is managed by Executive Vice President John H. Griffith. It includes Retail Bank activities from Bakersfield at the northern boundary of the Area through Los Angeles County and the desert and Imperial Valley to the south. The Southern Area, based in Newport Beach, is directed by Executive Vice President John F. Grundhofer, who joined Wells Fargo from another California bank. This Area includes Orange and San Diego Counties.

The Retail Banking Group's tremendous growth in recent years has been directed by Executive Vice President Richard D. Jackson, who took charge of the Group in 1973. Mr. Jackson will retire at age 65 in mid-1979, and will be succeeded by Executive Vice President Robert L. Altick, Jr., who is now handling day-to-day administration of the Retail Group. Mr. Altick was formerly manager of the Real Estate Industries Group.

In step with Wells Fargo's expansion in Southern California, plans were announced in 1978 for construction of a 40-story building in downtown Los Angeles, in which we will be a major tenant. The building will be the fourth largest structure in the revitalized Los Angeles business district, and will be named the Wells Fargo Building. It will house the Company's executive, corporate and international activities in Southern California.

Through its non-bank subsidiaries, Wells Fargo provides financial services in markets across the nation. In 1978, the Company launched two new subsidiaries in the Southwest. Wells Fargo Credit Corporation opened for business with its headquarters in Scottsdale, Arizona, offering home equity loans, small business loans, auto leasing, revolving credit lines and home improvement loans in the Arizona market. Wells Fargo Business Credit was established in Dallas, Texas, to offer business loans secured by accounts receivable, inventory and other business assets. Both of these subsidiaries will be opening offices in other western states in forthcoming months.

A third new subsidiary was established in California during the year; Central Western Insurance Company offers credit life insurance to Wells Fargo installment borrowers.

The board of directors was expanded during the year with the election of two new advisory directors. They are: Harry O. Reinsch, president of Bechtel Power Corporation, and Henry F. Trione, prominent Northern California businessman and founder of Sonoma Mortgage Company, the predecessor to Wells Fargo Mortgage Company.

Two directors will retire as active members of the board in 1979 and will become directors emeriti. They are: James Flood, distinguished businessman who serves as trustee of the Flood estate and who has been a director of Wells Fargo since 1934, and Richard E. Guggenhime, partner in Heller, Ehrman, White & McAuliffe, who has been a director since 1969. During his 45-year tenure on the board of directors, Mr. Flood has provided counsel and guidance to several generations of management. Mr. Guggenhime's insights and advice have also been most valuable to the Company.

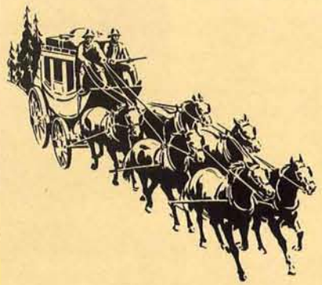
In 1978, the more than 15,000 staff members of Wells Fargo contributed strongly to the Company's fine performance both through their vigorous business development efforts and their progress in streamlining internal systems and operations. Their support in helping achieve the Company's goals is deeply appreciated.

The year 1979 promises to be an exciting and challenging one, as our nation strives to combat our most serious economic problem — inflation — without causing excessive slowdown in the economy, and as our state and its communities work to restructure their activities and priorities in line with the restrictions imposed by Proposition 13. Wells Fargo will make every effort to play a constructive role in helping to meet the needs and achieve the goals of our state and nation.

James K. Dobey
Chairman of the Board

Richard P. Cooley
President and Chief Executive Officer

March 1, 1979



Review of Operations

Serving the consumer

The wide spectrum of services for individual customers offered by Wells Fargo — which range from traditional deposit and installment loan programs to a variety of real estate loans, trust and investment services — continued to find enthusiastic acceptance in 1978.

By far the largest provider of consumer banking services within the Wells Fargo organization is the Retail Banking Group which, at the end of the year, included 363 banking offices in the state. The Group provided more than half of Wells Fargo & Company's profits in 1978, and total loans and deposits moved up strongly over 1977 figures.

During the year, important strides were made in the Bank's Southern California branch expansion. Seven former Bank of California branches located in the southern part of the state were purchased early in 1978, and the 11 offices of First National Bank of Orange County were acquired in May. Currently, acquisition of the five offices of First Central Coast Bank in San Luis Obispo is awaiting approval by the regulatory authorities. On December 18, Wells Fargo opened its 100th office in Southern California at Glendale, and the 101st office in that area was opened in Arcadia later in the month. The Bank now has a relationship with an estimated 5.7 percent of the households in the Southern California market.

The Retail Banking Group reorganized its management structure in 1978 to more closely reflect the size and challenge of the markets in the south. Three geographic Areas were established, two of them in Southern California. The Southern Central Area, headquartered in El Monte, is managed by Executive Vice President John H. Griffith. It encompasses branch offices and retail activities from Bakersfield through Los Angeles County and the areas south and east of Los Angeles. The Southern Area is centered in Newport Beach and is administered by Executive Vice President John F. Grundhofer, formerly with another bank in Southern California. It includes Orange and San Diego Counties. The Northern Area of the Retail Banking Group, which covers Central and Northern California, is headquartered in San Francisco and is directed by Executive Vice President Leslie C. Smith. This new organizational structure will enhance the Bank's marketing efforts in Southern California.

To better serve the needs of individual customers, Wells Fargo's Personal Banker program, in which designated staff members undergo intensive training, was expanded and upgraded. Personal banking officers are generating increased loans and deposits for the Bank, and at the same time are strengthening our ties to our customers. Because of the success and importance of this program, training of new personal banking officers is an on-going effort.

Deposit services

Two new services were authorized by bank regulators during the year and had considerable appeal for Wells Fargo customers.

Treasury Certificates, introduced June 1, make it possible for customers who invest $10,000 for 26 weeks to obtain interest rates linked to yields on U.S. Treasury bills, and some $334 million was invested in these instruments by the end of 1978. On November 1, Wells Fargo began to offer the new Checking/Interest Plan and Savings Overdraft Coverage to enable customers to more easily transfer funds from savings to checking accounts. These new accounts amounted to about $51 million by the end of 1978.

Administering the dynamic growth of Retail Banking since 1973 has been Executive Vice President Richard D. Jackson, left, who will retire at age 65 in mid-1979. He will be succeeded by Executive Vice President Robert L. Altick, Jr., below.

The Los Angeles Music Center provides the backdrop for Area managers of the Retail Banking Group. Left to right are John H. Griffith, executive vice president, Southern Central Area; Leslie C. Smith, executive vice president, Northern Area; and John F. Grundhofer, executive vice president, Southern Area.

At year end, a new savings account service was introduced called the Serious Saver Statement program. If they so desire, customers can now have the status of all their households' savings accounts — both passbooks and longer-term time deposits — produced on a consolidated financial report using descriptions of their choice for each account.

The Bank's other deposit services for consumers showed increases in 1978. The Wells Fargo Reward, which offers savers a group of banking services without charge if they have a minimum savings or time deposit balance of $2,000, continues to be well received. The number of accounts grew to more than 170,000 during the year, with some $1.5 billion in qualifying deposits. Also popular with savers was the Bank's Individual Retirement Account (IRA), known as the Golden Guarantee. This is a tax-deferred retirement deposit service for individuals not covered by a pension plan.

Consumer passbook savings totals rose again in 1978 and averaged more than $3.2 billion, up $75 million from the previous year. Consumer demand deposits rose to an average of $1.2 billion in 1978, up $139 million from 1977. The higher interest rate environment in the fourth quarter of 1978 caused gains in savings volumes to slow from the pace of the previous year.

The Retail Banking Group's "core" deposits, which include demand and savings deposits and consumer certificates of deposit, averaged $7.6 billion in 1978 compared with an annual average of $6.8 billion in 1977.

Delivering services to consumers in an innovative and efficient manner is one of Wells Fargo's hallmarks. Toward this end, the Bank launched a pilot project in Contra Costa County in 1978 in which "Express Stop" automated transaction units were opened in 10 branches. These facilities enable customers to withdraw cash from or make deposits to checking and savings accounts, transfer money to and from checking and savings, and make credit card and loan payments on a 24-hour basis seven days a week. They have been well received by customers in Contra Costa County. Due to the success of this project, the Bank will begin later in 1979 to install additional automated transaction units in branches throughout the state.

Loan services

The Bank had an outstanding year in the area of consumer installment lending. Consumer loans outstanding at year end — excluding credit cards — totaled just over $2 billion. The Consumer Loan Division, which purchases contracts from auto, mobile home, boat, plane and recreational vehicle dealers and from home improvement contractors through 25 loan production centers statewide, showed strong growth during the year, particularly in nonrecourse auto loans and home improvement loans. Direct consumer loans made through branches also climbed throughout 1978. Losses on consumer loans at the end of the year amounted to .36 percent of average outstandings, compared with losses of .54 percent of outstandings the previous year.

Credit card business was also strong in 1978. Master Charge credit card holders numbered 841,000 with outstandings of $338 million at year end. Visa card holders numbered 331,000 and had $95 million in outstandings by the end of the year. Credit card losses for 1978 were 1.90 percent of average outstandings, compared with a ratio of 1.61 percent in 1977.

Wells Fargo's Express Credit Service, which provides qualifying customers with an open-end revolving line of credit, made strides during the year. Express Credit commitments totaled $76 million at the end of 1978.

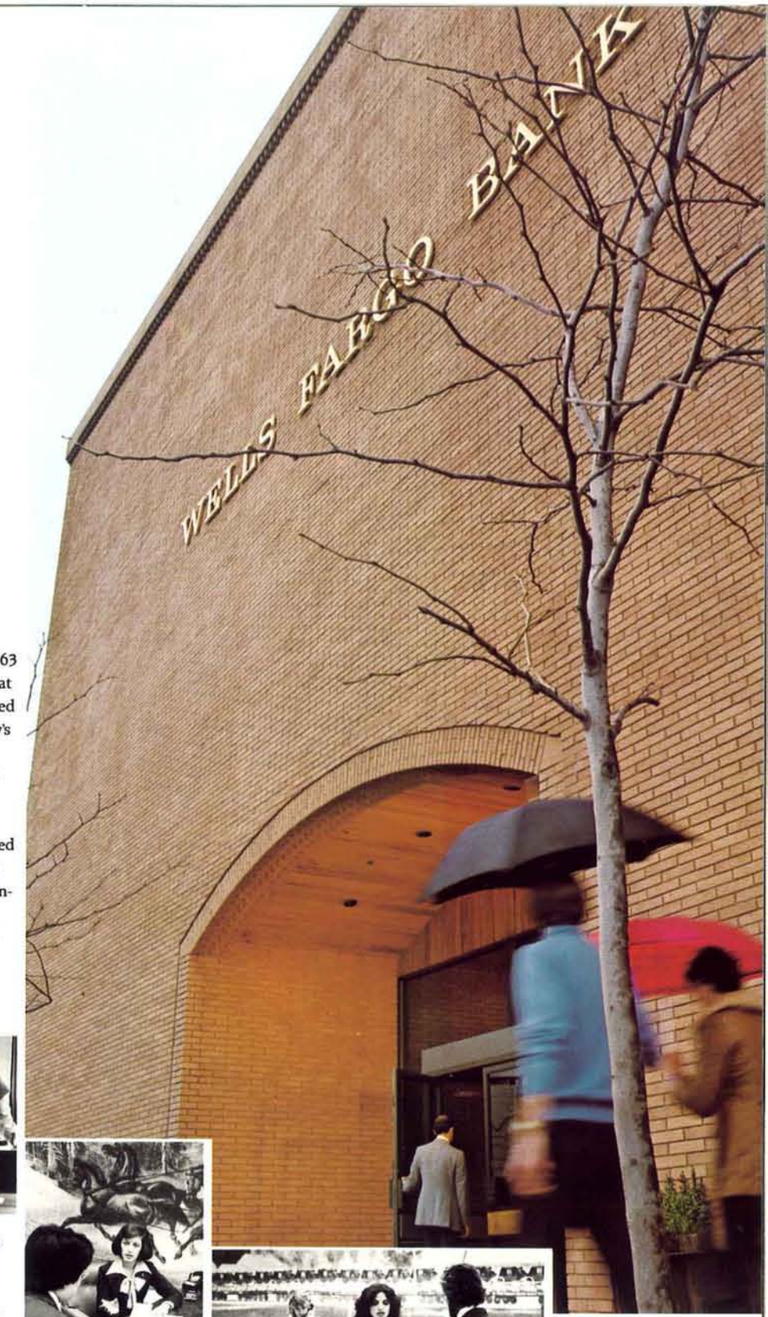
The Bank has a strong commitment to California residential housing, as reflected in its large single-family real estate loan portfolio. In 1978, more than $1 billion in consumer home loans were made, a sizable share under a Variable Interest Rate (VIR) program. At the close of the year, the Bank's single-family home loan portfolio totaled $2.9 billion.

The Bank also provides Homeowner Loans, with which borrowers may convert the equity in their homes into funds for other purposes. The Homeowner Loan portfolio totaled more than $220 million at the end of 1978. The delinquency rate for Homeowner Loans is running only slightly higher than the rate for the single-family mortgage portfolio. Both are well under 1 percent of outstandings.

Complementing the California activities of the Retail Banking Group are the Wells Fargo subsidiaries that furnish financial services to individuals or support to consumer lending outside the California market.

Wells Fargo Credit Corporation, a Company subsidiary, provides home equity loans, small business loans, auto leasing, revolving credit lines and home improvement loans to consumers. In addition, the subsidiary purchases bulk receivables throughout the nation. The credit corporation established its headquarters in Scottsdale, Arizona, and opened its first regional office in Phoenix to serve the State of Arizona.

Another of the Company's new subsidiaries, Central Western Insurance, offers credit life insurance to Wells Fargo borrowers.



Wells Fargo's Retail Banking Group, with 363 branches in California at year-end 1978, generated over half the Company's profits last year. In addition to opening or acquiring new offices, the Bank is steadily upgrading its established offices by constructing more attractive and convenient facilities, such as the new Santa Rosa Main Office.

Typical of Wells Fargo's 363 busy branch managers are: Thomas R. Edmiston, above, manager of the Crown-Zellerbach Office in San Francisco, and Marjie Frost-Fitterer, right, manager of the Market Plaza Office in San Francisco. At far right is Tina Eglip, teller at Market Plaza Office.

Trust and investment services

Wells Fargo's Trust Division is an industry leader in providing services designed to assist individuals in the management of their financial affairs through the creation of trusts, the furnishing of custody and record-keeping facilities, or the administration of estates and execution of wills. The division's range of personal trust services is available through the Individual Trust Department at the Bank's San Francisco headquarters and at each of 12 trust branch offices throughout California. Personal trust business development officers also work closely with the Retail Group's personal banking officers to provide customers with a full range of Wells Fargo services.

Wells Fargo Investment Advisors offers individual customers a number of investment management services in personal trust and investment counsel accounts, on either a full management or an advisory basis. Currently, assets of such accounts amount to approximately $2 billion. Included among the investment options available to personal trust accounts is a complete range of pooled funds, one of which is an innovative Market Fund designed to closely reproduce the over-all stock market's rate of return.

The Investment Division, which handles the Company's own portfolio of securities, also has a program in which it resells securities issued by governmental units to individual consumers through the Bank's branch offices.

Serving business across the nation

Operating groups and subsidiaries of Wells Fargo provide a variety of services to U.S. business firms. These services range from cash management, corporate finance, equipment leasing and financing of inventory and receivables, to agribusiness lending, insurance premium financing, and the management of corporate and employee benefit investment funds in addition to traditional loan and deposit services.

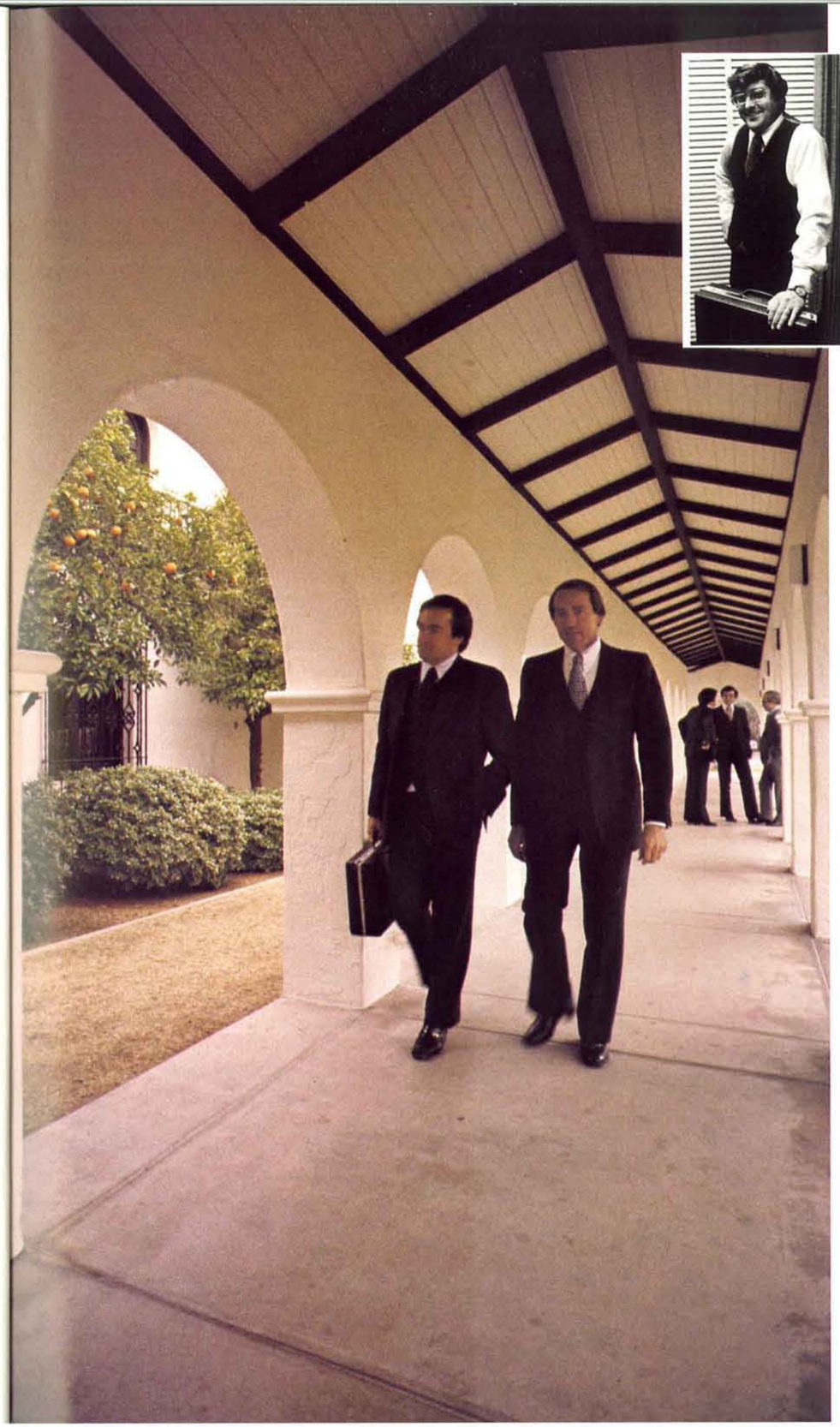
Services to national corporations

The Corporate Banking Group, which serves many of the nation's leading corporations, took advantage of the improved corporate borrowing climate in 1978 to increase both loan volume and quality of credits. The Group's outstandings exceeded $1 billion during the year, for the first time since 1975.

Corporate Banking has developed new lending programs and services to generate fee income, has streamlined methods of providing standard services and, consequently, has developed a new flexibility and adaptability that enables it to turn quickly in the marketplace.

The Group's Cash Management Department is aggressively marketing high quality, innovative non-credit financial services to corporations. Particularly well received is the Information Express Service, used by corporate financial officers to obtain a concise picture of all the corporation's bank balances on a daily basis.

The Corporate Finance Department also provides important tools for assisting a company with its financial planning. Through this unit, corporations are offered financial counseling, private placements and valuation studies.



One of the Company's older subsidiaries is Wells Fargo Mortgage Company. Above are R. Michael Reilly, left, vice president and manager of residential loan marketing, and Lilibet Olesen, loan servicer.

Wells Fargo Credit Corporation, a new Company subsidiary, opened in 1978 in Arizona. At left are Larry S. Crawford, executive vice president of the credit corporation (left), and Robert D. Dunham, president and chief executive officer. The credit corporation provides consumer installment financing in Arizona and purchases receivables from financial institutions throughout the country.

These services have helped strengthen ties with firms that are already customers of the Company. They also have helped develop good relationships with companies that were not previous customers of Wells Fargo.

Loans to the securities industry, to correspondent banks and to savings and loans, offered through the Financial Institutions Division, grew substantially over 1977. Wells Fargo Securities Clearance Corporation, which acts as Wells Fargo & Company's agent in the New York financial community, also works closely with this division.

Corporate Banking's Energy/Public Utilities Department, based in Los Angeles, has been increasingly active in developing new business in recent years, particularly in the area of financing innovative geothermal projects. Some other important activities of the Corporate Banking Group include financing of aerospace firms, large agricultural concerns, middle-sized corporations outside California through its correspondent banking network, and companies based in the metropolitan Los Angeles area.

As part of our goal of providing a full range of services to corporate financial officers, the Corporate Banking Group and the International Banking Group, together with an accounting firm, conducted a seminar in 1978 on foreign exchange transactions. Information covered included current problems in foreign exchange markets, the need for effective communication and information systems, important elements in formulating foreign exposure policy, and factors that influence forecasting of foreign currency fluctuations.

The Investment Division, which manages the Company's bond portfolio, also maintains an active sales organization to market bonds — whether U.S. Treasury securities, instruments of federal agencies or corporate bonds — to corporations, correspondent banks and public bodies. It works closely in this effort with the Corporate Banking Group.

Wells Fargo Leasing Corporation, one of the Company's subsidiaries, provides a full line of general equipment financing services. Its customer base ranges from small proprietorships to many of the nation's largest industrial concerns. In addition to the efforts of its direct marketing personnel across the nation, the leasing company offers its services to Wells Fargo Bank customers by working closely with the Bank's lending groups. The volume of business booked in 1978 increased 50 percent over the previous year. The quality of the portfolio continues to be excellent; no credit losses were experienced for the second consecutive year. The leasing corporation increased earnings to $3.4 million in 1978, up from the restated $3.1 million earned the previous year. Wells Fargo Leasing opened new offices in Dallas and Denver during the year, complementing its network of offices in Chicago, Cleveland, Fresno, Houston, Los Angeles, New York and San Francisco.

Middle-size and small business markets

A number of other operating units of Wells Fargo provide financial services to corporations. California firms with sales from $2 million to $50 million are customers of the Retail Banking Group's Commercial Banking Division, and smaller firms are usually customers of the Bank's branch offices or specialized departments.

The Commercial Banking Division had a successful year, with its total loan portfolio climbing to $183 million by year end. An important part of this division's activity is represented by the Special Industries Department, which deals with innovative, high technology companies of a size consistent with the market serviced by the division.

In keeping with Wells Fargo's role as fourth largest commercial bank lender to agriculture in the United States, a new Agribusiness Department became operational in 1978 to provide agribusiness lending expertise not only to growers and ranchers, but also to their suppliers, processors and wholesalers. This integrated approach to agribusiness will enable Wells Fargo to offer a comprehensive package of services to the industry.

Wells Fargo's Custom Charge program offers retail merchants a private label accounts receivable financing program, in which the Bank handles all billing and other processing for the merchant's own charge card. By the end of 1978, Custom Charge outstandings were nearly $103 million.

Through its branch offices, the Bank provides Cash Mover accounts to California business customers. Cash Mover combines a business checking account and a related savings account to business firms, and provides a consolidated activity statement to enable the customer to better manage cash flow. This service has brought some $200 million in business savings deposits to Wells Fargo.

The Corporate Banking Group's Energy/Public Utilities Department, based in Los Angeles, is involved in a number of innovative energy projects. B. C. McCabe, president and chairman of Magma Power Company, outlines operations of his firm's experimental geothermal plant in East Mesa, California, to James D. Shepard, vice president, Energy/Public Utilities.

Several other divisions and departments serve business markets in California. At right are: Richard M. Lingua, vice president, upper photo, and Helmut W. Richter, assistant vice president, lower photo, both in the Commercial Banking Division. At far right is Michael E. Fitch, vice president of the Agribusiness Department.

One of the Company's new subsidiaries, Wells Fargo Business Credit, which is based in Dallas, was established to enter the commercial finance market by offering accounts receivable, inventory and fixed asset loans to business. The subsidiary plans to establish a network of regional offices throughout the United States, and will soon open offices in California to supplement the services offered by the Commercial Banking Division and the Bank's branches.

Wells Fargo Realty Services, a Company subsidiary, serves as a corporate trustee and performs specialized data processing services for the recreational real estate industry, and provides third-party note collection services for financial institutions. The firm currently administers more than $600 million in receivables.

Trust and investment services

Wells Fargo's Trust and Investment Advisors Divisions are industry leaders in providing innovative trust and investment services for corporate and institutional customers. In 1978, revenue from their operations topped $25 million, compared with revenue of $23 million the previous year.

The two divisions jointly introduced *MASTER MANAGER SERVICE*™ during 1978 to meet the increasingly complex needs of employee benefit plan sponsors for more effective plan administration and management. The new service consists of three basic components: Plan Advisory, Master Trust and Investment Management Services.

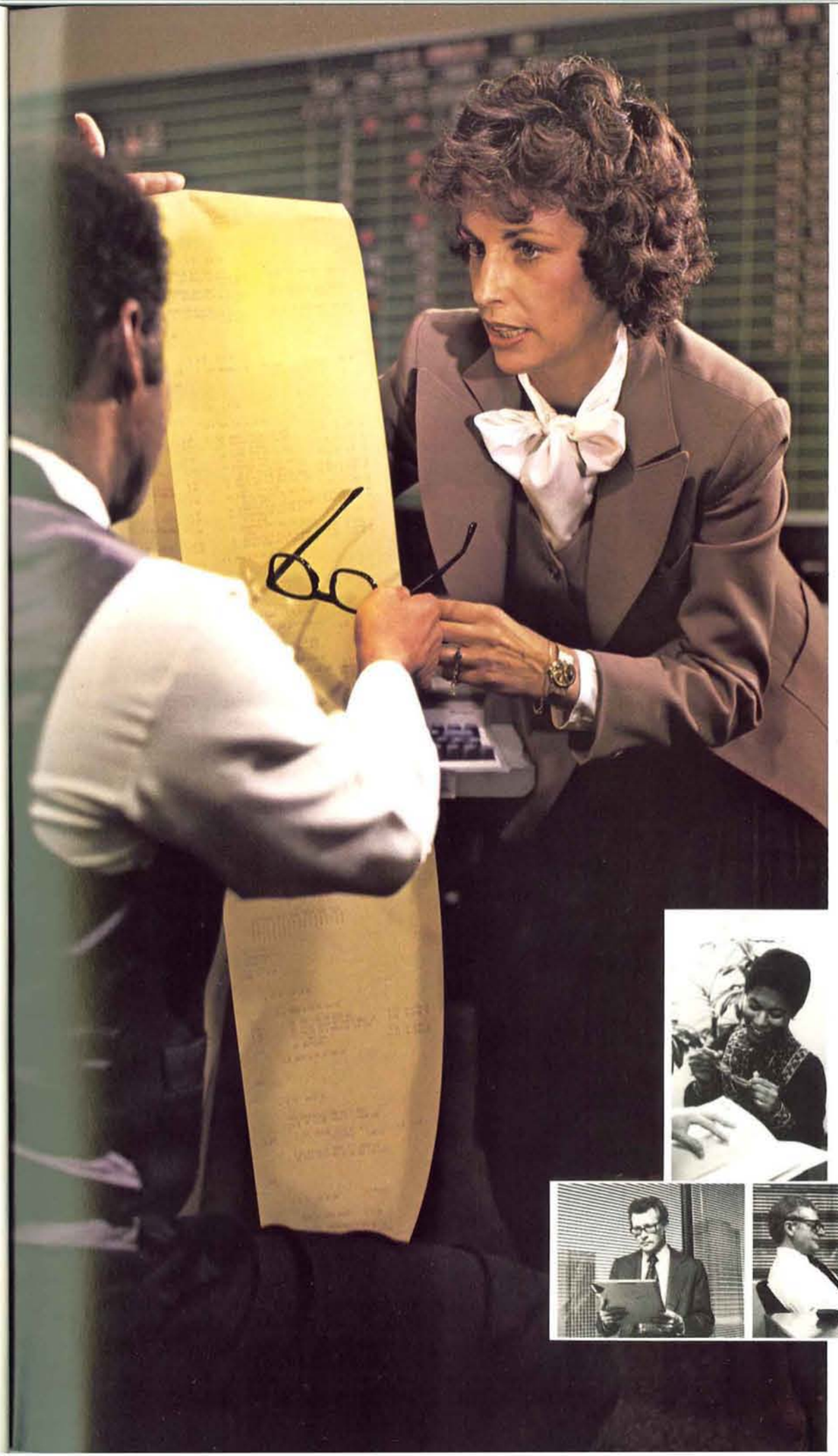
The Plan Advisory Service is designed to assist pension plan sponsors with determining the structure of their asset management organization by reviewing asset allocation, risk measurement and control, multiple manager evaluation and performance analysis.

The Master Trust Service employs advanced technologies in data processing and communications to provide accurate, detailed and timely information for investment decisions.

The Investment Management Service employs concepts and techniques that have established Wells Fargo as a national leader in pension fund management. It combines a wide range of active and passive investment management options to produce investment portfolios structured to maximize returns, taking into account specifically identified objectives and the control of risk.

The *MASTER MANAGER SERVICE*™ augments the Trust Division's traditional role of accepting fiduciary and administrative responsibility for a variety of employee benefit accounts, including pension, profit-sharing and self-employed retirement plans. Added are the pacesetting analytical and investment techniques developed by Wells Fargo Investment Advisors. The result is a new service to meet the needs of corporate plan sponsors more completely.

Wells Fargo Investment Advisors serves as investment manager for major corporate retirement plans as well as other tax-exempt accounts and has $3.3 billion of institutional account assets under management, a gain of 38 percent over 1977. Although the division is best known for its indexed portfolios, which now total $1.7 billion, an increasing number of clients are also calling on its expertise in judgmental management and on its extensive counseling resources.



Wells Fargo's innovations in the investment field have focused national attention on the Company. At left are Sheila Sullivan and Edward Johnson, investment officer, both of the Investment Division.

Gloria J. Walker, left, is a trust officer in Wells Fargo's Trust Division. Members of Wells Fargo Investment Advisors' staff include John R. Bell, lower left, vice president and administrative officer, and Chester M. Boltwood, below, vice president and investment counselor.

Serving the commercial real estate industry

Wells Fargo & Company is a national leader in the financing of commercial real estate development and construction, with an operating group of the Bank and two major subsidiaries active in this area. All have benefited from the vigorous housing and commercial real estate construction that has been underway during the past two years.

The Real Estate Industries Group originates and administers the Bank's commercial real estate lending in California and adjacent states. During 1978, the Group originated approximately $840 million in new construction loans, 43 percent of them in Southern California. This compares with $700 million originated in 1977, 38 percent of it in the southern portion of the state. At year end, the Group's total portfolio amounted to more than $955 million.

The Real Estate Industries Group in 1978 further reduced commitments and loans outstanding to real estate investment trusts (REITs) that were not accruing interest or were earning interest at less than the contracted rate. REIT loans that were not accruing interest totaled just over $19 million, compared with $49 million in the prior year, and loans earning interest at less than the contracted rate were under $10 million, compared with $25 million at year-end 1977.

In addition to its construction loans for commercial properties, the Real Estate Industries Group is also handling an increasing amount of permanent financing of real estate projects.

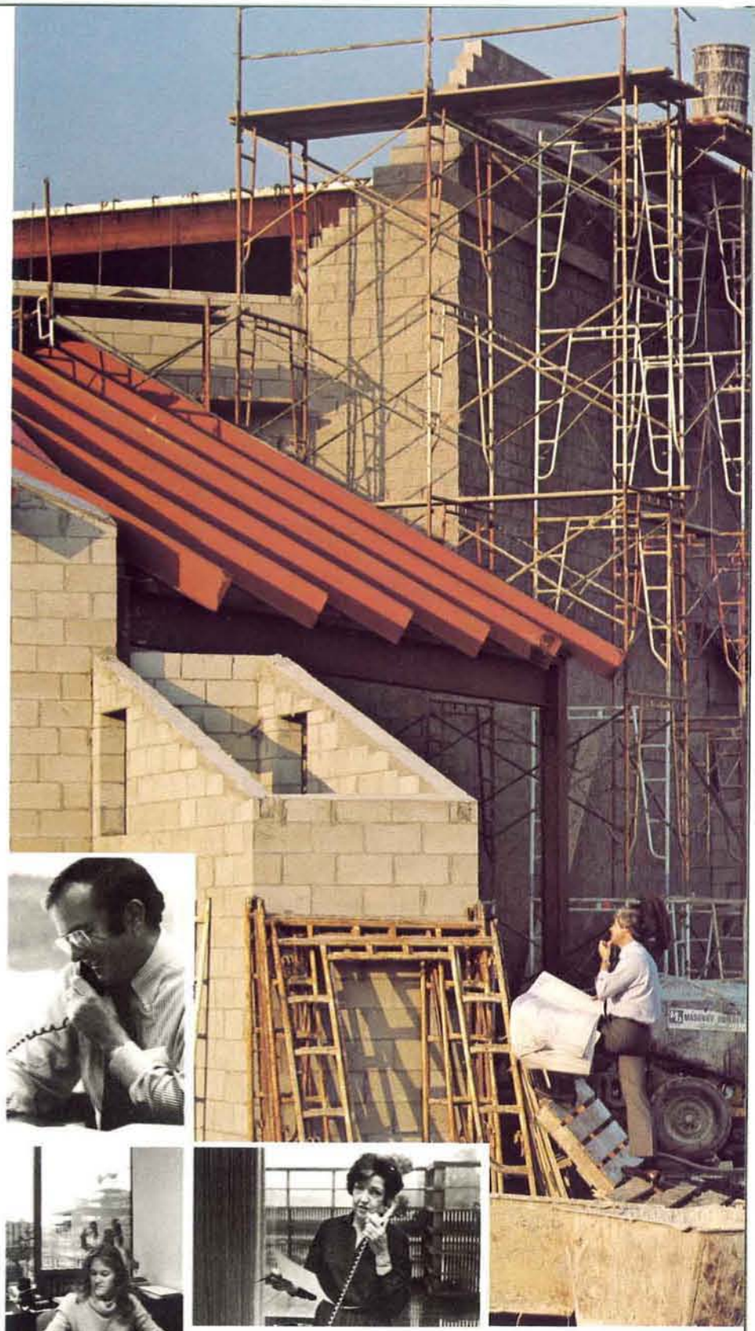
Complementing the activities of the Bank unit in the national market is Wells Fargo Realty Advisors, a Company subsidiary based in Marina del Rey, California, with offices in Dallas, Denver, Houston, Minneapolis, Phoenix, San Francisco and Seattle. The subsidiary advises Wells Fargo Mortgage and Equity Trust, a publicly owned real estate investment trust, and also originates and services interim construction loans, wraparound and secondary financing, and real estate term loans for its own portfolio. The subsidiary originated about $388 million in new construction loans in 1978, and its committed portfolio totaled $354 million at year end.

Realty Advisors serves as manager of the $300-million committed portfolio of Wells Fargo Mortgage and Equity Trust, which is listed on the New York Stock Exchange. For its fiscal year, which ended June 30, 1978, the trust reported $5.2 million in net income, or $1.34 per share, compared with $3.7 million, or 95 cents a share, the previous fiscal year. For the six-month period ended December 31, 1978, the trust reported net income of approximately $3.2 million, or 82 cents per share.

The third major Wells Fargo unit active in real estate investment and construction is Wells Fargo Mortgage Company, the eighth largest mortgage banking firm in the nation. The mortgage company arranges construction and permanent financing for residential, commercial and corporate properties, frequently acting on behalf of institutional investors. In 1978, the company's loan servicing portfolio grew to $2.2 billion from $2 billion in 1977, although the number of loans serviced dropped from 56,000 to 54,200 over the same period. In 1978, Wells Fargo Mortgage opened new offices in Tacoma, Federal Way and North Seattle, Washington, and in Portland, Oregon. Including its Ben McGuire & Company subsidiary, which is headquartered in Houston and has a loan production office in Dallas, the mortgage company now has 28 offices in the western states.

All of Wells Fargo's real estate-oriented entities work together to provide a variety of financial services and wide geographic coverage to loan customers and investors. The mortgage company taps the capabilities of both the Real Estate Industries Group and Wells Fargo Realty Advisors in arranging either construction or permanent financing. The mortgage company also services a sizable share of the single-family home loans made by Wells Fargo Bank's Retail Banking Group. The Real Estate Industries Group sometimes shares in out-of-state projects in which Realty Advisors is the lead lender, and the Real Estate Industries Group participates with the advisory body and other units of the Bank in some construction loans.

When combined, the activities of all of these groups make Wells Fargo one of the largest financial supporters of commercial and residential real estate of any bank holding company in the United States.



Several Wells Fargo & Company entities are strongly committed to real estate development and finance. At right, Donald S. Grant, vice president and manager of the Real Estate Industries Group's Newport Beach Office, views construction progress at a shopping mall at Mission Viejo.

At right are DeWitt C. Moon, senior vice president for Loan Administration, and Lila Anderson Hillard, assistant vice president and attorney, both with the Real Estate Industries Group in San Francisco. At far right is Dorothe D. Hutchinson, senior vice president of Wells Fargo Mortgage Company.

Providing financial services worldwide

Wells Fargo maintained a strong presence in international markets in 1978. Average loans and acceptances of the International Banking Group increased by 12.8 percent during the year to $2.9 billion, within established guidelines for country risk.

These financial figures reflect a slower growth than in recent years due to the intense competition for overseas business and less favorable spreads and loan terms in 1978. Throughout the year, Wells Fargo strictly adhered to its policy of high credit quality and profitability standards.

In 1978, the International Banking Group led 12 syndicated credits and managed or co-managed an additional 20. Of the total financing involved, Wells Fargo retained $335 million for its own account.

Wells Fargo's international portfolio is fairly evenly split between the public sector — composed of governments, central banks and foreign public agencies — and the private sector — which includes commercial banks and corporations. The geographic distribution of loans and acceptances is: 38 percent in Latin America, including Mexico; 23 percent in Asia and the Pacific; 17 percent in Europe; 11 percent in the U.S. and Canada; and 11 percent in the Middle East and Africa. Additional details about Wells Fargo's international loans appear in the "Management's Analysis" section of this report.

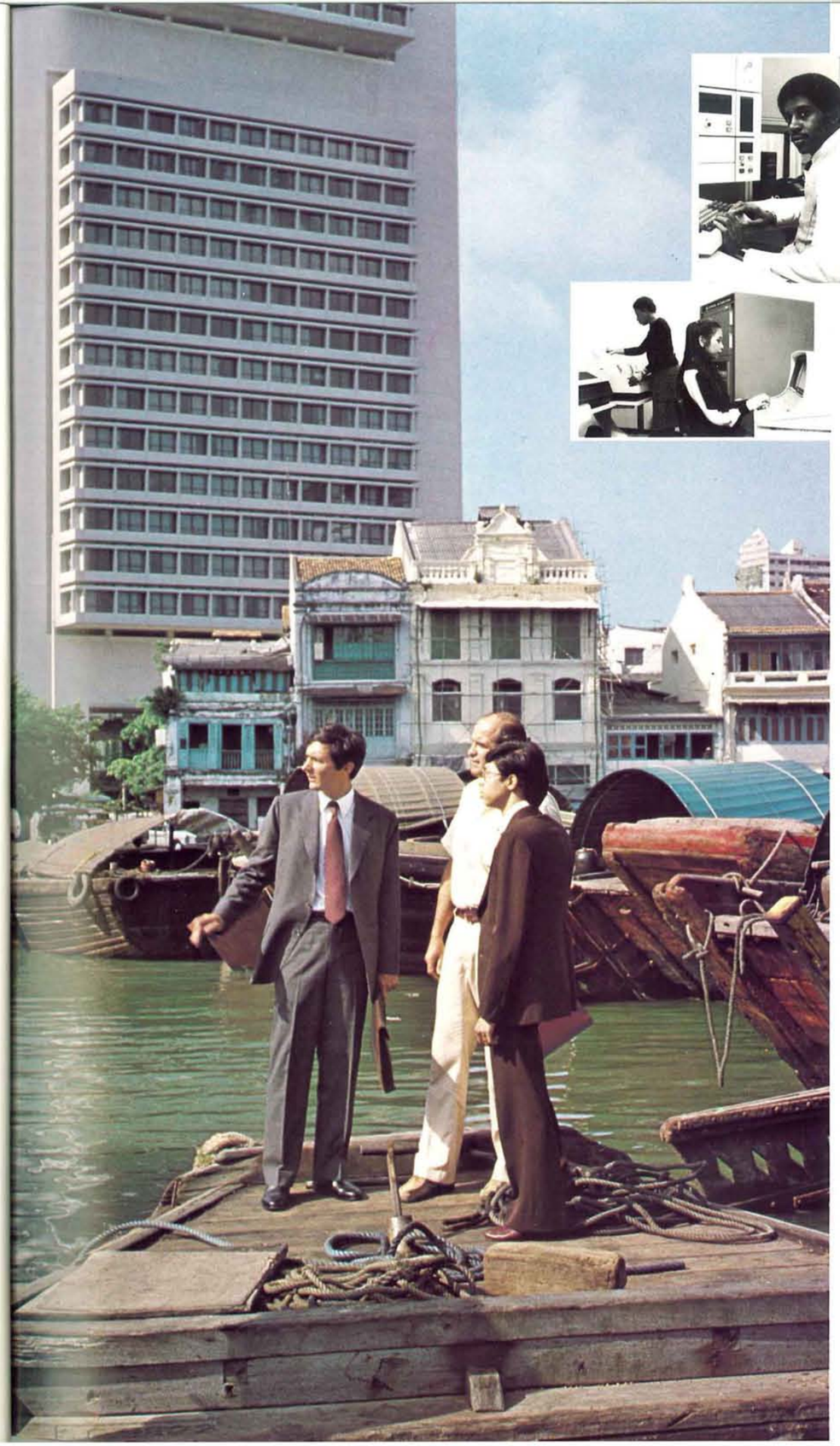
A more stable pattern of world trade and payments during 1978 improved the economic outlook for a number of nations where the Bank is an important lender. In certain other countries facing financial difficulties, Wells Fargo was able to reduce its exposure or restructure it on more favorable terms. Country risk analysis and monitoring capabilities were strengthened through additions to staff and the introduction of new procedures. As the year drew to a close, increased political uncertainty in the Middle East underscored the need to maintain a vigilant attitude toward country risks.

Certain organizational adjustments were made in the International Banking Group in 1978 to enhance marketing effectiveness and strengthen internal support systems. A Merchant Banking Department was formed in August to consolidate the loan syndication, international private placement and agency functions into a single unit with regional coverage in San Francisco, London and Singapore. The department works in conjunction with all geographic divisions in arranging major financial transactions, many of which are trade or project related loans. In addition, a Global Resources Division was established to centralize the international staff support functions.

The Group also stepped up efforts in 1978 to service its correspondent banks, which are very important as a source of profitable international business. These activities span a full range from the extension of credit to trading in the foreign exchange and money markets, and from payment remittances to collections and other documentary services.

A new representative office was opened in Santiago, Chile, in May 1978, bringing the total number of representative offices to 17. Wells Fargo also has five overseas branches and 11 affiliated financial institutions worldwide.

A number of other units of Wells Fargo work with the International Banking Group to bring a wide array of expertise to worldwide transactions. Wells Fargo Investment Advisors, through its office in London, provides counsel on the U.S. capital markets to institutional investors in Europe. The Real Estate Industries Group, the Corporate Banking Group, the Commercial Banking Division and branch banking offices of Wells Fargo cooperate closely with International Banking on foreign business activities.



Providing staff support for Wells Fargo's global activities are staff members of the International Operations Group. At top is Bobby Britton, programmer in the International Computer Center; at left above are Bobbie Callen (left) and Armi Labrador operating the computerized SWIFT telecommunications equipment. Above is Charles Walters, assistant vice president and manager of the International Communications Center.

James Cullen, left, vice president and Singapore branch general manager, and Philip Seet, right, foreign exchange trader in Wells Fargo's Singapore office, discuss export financing with Bert Fulmer, coffee dealer and customer.

In support of our operating units

Supporting the activities of Wells Fargo's earnings-generating groups are the experienced and highly skilled employees in staff positions. Key among these are the individuals providing personnel, training and operational services.

Worldwide, Wells Fargo & Company's staff at the end of 1978 totaled just over 15,400 persons, on a full-time equivalent basis. Of this number, about 14,700 are employed by the Bank and the balance work for the Company or its other subsidiaries. Recruitment, training and career development for staff members is a high priority undertaking, in which a wide range of resources is used, including internal programs, professional banking schools, management development courses and the American Institute of Banking, to name a few.

One of the most intensive training programs developed internally in the past two years is Uniform Credit Analysis, in which loan officers from every area of the Bank and Company spend four months learning to analyze potential credits using sophisticated computerized analytical techniques. This concept was developed to ensure that all operating units of the organization are aware of the latest trends in finance evolving in the business world, and that they adhere to the same standards in analyzing and granting credit. This uniform training also enables staff members to transfer more readily from one segment of the organization to another, thereby improving career opportunities.

So that the staff could share more personally in the success of the Company, a new Employee Stock Purchase Plan, previously approved by shareholders, was introduced in 1978. The plan allows participants the opportunity to purchase shares of the Company's common stock at least 10 percent under the market price at the close of a one-year option period. The first option period began on August 1, 1978, and will end on July 31, 1979. Each month during the option period, participants put money into an individual savings account. At the end of the option period, the employees may use these funds to purchase shares of the Company's stock, or they may receive their contributions back with interest. Some 12,000 Wells Fargo employees were eligible to participate in the plan's first option period, and about 5,000 — or 42 percent — enrolled. This new program encourages employees to become owners of Wells Fargo and to share in the Company's achievements.

Important to the efficient servicing of Wells Fargo customers are the staffs of the computer facilities that process checks and credit card invoices. In December 1978, the Computer Systems Division processed an average of 2.8 million items daily, including checking account deposits totaling $1.8 billion per day. This was an increase of more than 15 percent over the number of items processed daily in December 1977. On its peak day in 1978, the division processed a total of 3.5 million individual items. It also produces statements and keeps records for the Bank's 2.6 million checking, passbook savings and other time deposit accounts.

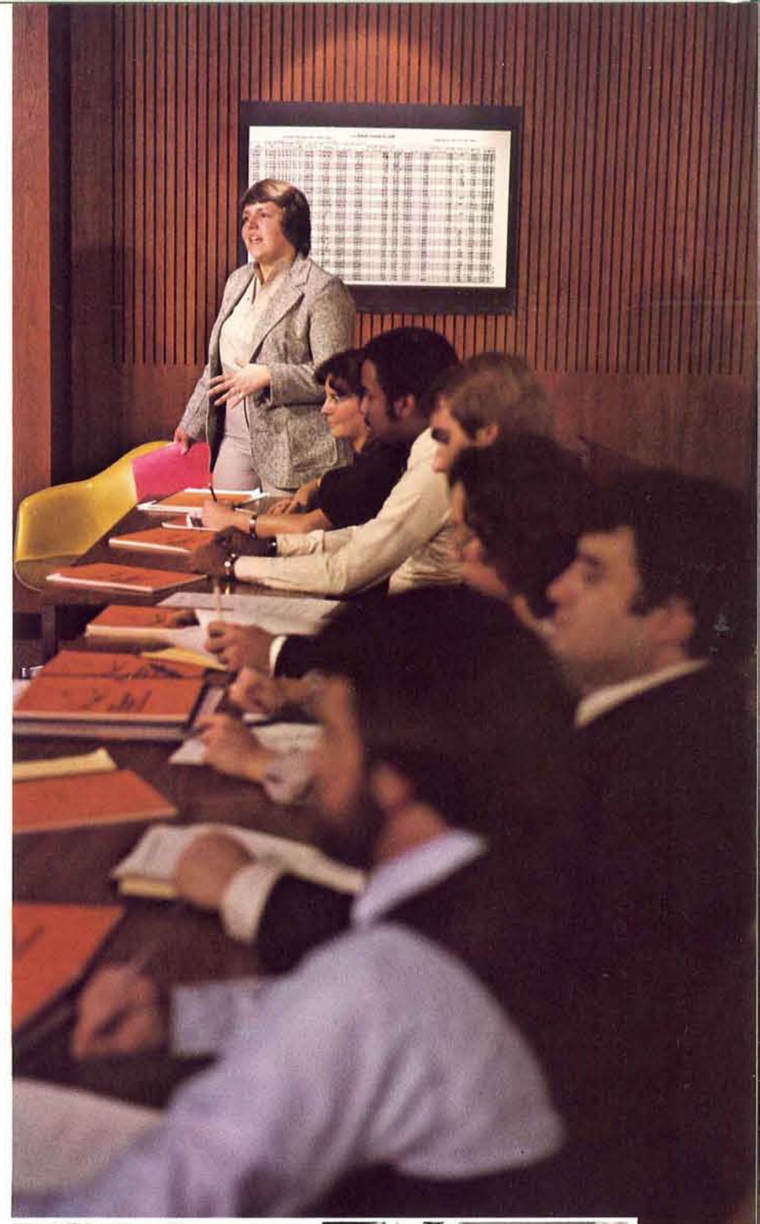
Due to the expansion of the Bank's branch system in Southern California in 1978 and increased market penetration, check processing activity in that area alone jumped 32 percent over the previous year. To accommodate this and anticipated increases in the Southern California workload, the Bank's data processing center in that region was upgraded with a new mainframe computer, faster disk and tape drives, new printers and enhanced data input capabilities.

Major improvements in check processing quality statewide were achieved during the year despite the heavy volume increases. Computer-controlled checking account statement processing was introduced at mid-year, and 14 mini-computer systems were added to speed check-processing work.

Credit card operations, which handles processing of invoices for customers of Master Charge, Visa and Custom Charge, handled an average of just over 113,000 items daily in 1978, up 14 percent over the number of invoices processed per day in the previous year.

The Real Property Management Department is responsible for the acquisition, construction, furnishing and maintenance of all Bank properties — some 400 branches and loan production centers as well as administrative quarters and data processing facilities in Northern and Southern California. In addition to opening new branch offices, the department has been handling major remodelings or relocations of existing branches. In 1978, the department's budget for these activities totaled $40 million.

Other centralized support services — including purchasing and supply, central cash and securities vaults, and mail and distribution — assist the profit-generating groups in serving our customers.



Supporting the activities of the Company's line groups are key staff departments providing a variety of expertise to operating units. At right is Sheree Rife, Retail Banking training officer, conducting branch officer training.

Other important staff support activities are represented by: Stephen P. Sheehy, below right, vice president of the Credit Research Department, and Kathleen E. Courtney, bottom photo, assistant vice president in the Retail Marketing Department. At far right is Timothy Howard, vice president in the Economics Department.

Services to the community

Wells Fargo has long taken pride in being a responsible and sensitive corporate citizen of the communities it serves. In 1978, the Company announced a number of projects designed to strengthen those community ties.

In December, Wells Fargo fulfilled a pledge made after the passage of Proposition 13 in June that it would return its 1978 California property tax savings to the community. On a one-time basis, it presented grants totaling $1.2 million to three programs statewide. Grants of $400,000 each were given to: public television stations in California to support their in-class TV instructional programs; the California Neighborhood Housing Services Foundation for high-risk loans for housing rehabilitation in the state's communities; and United Ways and similar fund-raising organizations throughout California for "emergency funds" to handle crisis needs of member agencies. The $1.2 million represented the net difference between what the Company paid in California property taxes during the last six months of 1978 and the amount paid in the comparable period of 1977.

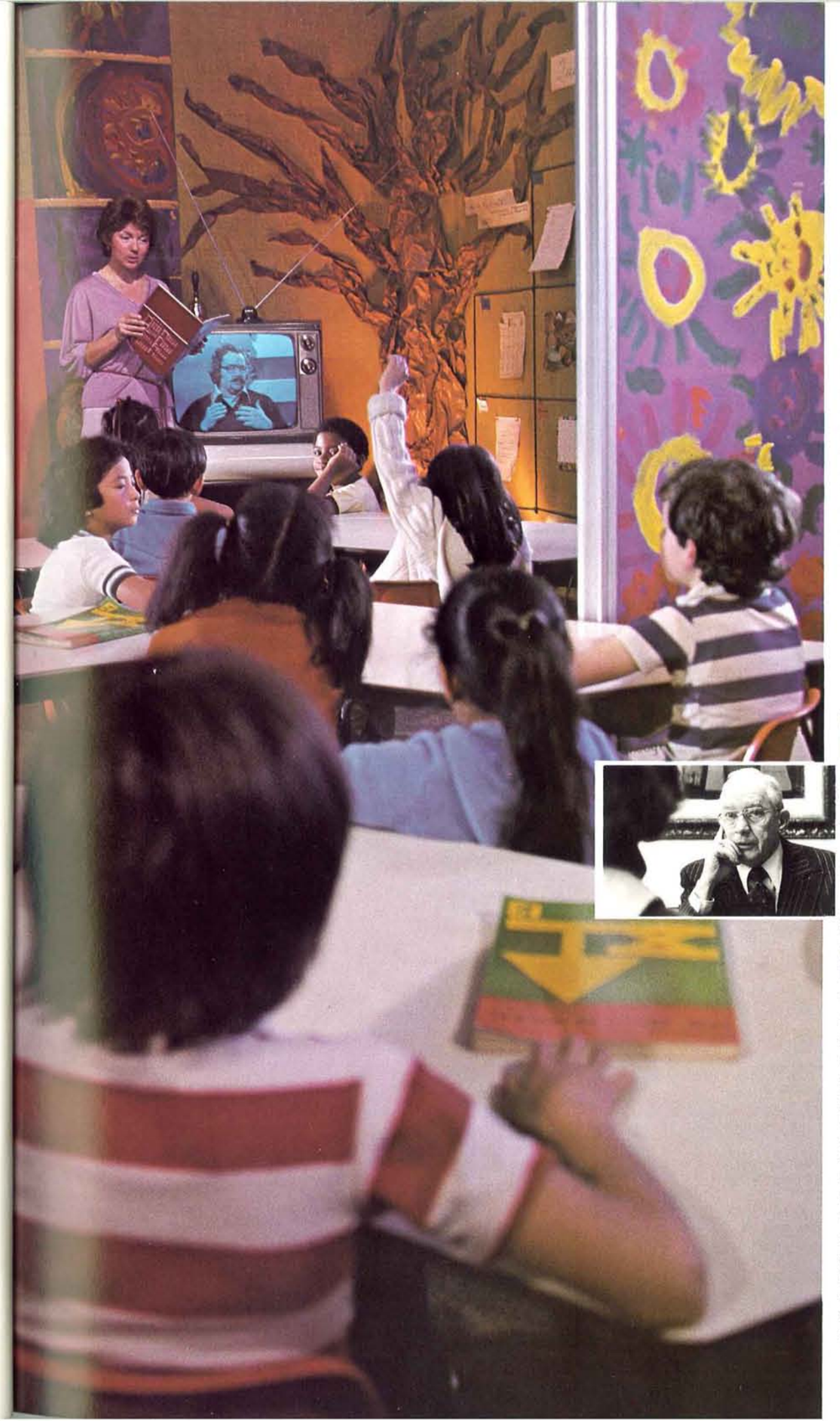
In an innovative program not related to the passage of Proposition 13, Wells Fargo established a $250,000 Community Services Emergency Loan Fund to provide short-term loans to non-profit organizations in the San Francisco Bay Area. The purpose of the fund is to make loans available to non-profit groups experiencing temporary cash flow problems when approved funding from government agencies is delayed. The program will enable organizations to continue to provide valuable community services while awaiting operational funds.

The Wells Fargo Foundation was established in 1978, with funding of $2.4 million. The foundation will disburse charitable donations. It is Wells Fargo's policy to set aside about 1 percent of the Company's pre-tax profits each year for charitable contributions. In 1978, nearly $1.5 million was disbursed as follows: 51 percent to health and welfare activities; 26 percent to education; 13 percent to civic activities; and 10 percent to culture and the arts.

These projects are extensions of Wells Fargo's on-going commitment to its communities. Basic, of course, to the Company's social responsibility effort is its continuing affirmative action program. At year end, more than 33 percent of Wells Fargo's staff were minorities and 70 percent were women. Of total officials, managers and professionals, more than 18 percent were minorities and over 49 percent were women.

The Company has lending programs which reach into the community and seek to provide services to individuals who might have difficulty qualifying for credit under standard terms. One of these is the Low Income Finance Terms (LIFT) lending program, which has special criteria for installment credit borrowers.

The Bank's minority business loan program marked its 10th anniversary in 1978. Since the program's inception, Wells Fargo has made 1,670 loans to minority entrepreneurs amounting to $70 million. Of these, the Small Business Loan Administration has guaranteed 1,062 loans totaling $56.8 million, and the Bank has made 608 direct loans for $13.3 million without guarantees.



One of Wells Fargo's major corporate responsibility programs during the year was the return of $1.2 million in property tax savings resulting from Proposition 13 to organizations involved in instructional television in the classroom, housing rehabilitation, and health and welfare activities. At left, teacher Joanne Wallin uses a Public Broadcasting System instructional program in her third grade class at Paul Revere School in San Francisco.

Wells Fargo staff members active in community affairs include: Robert J. Gicker, upper left, vice president for Urban Affairs; and Diana L. Blank, upper right, administrative assistant for Corporate Contributions. In the bottom photo are Collins G. Walker (left), vice president for minority and small business loans, and Louvell A. Anderson of the Bank's Community Reinvestment Department.

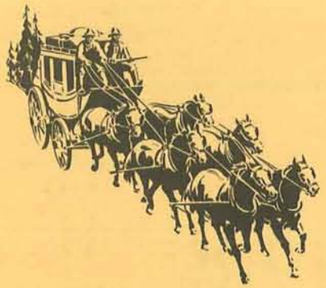
In order to support educational achievement, Wells Fargo participates in the federal student loan program and, at the end of 1978, had approximately $41 million in student loans outstanding. To replenish the supply of funds available for these loans, Wells Fargo sold more than $13 million in student loans to the government's Student Loan Marketing Association.

To encourage employees to support institutions of higher learning, Wells Fargo matches employee gifts to such schools up to a maximum of $7,500 per year. In 1978, the Company matched $32,538 in 244 employee donations.

The Company also has programs designed to reward employees who devote outside time to civic or humanitarian activities. Prominent among these is Wells Fargo's President's Award for Social Service, given annually to one or more employees who have done outstanding volunteer work on their own time in the community. In 1978, Thomas A. Neve and Lester Morgan of the South Bristol Office in Santa Ana received the award jointly for their work in organizing and coordinating the Orange County Special Olympics track and field meet for handicapped children and adults.

Aiding management in monitoring these programs and in developing creative new ways to improve or enrich the communities served by Wells Fargo is the Company's Corporate Responsibility Committee. The Committee currently consists of 13 officers from throughout the Company who serve on a rotating basis. This internal process of seeking and responding to civic, social and humanitarian issues has enabled Wells Fargo to be extremely responsive and effective in serving the needs of the communities in which it operates.

Index to key financial information



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 below, the schedule of Average balances, rates paid and yields on pages 36 and 37, and the Consolidated financial statements starting on page 49.

1978 *Summary*

was a year of continued growth for Wells Fargo & Company. Earnings (income before securities transactions) of $115,881,000 and earnings per share of $5.16 were the highest in the Company's history. This growth represented an increase in earnings in excess of 34 percent and 29 percent per share, over 1977, which was also a record year for earnings. The five-year compound growth rate for earnings now stands at 21.7 percent. Earnings in 1977 of $86,381,000 and $3.99 per share represented growth of 39 percent and 29 percent respectively, over 1976. The slower growth in earnings per share was due to the issuance of two million additional shares of common stock in April of 1977, and an increase in outstanding shares in 1978 of approximately 227,000 shares, primarily due to the exercise of the conversion feature available to holders of the 3¼% convertible capital notes.

Dividends declared were raised to $1.40 per share in 1978 compared to $1.12 per share in 1977, an increase of 25 percent. In February of 1979, the quarterly dividend was raised to $.43 per share from $.35, an increase of 23 percent.

The strong operating results arose principally from the influences of the growth in assets, increase of the interest margin and changes in the loan mix. Although there was a steady increase in the cost of funds during 1978, the Company was able to improve, on average, its margin between yields on earning assets and rates paid for funds. Average interest-free demand deposits, which became an increasingly valuable funding source in a rising interest market, increased 15 percent during the year. The increase during 1977 was 12 percent.

Loans grew to $12,895,669,000 at December 31, 1978 from $10,230,139,000 at December 31, 1977. Also, the composition of the loan portfolio changed with a greater emphasis towards real estate and consumer loans. These changes are further discussed in the following sections.

The ratios and statistics below and those shown in Table 1 summarize the Company's growth and performance experience during the year.

Return on stockholders' equity — earnings as a percentage of average stockholders' equity — increased to 16.41 percent in 1978 from 14.09 percent in 1977. This ratio reflects the profitability of the shareholders' investment and is influenced by leverage and the overall return on assets.

The Company's leverage ratio — assets divided by stockholders' equity — increased to 25.06 at December 31, 1978 from 23.45 at 1977 year end. The Company's average leverage ratio was 23.58 in 1978 and 23.00 in 1977. This ratio measures the extent to which external funding sources were used in building the Company's asset base.

Return on average assets for the Company — earnings divided by average total assets — increased to .70 percent in 1978 from .61 percent in 1977. This ratio is a measure of the profitability of the resources utilized by the Company.

A. Earnings & dividends per share*

*Income before securities transactions

Consolidated six-year summary of operations

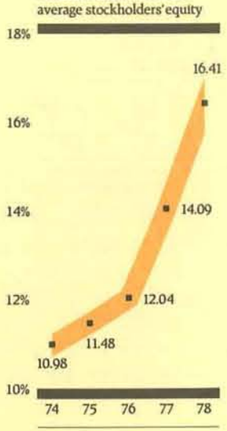
Wells Fargo & Company and Subsidiaries

(Dollars in thousands, except per share data) (1)	1978	1977	1976	1975	1974	1973	Analysis: Change 1978/1977	Analysis: Five-year compound growth rate
INTEREST INCOME:								
Interest and fees on loans and funds sold	$1,207,647	$ 829,844	$696,959	$696,755	$772,226	$549,571	45.5%	17.1%
Interest on investment securities	103,356	116,029	108,225	103,964	101,016	80,224	(10.9)	5.2
Other interest income	75,239	61,702	72,733	67,050	91,766	77,882	21.9	(.7)
Total interest income	1,386,242	1,007,575	877,917	867,769	965,008	707,677	37.6	14.4
INTEREST EXPENSE:								
Interest on deposits	656,997	463,733	414,832	438,261	520,442	367,592	41.7	12.3
Interest on borrowings	126,649	74,176	64,980	81,515	173,512	120,830	70.7	.9
Total interest expense	783,646	537,909	479,812	519,776	693,954	488,422	45.7	9.9
NET INTEREST INCOME	602,596	469,666	398,105	347,993	271,054	219,255	28.3	22.4
Provision for loan losses	47,537	41,028	46,379	50,429	21,864	11,086	15.9	33.8
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	555,059	428,638	351,726	297,564	249,190	208,169	29.5	21.7
Other income	102,117	90,675	68,917	68,960	65,428	66,253	12.6	9.0
Other expense	448,735	360,538	298,759	278,702	248,355	210,866	24.5	16.3
INCOME BEFORE INCOME TAXES AND SECURITIES TRANSACTIONS	208,441	158,775	121,884	87,822	66,263	63,556	31.3	26.8
Less applicable income taxes	92,560	72,394	59,638	33,050	17,518	20,111	27.9	35.7
INCOME BEFORE SECURITIES TRANSACTIONS	115,881	86,381	62,246	54,772	48,745	43,445	34.2	21.7
Securities gains (losses) net of income tax effect	(5,735)	(1,020)	40	646	(2,705)	(660)	462.3	54.1
NET INCOME	$ 110,146	$ 85,361	$ 62,286	$ 55,418	$ 46,040	$ 42,785	29.0	20.8
PER SHARE:								
Income before securities transactions	$5.16	$3.99	$3.10	$2.74	$2.46	$2.22	29.3	18.4
Net income	$4.91	$3.94	$3.10	$2.77	$2.32	$2.18	24.6	17.6
Dividends declared	$1.40	$1.12	$0.99	$0.96	$0.96	$0.91	25.0	9.0
Dividends paid	$1.33	$1.09	$0.98	$0.96	$0.96	$0.885	22.0	8.5
Average shares outstanding	22,442,612	21,681,585	20,061,601	20,017,813	19,801,448	19,633,968		

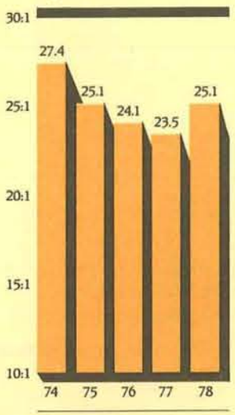
(1) Restatement of prior period data has been made so that the data for these years will now conform with the present accounting policies of Wells Fargo & Company and Subsidiaries. See page 31 for the effect of the restatement on earnings.

B. Return on stockholders' equity

Ratio of income before securities transactions to average stockholders' equity



C. Asset to equity ratios at year end



D. Return on average total assets

Ratio of income before securities transactions to average total assets

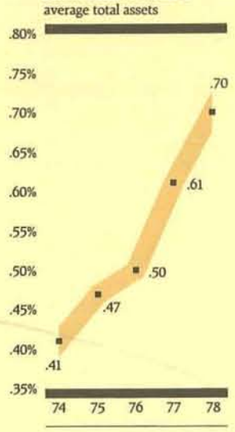


Table 1: Statistics and ratios

	Year ended December 31,				
	1978	1977	1976	1975	1974
RATIOS:					
Income before securities transactions to:					
Average total assets	.70%	.61%	.50%	.47%	.41%
Average stockholders' equity	16.41	14.09	12.04	11.48	10.98
Net income to:					
Average total assets	.66	.61	.50	.47	.39
Average stockholders' equity	15.60	13.93	12.05	11.62	10.37
Average stockholders' equity to average total assets	4.24	4.35	4.19	4.06	3.76
Dividends declared per share to:					
Income per share before securities transactions	27.13	28.07	31.94	35.04	39.02
Net income per share	28.51	28.43	31.94	34.66	41.38
Stockholders' equity per share at year end	$32.94	$29.46	$26.79	$24.74	$22.95
STATISTICAL SUMMARY:					
Market prices of common stock:					
High for year	$33¼	$28⅞	$27	$20⅛	$27
Low for year	24¼	24¼	15⅞	13¼	9⅝
Year end	27⅛	26⅞	27	15½	13
Other year-end data:					
Number of stockholders	17,238	17,008	17,447	18,329	18,354
Company staff (full-time equivalent)	15,443	13,393	12,500	12,143	12,186
Number of bank offices	368	341	335	322	316

All financial information for 1977 and prior years has been restated to reflect the Company's retroactive adoption of Financial Accounting Standards Board Statement No. 13, "Accounting for Leases." The adoption of the accounting policies called for in the Statement affected the Company, as lessee, by an increase in capitalized premises and equipment and a related increase in liabilities (obligations under capital leases). Net occupancy expense and equipment expense now include depreciation on assets held under capital leases and imputed interest expense, where previously the recorded expense consisted only of contractual lease payments. This method of accounting for leases results in higher expenses during the early years of a lease, and lower expenses in the later years, than was the case under the previous method. The effect on the Company as lessor, primarily Wells Fargo Leasing Corporation, was a change to a slower method of recognizing deferred income. The change in accounting policies also results in a reduction of retained earnings from that which was previously reported. The cumulative effect of the restatement on retained earnings was a reduction of $1,202,000 at January 1, 1973. The leasing restatement is discussed in more detail in Note 14 to the financial statements. The effect on earnings of prior years is summarized below:

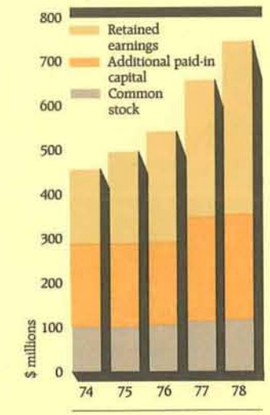
Earnings

(In thousands)	1977	1976	1975	1974	1973
As previously reported	$87,300	$63,471	$56,145	$50,074	$44,119
Restatement	(919)	(1,225)	(1,373)	(1,329)	(674)
Restated	$86,381	$62,246	$54,772	$48,745	$43,445

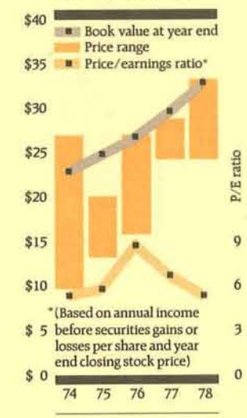
Earnings per share

As previously reported	$4.03	$3.16	$2.80	$2.53	$2.25
Restatement	(.04)	(.06)	(.06)	(.07)	(.03)
Restated	$3.99	$3.10	$2.74	$2.46	$2.22

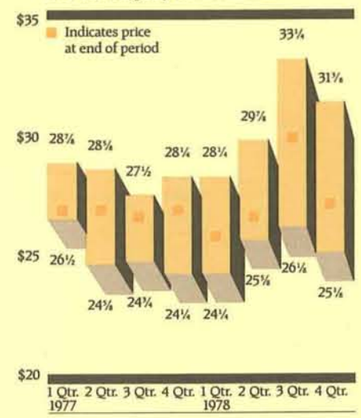
E. Stockholders' equity at year end



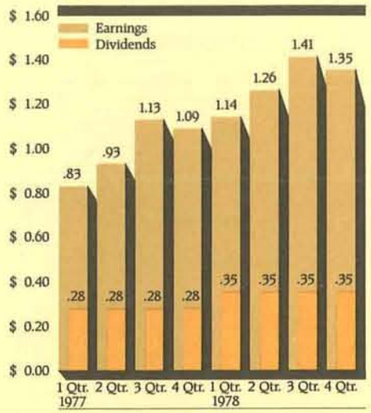
F. Book value per share vs. market price range



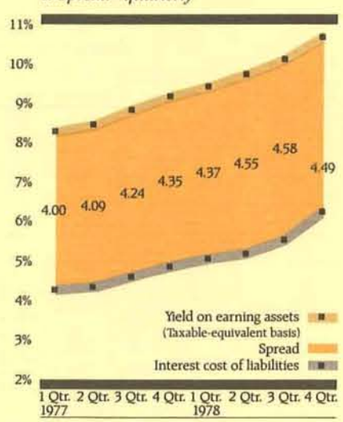
G. Price range of common stock



H. Quarterly earnings & dividends per share



I. Spread–quarterly



Fourth quarter

Rates and volumes were generally higher in the fourth quarter of 1978 than in the previous quarter or the fourth quarter of 1977. However, the increase in the interest differential in the fourth quarter over that of the third quarter of 1978, arose primarily from increases in volume. The spread for the fourth quarter 1978 was 4.49 percent, down slightly from 4.58 percent in the third quarter, but up significantly from 4.35 percent in the fourth quarter of 1977. Margins were affected in the fourth quarter of 1978 by the rapid rise in the cost of money market funds, which outpaced the yield increases in earning assets.

Table 2 shows the components of loan fees and sundry interest for the quarters indicated.

Table 2: Loan fees and sundry interest

			Quarter ended
(In thousands)	December 31, 1978	September 30, 1978	December 31, 1977
Loan fees:			
Real estate	$ 9,644	$10,483	$ 7,363
Commercial	2,875	2,714	2,432
Monthly payment	882	665	763
Credit card	1,714	1,598	806
Sundry interest	806	2,094	2,374
	$15,921	$17,554	$13,738

The reduction in earnings due to non-accrual and renegotiated loans approximates $1,636,000 ($.07 per share) in the fourth quarter of 1978, $1,699,000 ($.08 per share) in the previous quarter, and $1,400,000 ($.06 per share) in the fourth quarter of 1977.

Table 3 presents the average balances, rates paid and yields on a taxable-equivalent basis to assist in quarterly comparisons.

Table 3: Average balances, rates paid and yields
(Yields on a taxable-equivalent basis)

	Fourth quarter – 1978			Third quarter – 1978			Fourth quarter – 1977		
(Dollars in millions)	Average balance	Yields or rates	Interest income/ expense	Average balance	Yields or rates	Interest income/ expense	Average balance	Yields or rates	Interest income/ expense
EARNING ASSETS:									
Overseas deposits	$ 556	8.54%	$ 11.974	$ 475	7.30%	$ 8.739	$ 443	6.35%	$ 7.033
Investment securities:									
U.S. Treasury securities	699	6.79	11.970	718	6.54	11.841	1,064	6.50	17.299
Securities of other U.S. government agencies and corporations	350	7.86	6.876	259	7.20	4.659	239	6.99	4.177
Obligations of states and political subdivisions	735	8.67	15.929	749	8.45	15.824	716	7.93	14.189
Other securities	69	7.63	1.315	70	7.81	1.367	102	7.07	1.802
Total investment securities	1,853	7.77	36.090	1,796	7.48	33.691	2,121	7.07	37.467
Trading account securities	18	9.59	.432	32	8.91	.713	53	7.12	.944
Funds sold	192	9.95	4.817	151	8.47	3.222	195	6.75	3.291
Loans:									
Commercial loans	2,881	10.91	79.210	2,722	9.73	66.765	2,400	8.32	49.903
Real estate loans	4,327	9.52	103.054	4,040	9.10	91.924	3,219	8.67	69.772
Consumer loans	2,552	12.43	79.563	2,387	12.32	73.728	1,725	12.12	52.268
International loans	2,525	10.86	69.117	2,585	9.67	63.010	2,321	8.64	50.106
Fee and sundry interest	–	–	15.920	–	–	17.554	–	–	13.738
Total loans	12,285	11.24	346.864	11,734	10.62	312.981	9,665	9.76	235.787
Lease financing	403	11.02	11.102	371	10.88	10.093	307	11.88	9.119
Total earning assets	$15,307	10.70	411.279	$14,559	10.11	369.439	$12,784	9.19	293.641
FUNDING SOURCES:									
Interest-bearing liabilities:									
Deposits:									
Savings deposits	$ 3,545	5.02	44.868	$ 3,643	5.00	45.921	$ 3,586	5.03	45.062
Savings certificates	2,110	7.44	39.564	1,933	7.15	34.818	1,591	6.75	26.860
Certificates of deposit	2,655	9.03	60.457	2,466	7.94	49.336	1,664	6.56	27.303
Other time deposits	564	8.22	11.684	492	6.99	8.664	359	5.47	4.905
Deposits in overseas offices	1,620	9.47	38.683	1,688	7.97	33.895	1,629	6.70	27.296
Total deposits	10,494	7.38	195.256	10,222	6.70	172.634	8,829	5.95	131.426
Funds borrowed	1,345	9.37	31.776	1,013	7.83	19.990	898	6.60	14.822
Commercial paper	258	10.01	6.509	238	7.95	4.768	180	6.61	2.973
Long-term debt	311	7.58	5.901	310	7.12	5.517	320	7.01	5.610
Total interest-bearing liabilities	12,408	7.66	239.442	11,783	6.83	202.909	10,227	6.06	154.831
Portion of non-interest-bearing funding sources	2,899	–	–	2,776	–	–	2,557	–	–
Total funding sources	$15,307	6.21	239.442	$14,559	5.53	202.909	$12,784	4.84	154.831
SPREAD AND INTEREST DIFFERENTIAL		4.49%	$171.837		4.58%	$166.530		4.35%	$138.810
NON-EARNING ASSETS:									
Cash and due from banks	$ 1,662			$ 1,562			$ 1,437		
Other	952			925			904		
Total non-earning assets	$ 2,614			$ 2,487			$ 2,341		
NON-INTEREST-BEARING FUNDING SOURCES:									
Demand deposits	$ 3,710			$ 3,603			$ 3,270		
Other liabilities	1,056			942			976		
Stockholders' equity	747			718			652		
Non-interest-bearing funding sources used to fund earning assets	(2,899)			(2,776)			(2,557)		
Total net non-interest-bearing funding sources	$ 2,614			$ 2,487			$ 2,341		

Table 4 and Note 18 to the financial statements present a condensed fourth quarter statement of income.

Table 4: Consolidated statement of income, condensed

(In thousands, except per share data)	1978	Quarter ended December 31, 1977
		(Restated)
Net interest income	$163,166	$130,829
Provision for loan losses	11,887	10,461
Net interest income after provision for loan losses	151,279	120,368
Other income:		
Trust income	8,040	7,348
Service charges on deposit accounts	7,150	6,525
International commissions, syndication fees and foreign exchange	2,305	2,794
Service fees	3,293	3,304
Other	6,911	5,653
Total other income	27,699	25,624
Other expense:		
Salaries	55,173	44,428
Employee benefits	13,596	10,890
Net occupancy expense	11,190	9,786
Equipment expense	7,773	5,361
Other	38,239	30,844
Total other expense	125,971	101,309
Income before income taxes and securities transactions	53,007	44,683
Less applicable income taxes	22,609	20,544
INCOME BEFORE SECURITIES TRANSACTIONS	30,398	24,139
Securities losses, net of income tax effect $(4,037) in 1978 and $(1,308) in 1977	(3,335)	(1,082)
NET INCOME	$ 27,063	$ 23,057
PER SHARE:		
Income before securities transactions	$1.35	$1.09
Net income	$1.20	$1.04

Other income and expense increased in the fourth quarter of 1978 over the previous quarter and the fourth quarter of 1977, for the same reasons indicated for the full-year analysis of these items. Additionally, during the fourth quarter, start-up expenses were incurred relating to the openings of offices of two non-bank subsidiaries, Wells Fargo Business Credit and Wells Fargo Credit Corporation. The Company also had a net addition of five bank branches during the quarter.

Internal profitability

Graphs J and K represent the comparative contributions made by major Groups to Company operations for 1978 and 1977. The contributions are expressed as percentages of Company earnings and average assets employed.

Group profitability measurement is a significant element used in setting financial goals and evaluating performance of the individual Groups within the Company.

The Company has measured Group performance for 1978 and 1977 using the following procedures, estimates and assumptions:

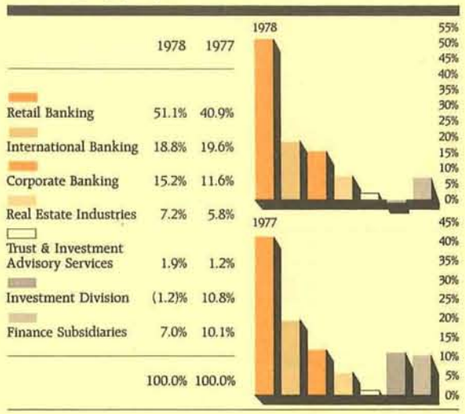
- Assets and liabilities and the related interest income or expense are transferred from the Group where they are domiciled for customer servicing convenience to the responsible Group.
- Groups of the Bank which make loans have been charged with a portion of the Bank's loan loss provision based on the Group's actual and expected loan loss experience.
- Appropriate transfers of income and expense have been made to reflect intercompany services provided among Groups.
- Capital funds of the Bank and administrative overhead expenses, including costs of the Parent, 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.
- Income and expense items have been adjusted to a taxable-equivalent basis.

Although the Group breakdowns of earnings and assets provide a general picture of the relative contribution of the Groups to the Company's overall operating results, the underlying assumptions and estimates may be revised if it is determined in the future that there are more appropriate methods and procedures for responsibility reporting.

The important changes in internal financial performance from 1977 to 1978 were:

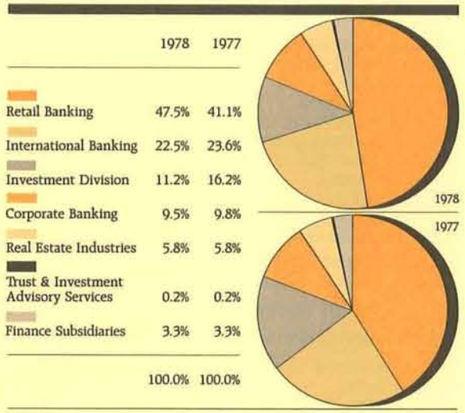
- The increase in the relative size of the Retail Banking Group in terms of earnings and assets, a result of continued strong consumer related loan and deposit growth and acquisitions of existing banking businesses in Southern California.
- The increase in earnings contribution of the Corporate Banking Group, a result of improved credit quality, and increased loan volume.
- The assets of the Investment Division are comprised of the securities in the investment portfolio. Because of the maturity mix and fixed rate characteristic of the portfolio, the yields do not react quickly to changes in short-term rates. The Investment Division is charged for the funds required to support the portfolio at the internal funds transfer price, which rose rapidly during 1978 and exceeded the earnings yield. As a result, the internal profitability system reflected a loss for the Investment Division in 1978.
- The lower earnings contribution of the Finance Subsidiaries, a result of the rise in interest rates and start-up expenses in the new subsidiaries.

J. Earnings by group



	1978	1977
Retail Banking	51.1%	40.9%
International Banking	18.8%	19.6%
Corporate Banking	15.2%	11.6%
Real Estate Industries	7.2%	5.8%
Trust & Investment Advisory Services	1.9%	1.2%
Investment Division	(1.2)%	10.8%
Finance Subsidiaries	7.0%	10.1%
	100.0%	100.0%

K. Average assets by group



	1978	1977
Retail Banking	47.5%	41.1%
International Banking	22.5%	23.6%
Investment Division	11.2%	16.2%
Corporate Banking	9.5%	9.8%
Real Estate Industries	5.8%	5.8%
Trust & Investment Advisory Services	0.2%	0.2%
Finance Subsidiaries	3.3%	3.3%
	100.0%	100.0%

Finance Subsidiaries

The Finance Subsidiaries consist of Wells Fargo Leasing Corporation, Wells Fargo Mortgage Company, Wells Fargo Realty Advisors, Wells Fargo Business Credit and Wells Fargo Credit Corporation, all wholly owned by the Parent. Through these subsidiaries, financial services are offered both outside as well as within the state of California.

The combined income of the Finance Subsidiaries decreased 7.2 percent in 1978 compared to 1977, and increased 31.7 percent in 1977 over 1976. The 1977 increase was primarily due to growth in real estate loan and lease financing volumes, and the acquisition, in mid-1977, of Ben G. McGuire & Company, a Houston-based mortgage banking firm. Earnings of Wells Fargo Mortgage Company in 1978 decreased partially as a result of increasing costs of short-term financing. The Finance Subsidiaries are more dependent on short-term funds than is the Bank and, therefore, suffered the greatest impact of the upward movement of interest rates during 1978. Wells Fargo Business Credit and Wells Fargo Credit Corporation, which initiated operations in the latter half of 1978, showed a combined loss for the year of approximately $750,000 due to start-up costs and a short period of operation. At year end these two companies had combined assets of $16,592,000.

Average balances, rates paid and yields

(Taxable-equivalent basis. See page 38 for a discussion of this method of presentation.)

(Dollars in millions)	1978 Average balance	1978 Yields or rates	1978 Interest income/ expense	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
DOMESTIC OPERATIONS:															
Earning assets:															
Investment securities:															
U.S. Treasury securities	$ 734	6.57%	$ 48.2	$ 1,107	6.32%	$ 69.9	$ 887	6.75%	$ 59.9	$ 387	7.23%	$ 28.0	$ 239	6.58%	$ 15.7
Securities of other U.S. government agencies and corporations	259	7.30	18.9	232	7.12	16.5	355	7.11	25.2	515	7.12	36.7	610	6.85	41.8
Obligations of states and political subdivisions	754	8.40	63.4	571	8.02	45.8	390	8.19	31.9	636	9.32	59.3	760	9.09	69.1
Other securities	73	7.47	5.5	100	7.07	7.1	112	6.49	7.3	138	7.37	10.2	116	8.15	9.5
Trading account securities	29	8.20	2.4	76	6.09	4.6	63	5.71	3.6	56	7.16	4.0	109	10.47	11.4
Funds sold	169	8.21	13.9	111	5.79	6.4	65	5.38	3.5	197	6.89	13.6	148	9.34	13.8
Loans:															
Commercial loans	2,657	9.58	254.7	2,339	7.58	177.3	2,297	7.46	171.3	2,512	8.63	216.7	2,755	11.19	308.3
Real estate loans	3,851	9.09	350.2	2,900	8.45	245.0	2,368	7.98	188.9	2,211	7.86	173.8	2,100	7.79	163.6
Consumer loans	2,271	12.29	279.1	1,470	11.78	173.2	1,180	11.61	137.0	1,096	11.63	127.4	988	11.14	110.0
Fees and sundry interest	—	—	55.4	—	—	46.5	—	—	35.4	—	—	23.0	—	—	19.0
Lease financing	358	11.00	39.3	299	11.84	35.4	271	12.51	33.9	262	12.14	31.8	167	11.9	18.7
Total domestic earning assets	$11,155	10.14	1,131.0	$ 9,205	8.99	827.7	$ 7,988	8.73	697.9	$ 8,010	9.04	724.5	$ 7,992	9.77	780.9
Funding sources:															
Interest-bearing liabilities:															
Deposits:															
Savings deposits	$ 3,595	5.02	180.4	$ 3,605	5.00	180.1	$ 3,051	5.00	152.4	$ 2,351	4.98	117.1	$ 1,897	4.97	94.3
Savings certificates	1,876	7.06	132.5	1,489	6.61	98.4	1,358	6.48	88.0	1,343	6.54	87.8	1,198	7.01	84.0
Certificates of deposit	2,342	7.91	185.3	1,612	5.87	94.6	1,705	6.26	106.8	1,849	7.73	142.9	1,272	10.49	133.4
Other time deposits	492	7.04	34.7	342	5.02	17.2	345	5.64	19.4	360	6.43	23.1	525	9.11	47.8
Funds borrowed	1,089	7.94	86.5	760	5.68	43.2	745	5.08	37.9	894	5.96	53.3	1,433	10.01	143.5
Commercial paper	215	8.14	17.5	176	5.55	9.8	145	5.54	8.0	147	6.77	10.0	115	10.65	12.2
Long-term debt	313	7.24	22.7	308	6.89	21.2	290	6.58	19.1	286	6.40	18.3	274	6.49	17.8
Funds transferred to international operations	(1,317)	(7.59)	(100.0)	(1,403)	(5.49)	(77.0)	(1,540)	(5.97)	(91.9)	(938)	(6.91)	(64.8)	(332)	(10.96)	(36.4)
Total interest-bearing liabilities	8,605	6.50	559.6	6,889	5.62	387.5	6,099	5.57	339.7	6,292	6.16	387.7	6,382	7.78	496.6
Portion of non-interest-bearing funding sources	2,550	—	—	2,316	—	—	1,889	—	—	1,718	—	—	1,610	—	—
Total domestic funding sources	$11,155	5.02	559.6	$ 9,205	4.21	387.5	$ 7,988	4.25	339.7	$ 8,010	4.84	387.7	$ 7,992	6.21	496.6
Domestic spread and interest differential		5.12%	$ 571.4		4.78%	$ 440.2		4.48%	$358.2		4.20%	$336.8		3.56%	$ 284.3
INTERNATIONAL OPERATIONS:															
Earning assets:															
Overseas deposits	$ 481	7.34%	$ 35.3	$ 432	5.65%	$ 24.4	$ 605	6.22%	$ 37.7	$ 472	7.11%	$ 33.5	$ 772	8.69%	$ 67.1
International loans	2,551	9.61	245.1	2,247	7.77	174.6	1,919	8.15	156.3	1,518	9.23	140.1	1,336	11.68	156.0
Fees and sundry interest on loans	—	—	9.5	—	—	6.9	—	—	4.5	—	—	2.1	—	—	1.4
Total international earning assets	$ 3,032	9.56	289.9	$ 2,679	7.68	205.9	$ 2,524	7.86	198.5	$ 1,990	8.83	175.7	$ 2,108	10.65	224.5
Funding sources:															
Interest-bearing liabilities:															
Deposits in overseas offices	$ 1,556	7.98	124.1	$ 1,189	6.17	73.4	$ 846	5.69	48.2	$ 953	7.06	67.3	$ 1,670	9.64	160.9
Funds transferred from domestic operations	1,317	7.59	100.0	1,403	5.49	77.0	1,540	5.97	91.9	938	6.91	64.8	332	10.96	36.4
Total interest-bearing liabilities	2,873	7.80	224.1	2,592	5.80	150.4	2,386	5.87	140.1	1,891	6.99	132.1	2,002	9.86	197.3
Portion of non-interest-bearing funding sources	159	—	—	87	—	—	138	—	—	99	—	—	106	—	—
Total international funding sources	$ 3,032	7.39	224.1	$ 2,679	5.61	150.4	$ 2,524	5.55	140.1	$ 1,990	6.64	132.1	$ 2,108	9.36	197.3
International spread and interest differential		2.17%	$ 65.8		2.07%	$ 55.5		2.31%	$ 58.4		2.19%	$ 43.6		1.29%	$ 27.2
DOMESTIC AND INTERNATIONAL OPERATIONS:															
Earning assets	$14,187	10.02%	$1,420.9	$11,884	8.70%	$1,033.6	$10,512	8.52%	$896.4	$10,000	9.00%	$900.2	$10,100	9.95%	$1,005.4
Funding sources	$14,187	5.52	783.7	$11,884	4.53	537.9	$10,512	4.56	479.8	$10,000	5.20	519.8	$10,100	6.87	693.9
Domestic and international spread and interest differential		4.50%	$ 637.2		4.17%	$ 495.7		3.96%	$416.6		3.80%	$380.4		3.08%	$ 311.5
Non-earning assets:															
Cash and due from banks	$ 1,565			$ 1,357			$ 1,137			$ 1,105			$ 1,134		
Other	898			856			703			635			565		
Total non-earning assets	$ 2,463			$ 2,213			$ 1,840			$ 1,740			$ 1,699		
Non-interest-bearing funding sources:															
Demand deposits	$ 3,499			$ 3,048			$ 2,733			$ 2,562			$ 2,503		
Other liabilities	967			955			617			518			468		
Stockholders' equity	706			613			517			477			444		
Non-interest-bearing funding sources used to fund earning assets	(2,709)			(2,403)			(2,027)			(1,817)			(1,716)		
Total net non-interest-bearing funding sources	$ 2,463			$ 2,213			$ 1,840			$ 1,740			$ 1,699		

Taxable-equivalent presentation

The interest differential and spread and the analysis of changes in interest differential tables, have been computed on a taxable-equivalent basis. Since certain types of revenue are tax exempt or are otherwise unequally impacted by federal tax regulations, management feels that an adjustment is necessary in order to show these yields on a comparable basis with fully taxable income-producing assets of similar risk and maturity.

The following table summarizes the adjustments made for taxable-equivalent basis presentation:

Table 5: Adjustments for taxable-equivalent basis.

	Year ended December 31.				
(In millions)	1978	1977	1976	1975	1974
Net interest income per consolidated statement of income	$602.6	$469.7	$398.1	$348.0	$271.1
Tax adjustment to obligations of states and political subdivisions	32.6	23.3	16.1	30.1	35.0
Tax adjustment for the municipal portion of trading account securities	.2	.2	.1	.4	4.2
Tax adjustment to reflect the effect of investment tax credit on leasing	1.8	2.5	2.3	1.9	1.2
Interest differential	$637.2	$495.7	$416.6	$380.4	$311.5

The tax rate used in the adjustment is based on the 48 percent federal income tax rate and takes into consideration the state tax that is applicable on municipal securities. No similar state tax effect is applicable to the direct lease financing adjustment for investment tax credit.

Funds transferred & other

The funds transferred from domestic operations, as shown in the schedule of average balances, rates paid and yields, represent pooled funds, and related pooled costs, associated with funding the Company's international lending operations. Other than deposits in overseas offices, and demand deposits in the International Group offices, all funding sources are considered to be domestic sources under the Company's global funding policy. All funds transferred internally to support international assets are valued at the actual cost of purchased funds.

The other assets category is reported net of the average allowance for loan losses which was, in millions, $97, $84, $73, $57 and $50 in 1978 thru 1974, respectively.

Interest differential & spread

Interest differential is the difference between interest income on a taxable-equivalent basis plus fees, and interest expense. Spread is a percentage rate 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 thereon. The Company's interest differential has grown to $637,200,000 in 1978 from $495,700,000 in 1977 and $416,600,000 in 1976.

Table 6 shows the changes in the components of the interest differential caused by changes in volume and changes in rates on a taxable-equivalent basis. Changes in the interest differential that are not solely due to volume or rate changes are allocated equally to volume and rate.

Despite significant increases in the rate components during 1978, a much greater increase in the interest differential arose from improved volume during both 1978 and 1977.

The Company's spread has shown continued improvements, rising to 4.50 percent during 1978, partially as a result of the strong demand for real estate and consumer loans. Graph L shows the improvement in spread during the past five years.

Domestic interest income has increased 36.6 percent from 1977 as a result of volume increases in all loan areas. The greatest volume increase in 1978 came from the consumer loan segment and in 1977 from real estate loans, when domestic interest income rose 18.6 percent.

Domestic interest expense rose 44.4 percent in 1978 and 14.1 percent in 1977, primarily as a result of increases in the rates paid on interest-bearing funding sources. Included in interest expense is the effect of the treasury certificate and 7¾% certificates, savings programs introduced in 1978. At December 31, 1978, the balances in these deposit categories had grown to approximately $351,000,000.

International interest income increased 40.8 percent in 1978 and 3.7 percent in 1977. The increase in 1978 arose primarily from higher yields, while in 1977 growth was attained through higher volumes.

L. Spread–annual

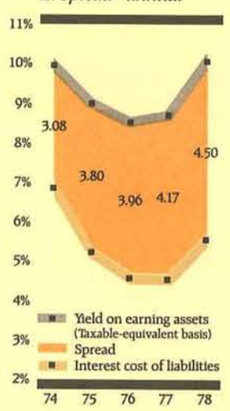


Table 6: Analysis of changes in interest differential (1)

	Year ended December 31.					
	1978 over 1977			1977 over 1976		
(In thousands)	Volume	Rate	Total	Volume	Rate	Total
DOMESTIC OPERATIONS:						
Increase (decrease) in interest and fee income:						
Investment securities:						
U.S. Treasury securities	$(24,022)	$ 2,320	$(21,702)	$ 14,359	$(4,304)	$ 10,055
Securities of other U.S. government agencies and corporations	1,950	447	2,397	(8,726)	18	(8,708)
Obligations of states and political subdivisions	15,032	2,525	17,557	14,672	(815)	13,857
Other securities	(1,962)	346	(1,616)	(815)	614	(201)
Trading account securities	(3,359)	1,107	(2,252)	766	263	1,029
Funds sold	4,059	3,387	7,446	2,571	362	2,933
Loans:						
Commercial loans	27,336	50,012	77,348	3,175	2,797	5,972
Real estate loans	83,539	21,739	105,278	43,686	12,362	56,048
Consumer loans	96,388	9,527	105,915	33,923	2,261	36,184
Fees and sundry interest	—	8,953	8,953	—	11,025	11,025
Lease financing	6,736	(2,761)	3,975	3,411	(1,907)	1,504
Total increase	205,697	97,602	303,299	107,022	22,676	129,698
Increase (decrease) in interest expense:						
Deposits:						
Savings deposits	(460)	760	300	27,678	—	27,678
Savings certificates	26,488	7,609	34,097	8,589	1,864	10,453
Certificates of deposit	50,315	40,349	90,664	(5,661)	(6,489)	(12,150)
Other time deposits	9,058	8,436	17,494	(169)	(2,139)	(2,308)
Borrowings:						
Funds borrowed	22,417	20,906	43,323	798	4,506	5,304
Commercial paper outstanding	2,671	5,064	7,735	1,721	18	1,739
Long-term debt	341	1,074	1,415	1,219	934	2,153
Funds transferred to international operations	2,005	(25,005)	(23,000)	7,823	7,036	14,859
Total increase	112,835	59,193	172,028	41,998	5,730	47,728
Increase in domestic differential	92,862	38,409	131,271	65,024	16,946	81,970
INTERNATIONAL OPERATIONS:						
Increase (decrease) in interest and fee income:						
Overseas deposits	3,189	7,721	10,910	(10,288)	(2,976)	(13,264)
International loans	26,359	44,084	70,443	26,148	(7,875)	18,273
Fees and sundry interest on loans	—	2,620	2,620	—	2,450	2,450
Total increase (decrease)	29,548	54,425	83,973	15,860	(8,401)	7,459
Increase (decrease) in interest expense:						
Deposits in overseas offices	25,916	24,793	50,709	20,342	4,886	25,228
Funds transferred from domestic operations	(2,005)	25,005	23,000	(7,823)	(7,036)	(14,859)
Total increase (decrease)	23,911	49,798	73,709	12,519	(2,150)	10,369
Increase (decrease) in international differential	5,637	4,627	10,264	3,341	(6,251)	(2,910)
Increase in domestic and international interest differential	$ 98,499	$43,036	$141,535	$ 68,365	$10,695	$ 79,060

(1) Prepared on a taxable-equivalent basis, see page 38 for discussion of this method of presentation.

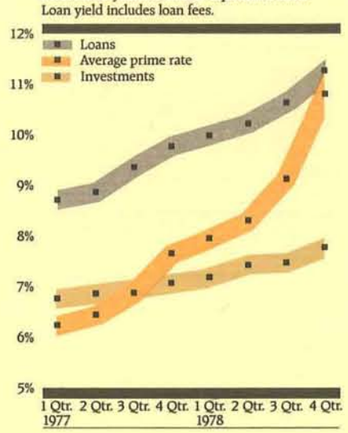
Consolidated loan fees and sundry loan related interest increased 21.7 percent in 1978 over 1977 and 33.8 percent in 1977 over 1976. The principal source of increase was real estate loan fees. Fees on 1-4 family residential loan originations represented approximately 39 percent of real estate loan fees. 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. The decrease in sundry interest from that recorded in 1977 reflects the decrease in non-accrual loans during the current year. Table 7 shows the income received on loan fees and sundry interest.

Table 7: Loan fees and sundry interest

(In thousands)	Year ended December 31, 1978	1977	1976
Loan fees:			
Real estate	$39,156	$28,892	$17,372
Commercial	11,088	8,733	10,860
Monthly payment	2,685	2,171	1,957
Credit card	5,902	4,162	3,523
Sundry interest	6,089	9,389	6,158
Total	$64,920	$53,347	$39,870

M. Selected asset yields

Investment yield on taxable-equivalent basis
Loan yield includes loan fees.



Asset-liability management

The Bank has an asset-liability management committee with the responsibility of setting long-range financial goals and determining the proper targets for the mix of the Bank's asset and liability portfolios. The management committee also reviews the asset-liability policies of the consolidated Company. In establishing these goals, management regularly considers asset growth along with other measures of return on assets, return on equity and competitive trends. The management also ensures that the Company is not overly dependent on any one source of funds or concentration of assets. This policy is intended to limit the effects of unexpected swings and fluctuations in interest rates, and minimize any major fluctuations in year-to-year earnings.

Liquidity, which represents the Bank's ability to meet possible fluctuations in deposit levels and to provide for customers' credit needs, is also an important focus of the asset-liability committee. Liquidity is managed through various borrowing strategies which reflect the structure of assets being funded. This is augmented by normal payments from real estate and consumer loans, which provide a source of funds to the Bank and by the relatively short maturity structure of the investment portfolio. Table 8 shows the maturities profile of the investment portfolio. Approximately 25 percent of the investment portfolio matures during 1979.

Table 8: Maturities and yields (taxable-equivalent basis) as of December 31, 1978

(Dollars 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	$ 618,979	1-9	$297,410	6.2%	$ 291,761	7.5%	$ 29,808	8.4%	$ —	
Other U.S. government agencies	400,130	3-10	113,636	8.6	230,032	7.9	35,000	8.8	21,462	7.3%
States and political subdivisions	738,638	5-2	35,322	8.9	446,568	8.9	170,986	9.4	85,762	9.1
Other bonds, notes and debentures	54,471	2-3	9,396	8.8	45,031	7.6	44	12.4	—	—
Total	1,812,218		$455,764		$1,013,392		$235,838		$107,224	
Stocks	13,210									
	$1,825,428									
MARKET VALUE:										
Investments with maturities	$1,708,556		$449,787		$ 963,265		$212,638		$ 82,866	
Stocks	13,469									
Total	$1,722,025									

The Bank 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, 1978	1977
Three months or less	$1,780,644	$1,235,588
Over three through six months	1,262,515	529,334
Over six months through twelve months	226,177	124,476
Over twelve months	182,946	143,088

Other income

Other income increased 12.6 percent in 1978 over 1977 primarily from growth in the Company's domestic activity. The growth of 31.6 percent in 1977 over 1976 was largely attributable to losses in 1976 of Allgemeine Deutsche Credit-Ansalt (ADCA), (shown in equity investment income (loss)) an investment accounted for on the equity method. Table 9 shows the major components of other income.

Table 9: Breakdown of other income

(In thousands)	Year ended December 31, 1978	1977	1976
Service charges on deposit accounts	$ 27,792	$25,511	$24,254
Trust income	24,107	21,635	19,649
International commissions, syndication fees and foreign exchange	13,107	13,439	14,847
Service fees	13,077	11,582	8,562
Domestic commissions	6,003	5,107	4,168
Equity investment income (loss)	3,547	4,803	(14,327)
Escrow fees	3,025	2,511	2,099
Trading account profits (losses) and commissions	1,538	(268)	1,690
All other	9,921	6,355	7,975
Total	$102,117	$90,675	$68,917

Trust income increased 11.4 percent in 1978 over 1977, and 10.0 percent in 1977 over 1976. Trust income includes income from the corporate agency function. The increase in trust income in 1978 was largely due to increased employee benefit trust business and other forms of growth in volume. The growth in 1977 was largely due to increases in court approved fees, as well as pension trust income.

Equity investment income declined 26.2 percent in 1978 compared to 1977, primarily as a result of the sale in 1977 of five minority-owned investments which resulted in gains in that year. In 1978, the Bank's investment in Banco de America, a Nicaraguan company, was written down $700,000 to net book value.

Trading profits and commissions increased markedly in 1978 over 1977, primarily as a result of concentration of activity in money market instruments.

Other expense

Other expense increased 24.5 percent in 1978 and 20.7 percent in 1977. Percentage increases in the major components of other expense, shown in Table 10 were fairly evenly distributed, primarily as a result of the effects of inflation and as a result of growth in the business of the Company in 1978 and 1977. During 1978, the Company purchased eight branches from Bank of California and acquired 11 branches from the First National Bank of Orange County. The total number of domestic branches increased by 27 in 1978 and six in 1977.

Table 10: Breakdown of other expense

(In thousands)	Year ended December 31, 1978	1977	1976
Salaries	$203,708	$168,085	$145,746
Employee benefits	49,986	41,028	32,126
Net occupancy expense	39,623	36,445	33,336
Equipment expense	26,210	20,649	19,234
Postage, stationery and supplies	23,990	20,407	16,360
Telephone and telegraph	12,059	10,061	7,953
Outside data processing expense	14,309	9,260	5,206
Travel and entertainment	10,089	8,140	6,698
Professional services	8,876	6,385	6,238
Advertising	8,488	7,599	5,932
Federal deposit insurance	4,262	3,711	3,395
Protection	3,729	2,945	2,802
All other	43,406	25,823	13,733
Total	$448,735	$360,538	$298,759

Salaries and employee benefits increased 21.3 percent in 1978 compared to 17.6 percent in 1977. In addition to a 15.3 percent growth for 1978 in the number of employees required to staff the Company's expanded activities, the increases were principally due to increased employer taxes, extended health benefits, and higher cost of employee incentive plans.

Outside data processing expense increased 54.5 percent in 1978 and 77.9 percent in 1977. This reflects the increased volume of consumer loan transactions, such as VISA and Master Charge, which involve processing by outside service bureaus.

The 1978 increase in the all other expense category is due in part to a donation of $2,000,000, which established the Wells Fargo Foundation, and a $1,000,000 increase in other real estate owned write-downs. An increase of $4,000,000 is attributable to insurance which covers credit losses incurred during the first two years of certain long-term non-recourse monthly payment loans purchased from auto dealers. Operating losses increased during the year, due in part to two incidents of improper use of commercial deposit accounts by business customers not affiliated with the Company, amounting to approximately $3,600,000. Credit card operating losses increased as a result of the increased volume of activity processed and as a result of operating problems arising from the conversion to a new descriptive billing system.

The 1977 increase in all other expense was due in part to accelerated growth of the Company and the increased cost of doing business. It is also attributable to specific increases, such as the cost of purchasing monthly payment loans from dealers of $3,600,000 (such cost is deferred and amortized starting in 1978), 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.

Taxes

The Company is subject to a significant tax burden at the federal, state and local levels. During 1978, the Company incurred $18,668,000 in taxes based on salaries, property values and other miscellaneous taxes, in addition to income taxes of $85,618,000. This represents a total tax burden of 48.6 percent on earnings. The growth in employer taxes on salaries was the major source of increase in taxes other than income taxes in 1978.

During 1978, California voters mandated a reduction in property taxes effective July 1, 1978. The Company reinvested in the community the $1,200,000 representing estimated tax savings for the last half of 1978. This expenditure is in addition to the taxes indicated above.

N. Average loans

Securities losses

The gains or losses, net of income tax effect, arising from the sales of investment securities are shown separately in the consolidated six-year summary of operations, and in the consolidated statement of income. Losses in 1978, net of tax, increased $4,715,000 over 1977, while losses in 1977 exceeded 1976's small gain by $1,060,000. Rising interest rates during 1978 and 1977 caused a decline in value of fixed income securities in the investment portfolio. The Company has taken the opportunity to dispose of relatively low-yielding bonds and replacing them with ones of a higher yield. The benefits of the higher yields will be reflected in interest income over the period the securities are held, and will more than compensate for the net losses realized on sale.

Loan portfolio

The loan portfolio experienced growth in all major categories in 1978 with total loans increasing 26.1 percent over year-end 1977. In 1977, the total loan portfolio increased 20.9 percent.

Loan growth trends in 1978 were similar to those experienced in 1977. Construction loans at year-end 1978 were 37.1 percent greater than year-end 1977. The year-end 1977 balance was 55.2 percent greater than year-end 1976. Year-end balances of loans collateralized by 1-4 family residences increased 34.2 percent in 1978 and 26.4 percent in 1977, and similarly, monthly payment loans were up 54.5 percent in 1978 and 42.6 percent in 1977.

The growth in the construction, 1-4 family residence and consumer loan categories contributed significantly to the 1978 increase in interest income. Construction loans have a relatively short maturity and their rates move with money market rates. Consumer loans and single-family residence loans have longer maturities. Consumer loans provide liquidity to the portfolio due to the significant cash inflow from monthly payments from customers and have relatively predictable credit losses. Single-family residence loans have historically shown practically no losses. The majority of such new loans have a variable rate feature.

Commercial loans and international loans at year-end 1978 increased 18.8 percent and 4.6 percent, respectively, over balances at year-end 1977, and the 1977 year-end balances increased 7.1 percent and 11.0 percent over year-end 1976.

Table 11 provides a more detailed breakdown of the various components of the loan portfolio.

Table 11: Analysis of loan portfolio

	December 31, 1978									
		Over one year through five years		Over five years						
(In thousands)	One year or less	Predetermined rate	Floating rate	Predetermined rate	Floating rate	Total	1977	1976	1975	December 31, 1974
SELECTED LOAN MATURITIES:										
Real estate loans (excluding loans secured by 1-4 family residential properties)	$ 662,472	$145,138	$ 184,612	$458,069	$ 91,176	$ 1,541,467	$1,134,382	$ 850,366	$ 733,975	$ 703,242
REITs and mortgage companies (1)	237,272	17,575	21,556	5,113	—	281,516	283,640	219,405	181,232	339,044
All other financial institutions	133,231	38,978	18,671	16,556	4,664	212,100	151,717	214,387	256,437	379,149
Loans for purchasing and carrying securities	297,896	496	17,189	6,200	7,804	329,585	269,429	163,368	146,871	89,696
Loans to farmers	165,591	4,991	16,412	876	880	188,750	171,899	174,945	135,778	137,518
Other commercial	1,282,514	200,038	332,035	113,717	112,564	2,040,868	1,693,074	1,627,784	1,717,243	1,902,124
Total commercial	2,116,504	262,078	405,863	142,462	125,912	3,052,819	2,569,759	2,399,889	2,437,561	2,847,531
Loans attributable to international operations, including loans domiciled in domestic offices	1,041,194	16,122	1,206,070	14,815	226,555	2,504,756	2,394,605	2,156,649	1,669,572	1,571,409
Total selected loan maturities	$3,820,170	$423,338	$1,796,545	$615,346	$443,643	7,099,042	6,098,746	5,406,904	4,841,108	5,122,182
OTHER LOAN CATEGORIES:										
Secured by 1-4 family residential properties						2,885,148	2,149,515	1,700,865	1,527,920	1,528,958
Monthly payment loans						2,376,389	1,567,707	1,099,351	1,039,234	995,463
Credit card						535,090	414,171	251,524	212,049	175,768
Total loans						$12,895,669	$10,230,139	$8,458,644	$7,620,311	$7,822,371

(1) At December 31, 1976, 1975, 1974 loans to domestic REITs amounting to approximately $4,000,000, $30,000,000 and $30,500,000, respectively, were included in international operations.

Loan portfolio management

The object of loan portfolio management is to ensure that loans are granted on a sound basis, that bank funds are properly invested for the benefit of the shareholder and the protection of the depositor, and that the Company serves the legitimate needs of its community. Significant management activities include planning for volumes and mixes, measuring portfolio performance, setting credit policies and providing adequate training to ensure that the loan portfolio objectives are properly executed by lending personnel.

During 1978, significant volume increases in consumer and 1-4 family real estate loans were planned and realized. This resulted in a shift in portfolio mix toward the California consumer, and contributed significantly to the 1978 increase in interest and fee income. Coupled with this shift in loan mix will be an expected increase in the number of consumer loan delinquencies and loan losses. These are viewed as a cost of doing business, which is justified by the higher yields received in this type of lending.

The Company's credit policies are designed to ensure that new loans are of high quality. These policies were maintained during the year. Training activities continued with particular emphasis on upgrading skill levels of senior lending personnel to keep pace with changes in the lending environment. The Company's system of analyzing country credit-worthiness in the international portfolio was further strengthened by additions to professional staff and the implementation of new analytical methods.

As a policy matter, the Company restricts commercial loan concentrations within the portfolio and attempts to minimize risk through diversification. At December 31, 1978, loans to REITs remained a problem industry concentration. Over the last few years, exposure in this industry has been greatly reduced as a result of loan charge-offs, the acquisition of property through foreclosure, and an improvement in the real estate economy. Total loans to REITs have declined from approximately $110,000,000 at December 31, 1977 to approximately $71,000,000 at the end of 1978. Total REIT commitments have shown a similar pattern, declining from approximately $254,000,000 at December 31, 1977, to approximately $191,000,000 at December 31, 1978.

From time to time, certain foreign countries experience difficulties in meeting established repayment programs due to economic or political conditions. While the outcome of economic and political difficulties in foreign countries cannot be predicted with any certainty, the Company does not believe that there will ultimately be any substantial loss of principal from such foreign loans. However, temporary balance of payment difficulties, together with inadequate foreign exchange reserves and other factors, may require rescheduling of certain foreign loans.

The Company's foreign loans and acceptances at December 31, 1978, were spread among 97 countries. Such loans and acceptances in any country did not exceed 2.1 percent of total assets.

Table 12 provides a breakdown of international loans based upon 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, 1978		December 31, 1977	
	Amount	Percent	Amount	Percent
Major industrialized (per capita income in excess of $2,000)	$1,098	37.5%	$1,045	37.8%
Other developed (per capita income $750 to $2,000)	957	32.7	970	35.0
Oil exporting	376	12.9	406	14.7
Developing:				
Higher income (per capita income between $375 to $750)	315	10.8	210	7.6
Middle income (per capita income between $200 to $375)	161	5.5	133	4.8
Lower income (per capita income less than $200)	18	.6	3	.1
	$2,925	100.0%	$2,767	100.0%

Non-earning & partially earning assets

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 as unsatisfactory by the internal loan examiners. As an additional requirement, any loan which has been delinquent for 90 days or more is automatically placed on non-accrual status. Any exception to this policy requires explicit approval of senior management.

When an account is placed on a non-accrual status, any accrued interest outstanding is reversed against income. Subsequent interest receipts 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. 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.

Management's classification of a loan as renegotiated or non-accrual does not necessarily mean that the loan principal will not be ultimately collected. 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.

In cases where borrowers are experiencing financial difficulties, but where collectibility of principal appears probable, loans may be renegotiated to provide rates significantly below the original contractual rates. Loans of this type to customers owing more than $500,000 are classified as renegotiated and interest is accrued at the reduced contractual rate. If, after renegotiation, doubt arises 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 13 presents comparative data for non-accrual and renegotiated loans by category. Non-accrual loans and renegotiated loans were 25.7 percent and 38.6 percent lower, respectively at December 31, 1978 than at December 31, 1977. The reduction in non-accrual loans occurred through: (1) payments which brought the loan current or paid in full ($19,127,000), (2) charge-offs ($13,841,000) and (3) swaps with REITs or foreclosures ($4,254,000).

Table 13: Non-earning and partially earning loans

(In millions)	1978 Non-accrual loans	1978 Renegotiated loans(1)	1977 Non-accrual loans	1977 Renegotiated loans(1)	1976 Non-accrual loans	1976 Renegotiated loans(1)	December 31, 1975 Non-accrual loans	1975 Renegotiated loans(1)
Real estate loans	$ 31.5	$ 4.5	$ 18.5	$14.2	$ 34.0	$14.0	$ 45.5	$ –
Commercial loans:								
REITs and mortgage companies	31.7	11.2	48.7	25.3	57.3	66.1	55.4	16.0
Other	48.9	10.7	84.2	3.5	105.4	9.9	101.2	–
Consumer loans	4.2	–	2.7	–	6.6	–	1.0	–
International loans	9.2	–	14.9	–	25.5	–	27.7	–
Total	$125.5	$26.4	$169.0	$43.0	$228.8	$90.0	$230.8	$16.0

(1) Loans over $500,000 in amount and with interest rate reduced significantly. Information prior to 1975 is not available.

Loans contractually past due 60 days or more as to interest or principal, excluding non-accrual and renegotiated loans, along with the percentage relationship to the respective loan amounts outstanding were as follows:

(In millions)	1978 Amount	1978 Percent	1977 Amount	1977 Percent	December 31, 1976 Amount	1976 Percent
Real estate loans	$26.7	.6%	$17.5	.5%	$33.7	1.3%
Commercial loans:						
REITs and mortgage companies	–	–	–	–	1.7	.8
Other	14.6	.5	5.7	.2	39.9	1.8
Consumer loans	29.9	1.3	12.7	.6	8.3	.6
International loans	1.1	–	.4	–	1.0	–
	$72.3	.6	$36.3	.4	$84.6	1.0

Information prior to 1976 is not available.

Other real estate owned represents real estate acquired in satisfaction of loans due from borrowers. Other real estate owned decreased $17,456,000 from $44,291,000 at December 31, 1977, to $26,835,000 at December 31, 1978. This reduction came about through the intensive efforts of the Bank's special properties department to find suitable buyers for such properties.

Charge-off policies

The Company has charge-off policies which are being followed throughout the Company. Consumer loans, except for credit card accounts, are 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. It is also the Company's policy to charge off any loan which is classified as a loss by the Company's internal loan examiners.

During 1978, net charge-offs were $31,373,000 as compared to $31,578,000 during 1977. As a percentage of average loans outstanding, the net charge-offs were .28 percent in 1978 and .35 percent in 1977. In comparing 1978 and 1977, net charge-offs by loan category varied significantly. Commercial and real estate loan net charge-offs were significantly lower in 1978. International and credit card net charge-offs were higher. Monthly payment loan net charge-offs remained at approximately the same level.

Table 14 provides a breakdown of loan losses and recoveries over the last five years by loan type.

Table 14: Net charge-offs by loan category

(In thousands)	Real estate: Residential	Real estate: Other	Commercial: REITs and mortgage companies(1)	Commercial: Other	Consumer: Monthly payment	Consumer: Credit card	Consumer: International(2)	Total
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 percent 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 percent 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 percent 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 percent of total	—	12.5%	24.6%	25.7%	20.0%	15.0%	2.2%	100%
1978:								
Loan charge-offs	$ 5	$ 234	$6,881	$ 9,081	$8,438	$10,146	$6,849	$41,634
Loan recoveries	—	507	—	5,088	1,916	1,405	1,345	10,261
Net charge-offs	$ 5	$ (273)	$6,881	$ 3,993	$6,522	$ 8,741	$5,504	$31,373
Net charge-offs as a percent of total	—	(.9)%	21.9%	12.7%	20.8%	27.9%	17.6%	100%

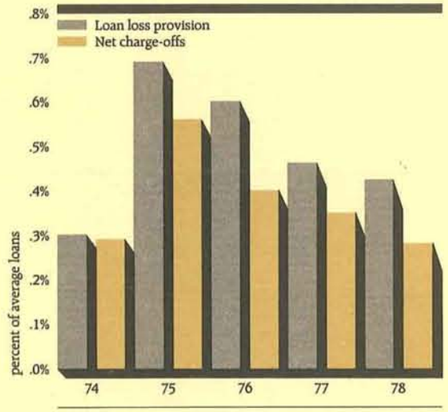
(1) All charge-offs were loans to REITs.
(2) Includes charge-offs for loans to REITs of $1,170,000 in 1976 and $4,600,000 in 1975.

Allowance for loan losses

The allowance for loan losses is increased in two ways: (1) by adding to the allowance the amount of the provision for loan losses which has been charged against earnings; and (2) by adding amounts recovered on previously charged off loans. The allowance is reduced when loan amounts deemed to be uncollectible are charged against it. The provision for loan losses in 1978 was $47,537,000 compared to $41,028,000 in 1977. The amount of the provision is dependent upon the amount required to maintain the allowance for loan losses at an adequate level after net charge-offs.

Table 15 provides data concerning changes in the allowance for loan losses over the last five years and related ratios for those years. Management believes that the allowance for loan losses as a percentage of total loans, excluding real estate loans secured by 1-4 family residential properties, is the most relevant ratio. Losses in the 1-4 family category have been minimal during the past several years ($5,000 charged off in 1978) and it is therefore not necessary to maintain a significant allowance against 1-4 family real estate loans.

O. Loan loss provision vs. net charge-offs



P. Ratio of allowance for loan losses to year-end loans

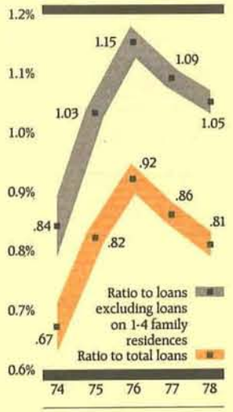


Table 15: Changes in the allowance for loan losses

(Dollars in thousands)	1978	1977	1976	1975	1974
	Year ended December 31,				
Balance at beginning of year	$ 86,185	$ 76,735	$ 61,665	$ 52,119	$ 48,681
Additions:					
Charged to expense	47,537	41,028	46,379	50,429	21,864
Allowances of acquired banks and other items	—	—	—	—	2,640
Total additions	47,537	41,028	46,379	50,429	24,504
Deductions:					
Loans charged off	41,634	40,554	41,151	50,927	26,853
Less recoveries on loans charged off	10,261	8,976	9,842	10,044	5,787
Net deductions	31,373	31,578	31,309	40,883	21,066
Balance at end of year	$ 102,349	$ 86,185	$ 76,735	$ 61,665	$ 52,119
Total loans at end of year, net of unearned discount	$12,645,257	$10,094,976	$8,366,732	$7,522,845	$7,726,624
Average loans for the year	$11,330,000	$ 8,956,000	$7,764,000	$7,337,000	$7,179,000
Allowance for loan losses as a percentage of total loans at end of year	.81%	.86%	.92%	.82%	.67%
Allowance for loan losses as a percentage of total loans at end of year, exclusive of 1-4 family residential properties	1.05%	1.09%	1.15%	1.03%	.84%
Allowance for loan losses as a percentage of average loans for the year	.90%	.96%	.99%	.84%	.73%
Net charge-offs as a percentage of average loans outstanding	.28%	.35%	.40%	.56%	.29%

*Table 16: Allocation of the allowance for loan losses**

(In thousands)	December 31, 1978 Loans outstanding	December 31, 1978 Allocation of the allowance for loan losses	December 31, 1977 Loans outstanding	December 31, 1977 Allocation of the allowance for loan losses	December 31, 1976 Loans outstanding	December 31, 1976 Allocation of the allowance for loan losses
Real estate loans:						
Secured by 1-4 family residential properties	$ 2,885,148	$ 100	$ 2,149,515	$ 100	$1,700,865	$ –
Other	1,541,467	8,462	1,134,382	2,800	850,366	4,000
Commercial loans:						
REITs and mortgage companies	281,516	6,350	283,640	15,700	219,405	23,000
Other	2,771,303	30,784	2,286,119	16,900	2,180,484	17,000
Consumer loans:						
Monthly payment loans	2,319,230	14,741	1,525,017	5,800	1,084,793	5,000
Credit card	592,249	15,016	456,861	5,400	266,082	7,000
International loans	2,504,756	19,950	2,394,605	16,700	2,156,649	10,000
Unallocated portion of the allowance for loan losses	–	6,946	–	22,785	–	10,735
Total	$12,895,669	$102,349	$10,230,139	$86,185	$8,458,644	$76,735

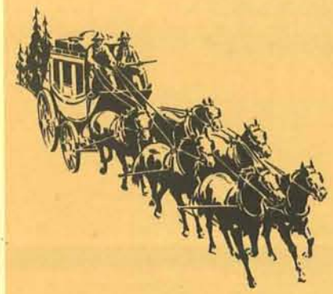
*Information prior to 1976 is not available.

On a quarterly basis, management compares loans previously classified by internal loan examiners as to quality to subsequent net losses (charge-offs less recoveries) and computes a loan loss experience factor for each quality classification. These loss experience factors are then applied to the current loan quality classifications for the portfolio. In addition, all classified loans, all non-accrual loans in excess of $100,000 and all renegotiated loans are reviewed in detail. Losses on these loans are then estimated and combined with the estimated net losses derived from the experience factors.

By following the above procedure, amounts are then allocated to each specific loan category, as required by the Securities and Exchange Commission. This methodology provides consistent allocation of the allowance from period to period. Table 16 provides a breakdown of the loan portfolio and the amount of the allowance that has been allocated to each loan category. The remaining unallocated portion of the allowance is evaluated in light of portfolio growth, portfolio concentrations, lending policies, delinquency trends and general economic trends, as part of the overall evaluation of the adequacy of the allowance.

Although management allocates the allowance for loan losses to specific loan categories, the adequacy of the allowance must be considered in its entirety. A major concern of management is that the allowance for loan losses adequately provides for probable future losses. At any given date, the amount of the allowance for loan losses will be less than the total of 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 probable future loan losses.

Management considers the allowance for loan losses of $102,349,000 at December 31, 1978, adequate to cover probable losses on the loans outstanding as of that date. It must be emphasized, however, that the determination of the allowance for 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 allowance for loan losses.



Financial Statements & Notes

Consolidated balance sheet

Wells Fargo & Company and Subsidiaries

Assets

(In thousands)	December 31, 1978	1977 (Restated)
Cash and due from banks	$ 2,119,702	$ 1,654,141
Overseas deposits	549,866	458,313
Investment securities, at cost (market value $1,722,025 and $1,879,637 at December 31, 1978 and 1977, respectively)	1,825,428	1,919,446
Trading account securities	35,994	14,846
Funds sold	93,900	168,600
Loans:		
Commercial loans	3,052,819	2,569,759
Real estate construction loans	787,411	574,405
Real estate mortgage loans	3,639,204	2,709,492
Consumer loans	2,911,479	1,981,878
International loans	2,504,756	2,394,605
Total loans	12,895,669	10,230,139
Less: Allowance for loan losses	(102,349)	(86,185)
Unearned discount	(250,412)	(135,163)
Total net loans	12,542,908	10,008,791
Lease financing	420,815	313,805
Premises and equipment, net	227,947	202,764
Due from customers on acceptances	420,103	372,835
Accrued interest receivable	186,266	136,344
Other assets	188,507	171,886
Total assets	$18,611,436	$15,421,771

The accompanying notes are an integral part of these statements.

Liabilities and stockholders' equity

(In thousands)	December 31, 1978	1977 (Restated)
Deposits:		
Demand deposits	$ 3,996,618	$ 3,536,899
Savings deposits	3,459,393	3,585,643
Savings certificates	2,204,363	1,635,215
Certificates of deposit	2,956,675	1,827,170
Other time deposits	614,539	424,592
Deposits in overseas offices	1,587,083	1,468,003
Total deposits	14,818,671	12,477,522
Short-term borrowings:		
Federal funds borrowed and repurchase agreements	1,034,955	759,370
Commercial paper outstanding	251,973	178,411
Other	386,347	221,586
Total short-term borrowings	1,673,275	1,159,367
Acceptances outstanding	421,584	373,022
Accrued taxes and other expenses	284,768	177,305
4½% Capital notes of Wells Fargo Bank, N.A. due 1989	50,000	50,000
3¼% Convertible capital notes, due 1989	4,881	10,065
Debentures, notes and mortgages	256,388	258,986
Obligations under capital leases	76,491	77,675
Other liabilities	282,776	180,294
Total liabilities	17,868,834	14,764,236
Stockholders' equity:		
Common stock — $5 par value, authorized 30,000,000 shares, outstanding 22,543,046 shares and 22,316,305 shares at December 31, 1978 and 1977, respectively	112,715	111,581
Additional paid-in capital	239,546	234,292
Retained earnings	390,341	311,662
Total stockholders' equity	742,602	657,535
Total liabilities and stockholders' equity	$18,611,436	$15,421,771

The accompanying notes are an integral part of these statements.

Consolidated statement of income

Wells Fargo & Company and Subsidiaries

(In thousands, except per share)	Year ended December 31, 1978	1977 (Restated)
INTEREST INCOME:		
Interest and fees on loans	$1,193,972	$ 823,415
Interest on investment securities:		
Taxable	72,604	93,525
Exempt from federal income taxes	30,752	22,504
Total interest on investment securities	103,356	116,029
Interest on trading account securities	2,143	4,419
Other interest income	49,179	30,823
Lease financing	37,592	32,889
Total interest income	1,386,242	1,007,575
INTEREST EXPENSE:		
Interest on deposits	656,997	463,733
Interest on short-term borrowings	104,002	52,944
Interest on long-term debt	22,647	21,232
Total interest expense	783,646	537,909
Net interest income	602,596	469,666
Provision for loan losses	47,537	41,028
Net interest income after provision for loan losses	555,059	428,638
OTHER INCOME:		
Trust income	24,107	21,635
Service charges on deposit accounts	27,792	25,511
International commissions, syndication fees and foreign exchange	13,107	13,439
Service fees	13,077	11,582
Other	24,034	18,508
Total other income	102,117	90,675
OTHER EXPENSE:		
Salaries	203,708	168,085
Employee benefits	49,986	41,028
Net occupancy expense	39,623	36,445
Equipment expense	26,210	20,649
Other	129,208	94,331
Total other expense	448,735	360,538
Income before income taxes and securities transactions	208,441	158,775
Less applicable income taxes	92,560	72,394
INCOME BEFORE SECURITIES TRANSACTIONS	115,881	86,381
Securities losses, net of income tax effect of $(6,942) in 1978 and $(1,233) in 1977	(5,735)	(1,020)
NET INCOME	$ 110,146	$ 85,361
PER SHARE (based on average number of common shares outstanding):		
Income before securities transactions	$5.16	$3.99
Securities transactions, net of income tax effect	(.25)	(.05)
Net income	$4.91	$3.94

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, 1978 Financial resources Provided from	Used for	Year ended December 31, 1977 (Restated) Financial resources Provided from	Used for
Net income	$ 110,146		$ 85,361	
Non-cash items included in net income:				
Provision for loan losses	47,537		41,028	
Provision for deferred income taxes	1,174		25,112	
Provision for depreciation and amortization	16,666		14,827	
Provided from operations	175,523		166,328	
Sale of 2,000,000 shares of common stock			51,885	
Conversion of 3¼% convertible capital notes	5,181		4,523	
Common stock issued under stock option plan	1,207		95	
Cash dividends		$ 31,467		$ 24,388
Operations and equity	181,911	31,467	222,831	24,388
Investment securities	94,018			192,726
Trading account securities		21,148	51,294	
Funds sold	74,700			60,150
Net loans		2,581,654		1,759,822
Lease financing		107,010		34,395
Earning assets	168,718	2,709,812	51,294	2,047,093
Total deposits	2,341,149		2,031,069	
Total short-term borrowings	513,908		1,111	
3¼% Convertible capital notes		5,184		4,524
Debentures, notes, and mortgages		2,598	50,630	
Deposits and borrowings	2,855,057	7,782	2,082,810	4,524
Cash and due from banks		465,561		305,957
Net additions to premises and equipment		41,849		15,998
Other assets		16,621	6,716	
Other liabilities	102,482		37,222	
Other, net		35,076		2,913
Other	102,482	559,107	43,938	324,868
Total	$3,308,168	$3,308,168	$2,400,873	$2,400,873

Statement of stockholders' equity

(In thousands)	*Wells Fargo & Company (Parent)* Common stock	*Wells Fargo & Company and Subsidiaries* Additional paid-in capital	Retained earnings	Total stockholders' equity
BALANCE DECEMBER 31, 1976:				
As previously reported	$100,791	$188,579	$256,492	$545,862
Adjustment			(5,803)	(5,803)
As restated	100,791	188,579	250,689	540,059
Sale of 2,000,000 shares of common stock	10,000	41,885		51,885
Net income — 1977			85,361	85,361
Conversion of convertible notes	767	3,756		4,523
Stock issued under stock option plan	23	72		95
Cash dividends declared			(24,388)	(24,388)
Net increase	10,790	45,713	60,973	117,476
BALANCE DECEMBER 31, 1977	111,581	234,292	311,662	657,535
Net income — 1978			110,146	110,146
Conversion of convertible notes	878	4,303		5,181
Stock issued under stock option plans and other	256	951		1,207
Cash dividends declared			(31,467)	(31,467)
Net increase	1,134	5,254	78,679	85,067
BALANCE DECEMBER 31, 1978	$112,715	$239,546	$390,341	$742,602

The accompanying notes are an integral part of these statements.

Consolidated statement of condition

Wells Fargo Bank, NA. and Subsidiaries

(In thousands)	1978	December 31, 1977 (Restated)	Change
Assets			
Cash and due from banks	$ 2,123,958	$ 1,649,334	$ 474,624
Overseas deposits	549,866	458,313	91,553
Investment securities:			
U.S. Treasury securities	618,681	881,081	(262,400)
Securities of other U.S. government agencies and corporations	400,130	199,318	200,812
Obligations of states and political subdivisions	738,638	738,813	(175)
Other securities	62,903	88,278	(25,375)
Total investment securities	1,820,352	1,907,490	(87,138)
Trading account securities	35,994	14,846	21,148
Funds sold	81,900	168,600	(86,700)
Loans (net of allowance for loan losses and unearned discount)	12,225,112	9,715,728	2,509,384
Lease financing	219,629	147,860	71,769
Premises and equipment, net	153,475	133,506	19,969
Leased assets under capital leases, net	64,378	67,050	(2,672)
Due from customers on acceptances	420,103	372,835	47,268
Accrued interest receivable	182,033	133,840	48,193
Other assets	143,164	138,271	4,893
Total assets	$18,019,964	$14,907,673	$3,112,291
Liabilities and stockholder's equity			
Demand deposits	$ 4,001,943	$ 3,543,141	$ 458,802
Savings deposits	3,459,563	3,585,808	(126,245)
Savings certificates	2,204,363	1,635,215	569,148
Certificates of deposit	2,956,675	1,827,420	1,129,255
Other time deposits	614,539	424,592	189,947
Deposits in overseas offices	1,587,083	1,468,003	119,080
Total deposits	14,824,166	12,484,179	2,339,987
Funds borrowed	1,360,739	897,189	463,550
Long-term debt	41,957	44,556	(2,599)
Obligations under capital leases	76,491	77,675	(1,184)
Acceptances outstanding	421,584	373,022	48,562
Accrued taxes and other expenses	245,052	142,756	102,296
Other liabilities	268,915	166,086	102,829
Total liabilities (excluding subordinated notes)	17,238,904	14,185,463	3,053,441
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	–
Stockholder's equity:			
Capital stock	94,461	94,461	–
Surplus	305,220	300,036	5,184
Surplus representing convertible capital note obligation assumed by parent	4,881	10,065	(5,184)
Undivided profits	301,498	242,648	58,850
Total stockholder's equity	706,060	647,210	58,850
Total liabilities and stockholder's equity	$18,019,964	$14,907,673	$3,112,291

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)

(In thousands)	1978	December 31, 1977 (Restated)
Assets		
Cash	$ 6,359	$ 5,291
Security repurchase agreement	10,087	
Marketable securities	2,365	2,070
Commercial paper purchased – at cost (approximates market)		9,810
Dividends receivable from Wells Fargo Bank, N.A.	8,688	6,894
Short-term advances to subsidiaries	331,113	258,375
Loans to subsidiaries	91,800	91,800
Investments in common stock of principal subsidiaries:		
Bank subsidiary	729,378	658,520
Other subsidiaries	68,041	60,963
Investment in affiliate	637	575
Loan to affiliate	1,300	
Accrued interest receivable from subsidiaries and affiliate	2,677	3,110
Other assets	4,821	7,521
Total assets	$1,257,266	$1,104,929
Liabilities and stockholders' equity		
Demand notes payable	$ 44,404	$ 46,652
Commercial paper outstanding	249,085	179,961
Accrued expenses and other liabilities	460	1,327
Interest payable	5,244	3,640
Dividends payable	7,890	6,249
7½% Notes due 1979	20,000	20,000
8% Notes due 1980	6,700	4,500
8¾% Notes due 1981	1,000	
7⅞% Sinking fund debentures due 1997	75,000	75,000
8⅛% Notes due 1998	50,000	50,000
8.60% Debentures due 2002	50,000	50,000
3¼% Convertible capital notes due 1989	4,881	10,065
Total liabilities	514,664	447,394
Stockholders' equity:		
Common stock – $5 par value, authorized 30,000,000 shares, outstanding 22,543,046 shares and 22,316,305 shares at December 31, 1978 and 1977, respectively	112,715	111,581
Additional paid-in capital	239,546	234,292
Retained earnings	390,341	311,662
Total stockholders' equity	742,602	657,535
Total liabilities and stockholders' equity	$1,257,266	$1,104,929

The accompanying notes are an integral part of these statements.

Statement of income

Wells Fargo & Company (Parent)

(In thousands, except per share data)	Year ended December 31, 1978	1977 (Restated)
INCOME:		
Dividends from subsidiaries:		
Wells Fargo Bank, N.A.	$ 34,752	$27,576
Finance subsidiaries	3,589	
Interest income:		
From subsidiaries	32,763	21,517
From others	223	654
Other income	200	(15)
Total income	71,527	49,732
EXPENSE:		
Salaries and employee benefits	571	407
Interest expense	37,161	26,987
Other expense	2,632	1,266
Total expense	40,364	28,660
Income before income tax benefit and undistributed income and securities transactions of subsidiaries	31,163	21,072
Income tax benefit	3,841	3,417
Income before undistributed income and securities transactions of subsidiaries	35,004	24,489
Equity in undistributed income of subsidiaries:		
Wells Fargo Bank, N.A.	76,513	53,270
Other subsidiaries	4,364	8,622
Total equity in undistributed income of subsidiaries	80,877	61,892
INCOME BEFORE SECURITIES TRANSACTIONS	115,881	86,381
Securities losses of Wells Fargo Bank, N.A., net of income tax effect of $(6,942) in 1978 and $(1,233) in 1977	(5,735)	(1,020)
NET INCOME	$110,146	$85,361
PER SHARE (based on average number of common shares outstanding):		
Income before securities transactions	$5.16	$3.99
Securities transactions, net of income tax effect	(.25)	(.05)
Net income	$4.91	$3.94

The accompanying notes are an integral part of these statements.

Statement of changes in financial position

Wells Fargo & Company (Parent)

(In thousands)	Year ended December 31, 1978 Financial resources: Provided from	Used for	Year ended December 31, 1977 (Restated) Financial resources: Provided from	Used for
Net income	$110,146		$ 85,361	
Equity in undistributed net income of subsidiaries	(75,142)		(60,872)	
Provided from operations	35,004		24,489	
Sale of 2,000,000 shares of common stock			51,885	
Conversion of 3¼% convertible capital notes	5,181		4,523	
Common stock issued under stock option plan	1,207		95	
Cash dividends declared		$ 31,467		$ 24,388
Capital contributions to subsidiaries, net		2,794		52,000
Operations, equity and contributions	41,392	34,261	80,992	76,388
Demand notes payable		2,248	4,772	
Commercial paper outstanding	69,124			12,469
8% Notes due 1980	2,200		4,500	
8¼% Notes due 1981	1,000			
8.6% Debentures due 2002			50,000	
3¼% Convertible capital notes		5,184		4,524
Borrowings	72,324	7,432	59,272	16,993
Security repurchase agreement		10,087	6,557	
Loans and short-term advances to subsidiaries and affiliate		74,038		50,856
Other, net	12,102			2,584
Other	12,102	84,125	6,557	53,440
Total	$125,818	$125,818	$146,821	$146,821

The accompanying notes are an integral part of these statements.

Combined balance sheet

Finance Subsidiaries of Wells Fargo & Company

Assets

(In thousands)	1978	December 31, 1977 (Restated)
Cash — primarily on deposit with Wells Fargo Bank, N.A.	$ 6,277	$ 6,351
Marketable securities — at cost (approximates market)	4,758	2,050
Accounts and interest receivable	6,123	3,102
Due from parent under tax allocation agreement	3,021	
Loans:		
Commercial loans	2,248	
Real estate construction and other loans	217,876	222,247
Real estate mortgage loans in inventory	86,565	71,778
Consumer loans	13,566	
Total loans	320,255	294,025
Less: Allowance for loan losses	(3,022)	(1,147)
Unearned discount	(820)	
Total net loans	316,413	292,878
Lease financing:		
Receivables due in installments	229,904	190,854
Estimated residual value of equipment leased	23,012	19,997
Less: Allowance for losses	(4,520)	(3,824)
Unearned income	(57,644)	(46,377)
Leveraged leases	8,821	5,215
Equipment purchased pending lease commencement	1,613	101
Total lease financing	201,186	165,966
Fixed assets:		
Premises	808	682
Furniture and equipment	2,122	1,607
Leasehold improvements	668	610
	3,598	2,899
Less: Accumulated depreciation and amortization	(1,081)	(773)
Total net fixed assets	2,517	2,126
Other assets	16,971	18,590
Total assets	$557,266	$491,063

The accompanying notes are an integral part of these statements.

Liabilities and stockholder's equity

(In thousands)	1978	December 31, 1977 (Restated)
Accounts payable and accrued expenses	$ 12,097	$ 10,576
Interest payable to Parent	2,458	43
8%-10% Senior notes due 1988	41,500	41,500
8½%-10% Notes due 1978-79	2,000	11,157
Mortgage notes payable		2,958
Short-term advances from Parent	323,675	258,375
Notes payable to Parent	66,800	66,800
Due to Parent under tax allocation agreement		5,980
Deferred credits:		
Taxes on income	33,667	28,462
Investment tax credit	4,654	4,329
Fee income	3,600	2,029
Total deferred credits	41,921	34,820
Total liabilities	490,451	432,209
Stockholder's equity:		
Common stock	2,700	900
Additional paid-in capital	32,800	31,000
Retained earnings	31,315	26,954
Total stockholder's equity	66,815	58,854
Total liabilities and stockholder's equity	$557,266	$491,063

The accompanying notes are an integral part of these statements.

Combined statement of income

Finance Subsidiaries of Wells Fargo & Company

(In thousands)	Year ended December 31, 1978	1977 (Restated)
INCOME:		
Interest and fees on loans	$42,903	$30,894
Lease financing income	16,755	15,483
Loan servicing fees	5,773	5,607
Services to affiliates	2,920	1,931
Other income	3,752	2,882
Total income	72,103	56,797
EXPENSE:		
Interest and fees:		
Wells Fargo & Company	30,087	17,831
Others	4,317	5,583
Total interest expense	34,404	23,414
Salaries and employee benefits	11,895	9,124
Occupancy expense	1,142	982
Provision for losses on loans and leases	1,632	1,455
Other expenses	7,448	5,037
Total expense	56,521	40,012
Income before income taxes	15,582	16,785
Less applicable income taxes	7,632	8,221
NET INCOME	$ 7,950	$ 8,564

The accompanying notes are an integral part of these statements.

Combined statement of changes in financial position

Finance Subsidiaries of Wells Fargo & Company

(In thousands)	Year ended December 31, 1978 Financial resources Provided from	Used for	Year ended December 31, 1977 (Restated) Financial resources Provided from	Used for
Net income	$ 7,950		$ 8,564	
Non-cash items included in net income:				
Deferred taxes	5,205		3,301	
Provision for losses on loans and leases	1,632		1,455	
Other	2,107		(403)	
Provided from operations	16,894		12,917	
Subsidiaries established in 1978	3,600			
Capital contributed by Parent			8,000	
Cash dividends declared		$ 3,589		
Operations and equity	20,494	3,589	20,917	—
Total net loans		23,535		$ 77,100
Total lease financing, net		66,898		46,996
Earning assets	—	90,433	—	124,096
8½-10% Notes due 1978-1979		9,157		7,943
Mortgage notes payable		2,958	237	
Short-term advances from Parent	65,300		46,225	
Notes payable to Parent			39,300	
Borrowings	65,300	12,115	85,762	7,943
Due from Parent under tax allocation agreement		3,021		
Due to Parent under tax allocation agreement		5,980	3,806	
Lease financing receipts, net of earned income amounts	33,678		25,423	
Other, net		4,334		3,869
Other	33,678	13,335	29,229	3,869
Total	$119,472	$119,472	$135,908	$135,908

Combined statement of stockholder's equity

Finance Subsidiaries of Wells Fargo & Company

(In thousands)	Common stock	Additional paid-in capital	Retained earnings	Total stockholder's equity
BALANCE DECEMBER 31, 1976:				
As previously reported	$ 900	$23,000	$20,077	$43,977
Adjustment			(1,687)	(1,687)
As restated	900	23,000	18,390	42,290
Additional capital contributed by parent		8,000		8,000
Net income — 1977			8,564	8,564
Increase	—	8,000	8,564	16,564
BALANCE DECEMBER 31, 1977	900	31,000	26,954	58,854
Subsidiaries established in 1978	1,800	1,800		3,600
Net income — 1978			7,950	7,950
Cash dividends declared			(3,589)	(3,589)
Net increase	1,800	1,800	4,361	7,961
BALANCE DECEMBER 31, 1978	$2,700	$32,800	$31,315	$66,815

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), Wells Fargo Bank, N.A. (Bank) and the 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 non-bank subsidiaries of the Parent. Foreign branches and subsidiaries of the Bank are 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.

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 accretion 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. 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 income statement, using the "identified certificate" method.

Foreign equity investments

The Company's investment in foreign affiliates, all of which are less than majority owned, is included in other assets. Investments wherein the Company exercises significant influence over operating and financial policies are accounted for under the equity method; the remaining foreign equity investments are accounted for under the cost method.

Premises & 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. The value of leased assets capitalized in accordance with Financial Accounting Standards Board (FASB) Statement No. 13, Accounting for Leases, is included with owned assets.

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 foreign based subsidiaries under the assumption that all such earnings will be distributed in the future as dividends to the investor company. In addition, income taxes are provided on undistributed earnings of equity investments under the assumption that such earnings will be realized as gain from the sale of investments.

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 lease financing income over the term of the related lease.

Accounting for leases

As a lessee, the Company has lease arrangements primarily for the use of real property. The Company's leases do not contain restrictive clauses concerning dividends, debt financing or further leasing, nor do they generally involve contingent rentals or bargain purchase options. Leases entered into after December 31, 1977, have been accounted for as either operating leases or capital leases as defined by FASB Statement No. 13. Certain leases entered into prior to January 1, 1978, have been capitalized on a retroactive basis by recording assets and liabilities for leased premises and equipment in accordance with FASB Statement No. 13. See Note 14 for the effect of this change.

As a lessor, the Company engages in lease financing in its banking operations and through Wells Fargo Leasing Corporation. Policies for the Leasing Corporation are disclosed under the heading of 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.

Allowance for loan losses

The Company provides for probable loan losses on the allowance method. For the Bank and other subsidiaries, the provision for loan losses charged to expense for financial statement purposes is supported by 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 allowance for loan losses. Subsequent write-downs, if any, are charged to other expense.

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.

Income per share

Income per share is computed by dividing income by the average number of shares outstanding during the year. The impact of common stock equivalents and other potentially dilutive securities is not material.

Finance Subsidiaries

Wells Fargo Mortgage Company: 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 using 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 amortized 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 using the interest method.

Wells Fargo Leasing Corporation (WFLC): WFLC is involved in the leasing of various types of equipment for periods ranging from 3 to 20 years. The majority of leasing transactions are recorded as direct financing leases. An amount of lease income which approximates the cost of acquiring the lease and an estimated provision for loss on the lease is recognized at the inception of the lease. Prior to January 1, 1978, for pre-1977 lease agreements, the remainder of unearned lease income was recognized as income over the life of the lease on a declining basis (sum-of-digits method). Unearned income on post-1976 leases was recognized as income using an interest method in accordance with FASB Statement No. 13. Effective January 1, 1978, WFLC retroactively recognized unearned income on all leases as income using an interest method. The effect of this change is disclosed in Note 14.

Wells Fargo Business Credit and Wells Fargo Credit Corporation: These two finance group subsidiaries have established accounting policies consistent with those previously described.

2. Securities

The following table provides the major components of the investment securities balance and a comparison of book and market values at December 31:

	1978		1977	
(In thousands)	Book value	Market value	Book value	Market value
U.S. Treasury securities	$ 618,979	$ 600,474	$ 881,081	$ 874,683
Securities of other U.S. government agencies and corporations	400,130	385,309	199,995	199,163
Obligations of states and political subdivisions	738,638	670,785	738,813	711,301
Other securities	67,681	65,457	99,557	94,490
Total investment securities	$1,825,428	$1,722,025	$1,919,446	$1,879,637

Book value represents the purchase price of the security, adjusted by the amortization of premium and the accretion of discount. The accretion of discount, reflected in interest on investment securities, amounted to $1,069,000 and $1,280,000 in 1978 and 1977, respectively.

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 securities and other factors.

The book value of investment securities pledged to secure public deposits and for other purposes as required or permitted by law aggregated $911,000,000 at December 31, 1978, and $825,000,000 at December 31, 1977.

Included in obligations of states and political subdivisions at December 31, are the following securities:

	1978		1977	
(In thousands)	Book value	Market value	Book value	Market value
Municipalities within California*	$237,052	$214,013	$176,146	$168,496
State of California	76,206	64,510	82,234	77,776

*None of the issuers of securities within California exceeds 10 percent of stockholders' equity. The only issuer exceeding 10 percent of stockholders' equity was the state of California.

The market value of trading account securities approximates book value, which is stated at the lower of cost or market.

3. Premises & equipment

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

(In thousands)	Cost	Accumulated depreciation and amortization	Net
AT DECEMBER 31, 1978:			
Land	$ 34,129	$ —	$ 34,129
Premises	181,985	58,869	123,116
Furniture and equipment	99,916	51,947	47,969
Leasehold improvements	34,666	11,933	22,733
Total	$350,696	$122,749	$227,947
AT DECEMBER 31, 1977 (restated):			
Land	$ 27,602	$ —	$ 27,602
Premises	169,013	51,989	117,024
Furniture and equipment	83,714	46,339	37,375
Leasehold improvements	31,148	10,385	20,763
Total	$311,477	$108,713	$202,764

See Note 14 for the amount of these assets held under capital leases.

The accumulated depreciation and amortization claimed for federal income tax purposes is approximately $89,777,000 at December 31, 1978, and $81,303,000 at December 31, 1977. The principal difference between amounts claimed for federal income taxes and the amounts reported above is related to capital leases.

Depreciation and amortization expense was $16,666,000 for the year ended December 31, 1978, and $14,827,000 for the year ended December 31, 1977, after restatement for capital leases.

4. Loans & allowance for loan losses

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

	Year ended December 31,	
(In thousands)	1978	1977
Balance at beginning of year	$ 86,185	$76,735
ADDITIONS:		
Provision charged to expense:		
Bank	46,000	40,300
Finance Subsidiaries	1,537	728
Total additions	47,537	41,028
DEDUCTIONS:		
Net charge-offs:		
Loans charged off	41,634	40,554
Recoveries on loans charged off	(10,261)	(8,976)
Net deductions	31,373	31,578
Balance at end of year	$102,349	$86,185

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

	December 31,	
(In thousands)	1978	1977
CONSOLIDATED:		
Total non-accrual and renegotiated loans	$151,870	$212,000
Income which would have been recorded under original terms	$ 18,612	$ 23,416
Gross interest recorded	$ 4,398	$ 7,309
Commitments to lend additional funds	$ 1,552	$ 5,192
FINANCE SUBSIDIARIES:		
Total non-accrual and renegotiated loans	$ 7,402	$ 5,310
Income which would have been recorded under original terms	$ 1,193	$ 2,097
Gross interest recorded	$ 534	$ 1,259
Commitments to lend additional funds	$ 177	$ —

5. Deposits

Interest expense on the various categories of deposits is presented below:

	Year ended December 31,	
(In thousands)	1978	1977
Savings deposits	$180,431	$180,131
Savings certificates	132,528	98,431
Certificates of deposit	185,284	94,620
Other time deposits	34,659	17,165
Deposits in overseas offices	124,095	73,386
Total	$656,997	$463,733

The following table presents interest paid and balances of time certificates of deposit included in savings certificates, certificates of deposit and other time deposits of $100,000 or more:

(In thousands)	1978	1977
Interest expense	$ 244,032	$ 106,719
Year-end balance	$3,452,282	$2,032,486

6. Capital & convertible capital notes

The 4½% capital notes of the Bank may be currently redeemed at the option of the Bank at 1.35 percent 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 .975 percent 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.

7. Demand notes payable & commercial paper outstanding

Demand notes are payable by the Parent primarily to various bank trust departments and are included with other short-term borrowings in the Consolidated balance sheet. Included in this classification are notes of the Parent due within three years. 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,	
(Dollars in thousands)	1978	1977
DEMAND NOTES:		
Average amount outstanding	$ 46,000	$ 43,000
Daily average rate	8.14%	5.87%
Highest month-end balance	$ 49,000	$ 49,000
Rate on outstandings at year end	10.39%	6.95%
COMMERCIAL PAPER:		
Average amount outstanding	$216,000	$176,000
Daily average rate	8.04%	5.55%
Highest month-end balance	$267,000	$207,000
Rate on outstandings at year end	10.48%	6.72%

The Parent had available lines of credit with unaffiliated banks totaling $240,000,000 at December 31, 1978, of which $235,000,000 supported the commercial paper borrowing arrangements in 1978 and $202,500,000 in 1977. The lines of credit require commitment fees or compensating balances. Compensating balances of $5,400,000 were maintained at December 31, 1978 and $5,150,000 at December 31, 1977. The lines of credit were utilized for twelve days in 1978; no usage occurred in 1977.

8. Debentures, notes & mortgages

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

(In thousands)	December 31, 1978	1977
OF WELLS FARGO & COMPANY (PARENT):		
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	50,000
OF WELLS FARGO BANK, N.A.:		
4¼%-4½% Collateral trust and mortgage bonds due to 1993 of ATC Building Company and other mortgages on premises	15,615	21,720
6½% Euro deutsche mark debentures due 1988 of Wells Fargo International Investment Corporation (net of $2,070,000 eliminated in consolidation)	24,273	20,766
OF WELLS FARGO LEASING CORP.:		
8%-10½% Senior notes (with original maturities of more than three years) due in varying amounts to 1988	41,500	41,500
	$256,388	$258,986

The principal payments, including sinking fund payments, on the above indebtedness are due as follows:

1979	1980	1981	1982	1983	After 1983	Total
$5,334	$11,629	$11,676	$14,228	$15,507	$198,014	$256,388

The 7⅜% sinking fund debentures will require an annual sinking fund of $2,500,000 beginning November 15, 1982, which will retire 50 percent 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 debentures, in addition to sinking fund redemptions, at a premium of 3.69 percent 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 percent 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% collateral trust and mortgage 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 1.40 percent premium for the 4¼% bonds and at 2.175 percent premium for the 4½% bonds. The other mortgages on premises comprising this category were secured by deeds of trust on $3,948,000 of Bank premises at December 31, 1978.

The euro deutsche mark debentures, which are hedged, 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 percent premium beginning November 1, 1979 and at decreasing premiums 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% may be currently prepaid at a 4.0 percent 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% to 10½% may be prepaid under certain circumstances.

The Parent has not assumed or guaranteed the 4¼%-4½% collateral trust and mortgage bonds of ATC Building Company nor the other mortgages on Bank premises.

The borrowing agreements for the debentures, notes 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, 1978.

Mortgage notes payable of the Finance Subsidiaries are obligations assumed in connection with foreclosed properties.

9. Common stock

Warrants to purchase a total of 399,960 shares of common stock of the Company at a price of $24.63 per share, 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 165,457 shares of unissued common stock at December 31, 1978.

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 percent 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. Compensation expense is accrued for the forfeiture component of the plan and amounted to $841,000 in 1978. No expense was accrued in 1977.

During 1978, the Board of Directors adopted a stock option and appreciation plan for certain key employees permitting them to purchase the Company's common stock at an option price equal to the fair market value of the stock at date of grant. The terms of the plan provide that the optionee may surrender the option and receive the appreciation between the option price and the fair market value of the stock at date of surrender in the form of cash and common stock, provided that at least 50 percent of the appreciation be in shares of the Company's common stock based on the market price at date of surrender. No options have been granted under the plan at December 31, 1978, and the plan is subject to the approval of the stockholders at the April 1979 annual meeting. Compensation expense will be accrued under the assumption that all optionees will elect the appreciation distribution feature.

The status of options outstanding, at December 31, 1978, 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)
1978	5,000	$27.50	$ 137
	5,000	27.63	138
	97,000	24.88	2,413
1974	149,200	20.25	3,021
1973	83,500	21.88	1,827
Total	339,700		$7,536

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)
1978	8,750	$21.88	$191	$28.43	$249
	24,800	20.25	502	29.14	723
1977	4,700	20.25	95	26.60	125

None of the options previously granted became exercisable in 1978 or 1977. Options previously granted for 27,550 shares and 3,500 shares were forfeited in 1978 and 1977, 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, 1978, options for 20,050 shares were available for grant under the stock option plan.

Employees of the Company with over one year of service not included in the stock option plans are eligible to participate in the Company's employee stock purchase plan. The first grant of stock purchase options under this plan was made during 1978. The plan provides for an option price of the lower of the fair market value at grant or 90 percent of fair market value at the end of the option period, twelve months after date of grant. At December 31, 1978, options for approximately 116,000 shares were outstanding and additional options for 834,000 shares were available for grant through 1983. The plan is non-compensatory and results in no expense to the Company.

10. Employee benefits

The provision for the retirement and profit sharing plans was as follows:

(In thousands)	Year ended December 31, 1978	1977
Retirement plans:		
Consolidated	$6,432	$4,645
Finance Subsidiaries	$ 205	$ 140
Profit sharing plans:		
Consolidated	$9,839	$7,275
Finance Subsidiaries	$ 667	$ 447

At December 31, 1978, if the assets of the Company's retirement plan had been liquidated, the proceeds would have been approximately $4.5 million less than the actuarily computed liability for vested retirement plan benefits. The computation of such liability does not take into account a 1978 amendment to the plan increasing pensions to present pensioners effective January 1, 1979. The amount of vested benefit liability over or under plan assets will vary over time depending on changes in actuarial assumptions, plan benefits, market values, and other factors.

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.

Under the employee stock ownership 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 plan. All salaried employees of participating Wells Fargo companies who have worked for three continuous years and are not participants in a stock option plan are eligible to participate. The Company estimates a $640,000 contribution for 1978 and has made a contribution of $512,000 for 1977.

11. 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, 1978	1977 (Restated)
PARENT		
Current:		
Federal	$ (7,360)	$ (4,269)
State and local	(2,179)	(739)
	(9,539)	(5,008)
Deferred:		
Federal	(1,041)	509
State and local	(203)	(151)
	(1,244)	358
Total	$(10,783)	$ (4,650)
CONSOLIDATED		
Current:		
Federal	$ 52,247	$ 16,530
State and local	21,456	15,028
Foreign	10,741	14,491
	84,444	46,049
Deferred:		
Federal	2,541	26,412
State and local	(2,090)	2,131
Foreign	723	(3,431)
	1,174	25,112
Total	$ 85,618	$ 71,161
FINANCE SUBSIDIARIES		
Current:		
Federal	$ 1,715	$ 3,962
State and local	712	958
	2,427	4,920
Deferred:		
Federal	4,425	2,562
State and local	780	739
	5,205	3,301
Total	$ 7,632	$ 8,221

The components of the deferred income tax provisions and the tax effect of each were as follows:

(In thousands)	Year ended December 31, 1978	1977 (Restated)
PARENT		
Cash basis of accounting for tax purposes	$ (1,244)	$ 358
Total	$ (1,244)	$ 358
CONSOLIDATED		
Cash basis of accounting for tax purposes	$(19,918)	$ 1,346
Deferred income on lease financing	16,295	13,141
Greater loan loss deduction for income tax purposes	2,052	6,748
Net deferred income on equity investments	1,532	6,203
Other	1,213	(2,326)
Total	$ 1,174	$25,112
FINANCE SUBSIDIARIES		
Cash basis of accounting for tax purposes	$ 783	$(1,091)
Lesser loan loss deduction for income tax purposes	(1,277)	(435)
Deferred income on lease financing	5,188	5,051
Other	511	(224)
Total	$ 5,205	$ 3,301

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

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

	Year ended December 31, 1978	1977 (Restated)
PARENT		
Statutory federal income tax rate	48.0 %	48.0 %
Decrease in tax rate resulting from:		
Dividends from and undistributed earnings of subsidiaries	(51.1)	(51.8)
Other	(.3)	(.3)
Effective tax rate	(3.4)%	(4.1)%
CONSOLIDATED		
Statutory federal income tax rate	48.0 %	48.0 %
Increase (decrease) in tax rate resulting from:		
State and municipal bond income	(7.2)	(6.6)
State and local taxes on income, net of federal income tax benefit	5.5	5.6
Other	(1.9)	(1.4)
Effective tax rate	44.4 %	45.6 %
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	4.9	5.3
Amortization of investment tax credit	(5.2)	(4.7)
Other	1.3	.4
Effective tax rate	49.0 %	49.0 %

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

At December 31, 1978, the Company had accrued income taxes payable of $132,192,000 of which $35,918,000 is currently payable. At December 31, 1977, the Company had accrued income taxes of $100,549,000 of which $3,791,000 was currently payable.

For financial statement purposes, the Company had deferred investment tax credit for property purchased for lease to customers of $11,430,000 at December 31, 1978, and $7,715,000 at December 31, 1977.

12. Dividends & 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, 1978, the Bank could have declared additional dividends of approximately $185,331,000.

The retained earnings of the Parent included $276,861,000 and $201,835,000 of undistributed earnings of subsidiaries at December 31, 1978 and 1977, respectively.

13. International & foreign activities

The Bank provides international banking services from its foreign and domestic based International Group offices. The information provided below, and referred to as International Operations, represents assets and activity of that Group. Recent Securities and Exchange Commission interpretations have redefined foreign activities as loans and revenue-producing assets and transactions in which the customer is domiciled outside the United States. Although the information related to such foreign activities for prior years is not available, both international and foreign operations have been summarized for 1978.

	International operations Average balance*		Foreign activities Ending balance
(In millions)	1978	1977	1978
ASSETS:			
Overseas deposits	$ 481	$ 432	$ 550
Acceptances	$ 385	$ 358	$ 280
LOANS:			
Government sector:			
Loans to or guaranteed by central governments and central banks	$ 724	$ 744	$ 567
Loans to other governmental entities	605	527	509
Private sector:			
Loans to commercial banks	398	222	607
Loans to other private entities for commercial and industrial purposes	824	754	721
Total loans	$2,551	$2,247	$2,404
LIABILITIES:			
Deposits of banks located in foreign countries — interest bearing	$ 962	$ 546	$ 703
non-interest bearing	98	62	165
Total	1,060	608	868
Deposits of foreign governments and institutions	106	424	76
Other deposits — interest bearing	497	229	813
non-interest bearing	81	64	108
Total	578	293	921
Total deposits	$1,744	$1,325	$1,865

*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.

The allowance for loan losses related to foreign activities has changed as follows:

(In thousands)	
Balance at January 1, 1978	$15,571
Provision charged to expense	3,250
Recoveries of amounts charged off	1,313
Loans charged to the allowance	(6,744)
Balance at December 31, 1978	$13,390

The Bank uses a global funding policy for funding assets related to foreign activities. Therefore, no borrowings or funding sources in particular are identifiable as being related to foreign activities, other than deposits in overseas offices and demand deposits in the International Group offices. Funding sources, in addition to those above, which are transferred to support international assets are valued at the actual cost of domestic purchased funds.

Total operating revenue, net income and identifiable assets by geographic area for the year ended or at December 31, 1978, and 1977 were as follows:

								1978
		International operations						
		Foreign activities						
(In millions)	Domestic operations	U.S. domicile	Canada	Europe	Latin America and Mexico	Asia and Pacific Basin	Middle East and Africa	Consolidated total
Total operating revenue	$ 1,177.0	$ 14.5	$ 5.0	$ 73.9	$ 117.5	$ 64.2	$ 36.3	$ 1,488.4
Income before income taxes and securities transactions	$ 159.4	$ (2.0)	$ .6	$ 8.6	$ 22.8	$ 13.8	$ 5.2	$ 208.4
Net income	$ 87.5	$ (.9)	$ .3	$ 3.9	$ 10.5	$ 6.4	$ 2.4	$ 110.1
Identifiable assets:								
Loans, net of allowance	$10,308.5	$ 94.7	$48.5	$492.3	$1,028.3	$537.8	$283.2	$12,793.3
Acceptances	—	156.9	—	11.2	76.2	145.4	46.9	420.1*
Overseas deposits	—	—	15.1	361.6	89.9	12.4	70.9	549.9
Other	4,848.1	—	—	—	—	—	—	4,848.1
Total identifiable assets	$15,156.6	$251.6	$63.6	$865.1	$1,194.4	$695.6	$401.0	$18,611.4

							1977
		International operations					
(In millions)	Domestic operations	U.S. and Canada	Europe	Latin America and Mexico	Asia and Pacific Basin	Middle East and Africa	Consolidated total
Total operating revenue	$ 870.7	$ 23.6	$ 48.6	$ 87.8	$ 40.1	$ 27.4	$ 1,098.2
Net income	$ 68.3	$ 3.1	$ .6	$ 8.3	$ 3.6	$ 1.5	$ 85.4
Identifiable assets:							
Loans, net of allowance	$ 7,766.1	$210.8	$427.5	$ 903.7	$503.9	$332.0	$10,144.0
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	4,446.7	—	—	—	—	—	4,446.7
Total identifiable assets	$12,212.8	$236.7	$693.3	$1,165.3	$741.8	$392.2	$15,421.8

*Acceptances of $16,500,000 in 1978 and $20,300,000 in 1977 were held for investment by the Bank and eliminated in consolidation.

A condensed income statement for foreign activities follows:

	Year ended December 31,
(In thousands)	1978
Interest income	$278,871
Interest expense	209,925
Net interest income	68,946
Provision for loan losses	3,250
Net interest income after provision for loan losses	65,696
Other income	18,079
Other expense	32,340
Income before income taxes	$ 51,435
Net income (1)	$ 23,727

(1) Securities transactions are not attributable to foreign activities, hence, this also represents income before securities transactions.

The net consolidated exchange gains arising during the year and included in the determination of net income were $2,648,000 in 1978 and $896,000 in 1977.

14. Leasing

Restatement: Certain leases entered into (as lessee) prior to January 1, 1978, have been capitalized on a retroactive basis by recording assets and liabilities for leased premises and equipment in accordance with FASB Statement No. 13. Prior to January 1, 1978, WFLC (as lessor) recognized unearned lease income on pre-1977 leases over the life of the lease on a declining basis (sum-of-the-digits method). Effective January 1, 1978, WFLC, in accordance with FASB Statement No. 13, retroactively adopted an interest method of recognizing unearned lease income. The financial statements have been restated to reflect these changes.

The effect of these changes on the income of the Company and the Finance Subsidiaries for 1978 and as previously reported for 1977 is as follows:

	1978			1977		
	Finance Subsidiaries	Consolidated		Finance Subsidiaries	Consolidated	
(In thousands, except income per share)	Net income	Net income	Income per share	Net income	Net income	Income per share
DECREASE:						
From lessee restatement	$—	$589	$.03	$ —	$691	$.03
From lessor restatement	20	20	—	228	228	.01
	$20	$609	$.03	$228	$919	$.04

Company's position as lessee: The Bank is the primary lessee. The table below presents comparative consolidated data for the Company's leased assets under capital leases:

(In thousands)	Cost	Accumulated amortization	Net
At December 31, 1978:			
Premises	$88,604	$26,709	$61,895
Furniture and equipment	8,746	6,263	2,483
Total	$97,350	$32,972	$64,378
At December 31, 1977:			
Premises	$85,714	$22,278	$63,436
Furniture and equipment	8,746	5,132	3,614
Total	$94,460	$27,410	$67,050

In addition to the capital leases, the Company is obligated under a number of non-cancelable leases for premises and equipment with terms ranging from one to 35 years, many of which provide for periodic adjustment of rentals based on changes in various economic indicators. Future minimum payments under capital leases and non-cancelable operating leases with terms in excess of one year in effect as of December 31, 1978, are as follows:

	Capital leases	Operating leases	
(In thousands)	Consolidated	Finance Subsidiaries	Consolidated
Year ended December 31,			
1979	$ 11,078	$1,272	$ 8,463
1980	10,906	1,173	7,721
1981	10,012	1,105	7,201
1982	9,450	843	6,526
1983	9,066	630	5,672
Thereafter	113,358	1	34,768
Total minimum lease payments	163,870	$5,024	$70,351
Executory costs	(16,546)		
Amounts representing interest	(70,833)		
Present value of net minimum lease payments	$ 76,491		

Sublease income under capital and operating leases was insignificant in amount. Net rental expense for all operating leases was as follows:

	Year ended December 31,	
(In thousands)	1978	1977
Consolidated	$17,988	$16,844
Finance Subsidiaries	$ 972	$ 1,331

Company's activity as a lessor: The net investment in direct financing leases consisted of the following:

				December 31,
	1978		1977	
(In thousands)	Finance Subsidiaries	Consolidated	Finance Subsidiaries	Consolidated
Total minimum lease payments to be received	$229,904	$352,449	$190,854	$266,463
Allowance for losses	(4,520)	(4,520)	(3,824)	(3,824)
Unguaranteed residual value	23,012	155,306	19,997	110,485
Unearned income	(57,644)	(98,745)	(46,377)	(70,391)
Net investment in direct financing leases	$190,752	$404,490	$160,650	$302,733

The net investment in leveraged leases was not significant.

Unearned lease income recognized as income to offset initial direct costs of acquiring leases was as follows:

(In thousands)	Year ended December 31, 1978	1977
Finance Subsidiaries	$1,429	$1,283

The Bank does not recognize unearned income to offset initial direct costs of acquiring leases.

At December 31, 1978, direct lease receivables were due in installments to 1998. Installments mature as follows:

(In thousands)	Finance Subsidiaries	Consolidated
Year ended December 31,		
1979	$ 50,983	$133,795
1980	41,286	72,884
1981	35,122	41,069
1982	27,842	29,638
1983	20,187	20,382
Thereafter	54,484	54,681
	$229,904	$352,449

15. Parent company financing

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

(In thousands)	December 31, 1978	1977
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	6,800
Wells Fargo Realty Advisors:		
7½% Subordinated debenture due 1997	2,800	2,800
8¼% Subordinated note due 1998	7,200	7,200
8¼% Notes due 2002	10,000	10,000
Wells Fargo Leasing Corporation:		
7½% Subordinated note due 1997	15,000	15,000
8¼% Note due 2002	25,000	25,000
Total Finance Subsidiaries	66,800	66,800
Total	$91,800	$91,800

Short-term advances are made by the Parent under credit agreements with the subsidiaires. The rate charged is approximately ⅛% over the costs incurred by the Parent in acquiring the funds advanced to the subsidiaries.

16. Inter-company transactions

Certain transactions, primarily between the Bank and the Finance Subsidiaries, give rise to inter-company revenues and expenses which are eliminated in consolidation. The most significant of these and other significant inter-company activity is described below.

Under an agreement with the Bank, Wells Fargo Mortgage Company (WFMC) receives a one percent brokerage fee on loans recommended to and accepted by the Bank. WFMC received brokerage fees totaling $1,626,000 in 1978 and $1,648,000 in 1977. Under a similar program initiated in late 1978, WFMC originates and services certain residential loans for the Bank, and receives a one percent fee. Fees under this program were immaterial in 1978. WFMC may also purchase up to 90 percent participation in certain construction loans with the Bank. WFMC's participation in such loans was $12,790,000 at December 31, 1978, and $28,626,000 at December 31, 1977.

Wells Fargo Leasing Corporation (WFLC) provides servicing for lease financing of the Bank and leases certain assets to the Bank. The fees received for these services, and WFLC's share of the gain on sale of assets involved in the Bank's equipment leasing program, were $634,000 in 1978. The fees were not significant in 1977.

Wells Fargo Realty Advisors and the two new Finance Subsidiaries have no significant inter-company revenue sources. See Note 15 for Parent company financing of the subsidiaries.

17. Commitments & 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, 1978, totaled $302,894,000.

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 or the Finance Subsidiaries.

As of December 31, 1978, WFMC was servicing approximately 54,000 loans totalling $2.2 billion. Fiduciary funds held and the related liabilities due investors totaled approximately $24,000,000. 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 First Central Coast Bank of San Luis Obispo County which has approximately $100 million of total assets. Necessary board of director and shareholder approvals have been obtained. The merger is now awaiting approval by the Comptroller of the Currency.

18. Summary of quarterly financial information (unaudited)

The following financial information for the quarters of the years ended December 31, 1978, and 1977 is unaudited. In the opinion of management, all adjustments necessary to present fairly the results of operations for the periods shown have been made.

(In thousands, except per share data)	Quarter ended March 31,	June 30,	September 30,	December 31,
1978:				
Interest income	$296,976	$325,874	$360,784	$402,608
Interest expense	162,517	178,778	202,909	239,442
Net interest income	134,459	147,096	157,875	163,166
Other income	23,414	25,118	25,886	27,699
Provision for loan losses	10,150	13,150	12,350	11,887
Other (1)	(122,311)	(130,809)	(139,595)	(148,580)
Income before securities transactions	25,412	28,255	31,816	30,398
Securities gains (losses), net of income tax effect	(1,556)	17	(861)	(3,335)
Net income	$ 23,856	$ 28,272	$ 30,955	$ 27,063
Per share:				
Income before securities transactions	$1.14	$1.26	$1.41	$1.35
Net income	$1.07	$1.26	$1.38	$1.20
1977 (restated):				
Interest income	$224,501	$236,009	$261,404	$285,661
Interest expense	118,689	124,748	139,640	154,832
Net interest income	105,812	111,261	121,764	130,829
Other income	19,121	22,086	23,844	25,624
Provision for loan losses	10,185	10,246	10,136	10,461
Other (1)	(98,087)	(102,707)	(110,285)	(121,853)
Income before securities transactions	16,661	20,394	25,187	24,139
Securities gains (losses), net of income tax effect	56	–	6	(1,082)
Net income	$ 16,717	$ 20,394	$ 25,193	$ 23,057
Per share:				
Income before securities transactions	$0.83	$0.93	$1.13	$1.09
Net income	$0.83	$0.93	$1.13	$1.04

(1) Includes other expense and income taxes.

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, 1978 and 1977 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, 1978 and 1977 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, 1978 and 1977 and the related combined statements of income, stockholder's equity and changes in financial position for the years then ended; and the consolidated statements of condition of Wells Fargo Bank, N.A. and Subsidiaries as of December 31, 1978 and 1977. Our examinations were 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.

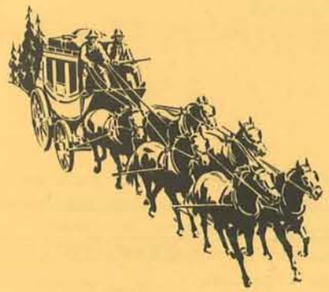
In our opinion, the aforementioned financial statements present fairly the financial position of Wells Fargo & Company (Parent), the consolidated financial position of Wells Fargo & Company and Subsidiaries, and the combined financial position of the Finance Subsidiaries of Wells Fargo & Company at December 31, 1978 and 1977 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, 1978 and 1977, all in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for leases as described in Note 14 to the financial statements.

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.
Certified Public Accountants

San Francisco, California
January 15, 1979

Directors & Management



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

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(restaurants and food services)

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President, John Breuner Company
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President and Chief Executive Officer

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

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President, The Newhall Land and Farming Company
(agricultural, recreational, petroleum and land development)

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Stanford University

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Wells Fargo & Company

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San Francisco, California 94104

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**Vice Chairman of the Board*
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Orion A. Hill, Jr.

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Wells Fargo Bank

420 Montgomery Street
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Jack A. Byers

General Auditor
Orion A. Hill, Jr.

*Member of the Executive Office

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Executive Vice President

Bank Operating Procedures
John C. Kilhefner
Vice President

Computer Systems
William F. Zuendt
Senior Vice President

Real Property Management
Phillip D. Bright
Vice President

Support Services
Gerald S. Millward
Vice President

PUBLIC RELATIONS

George F. Caulfield
Senior Vice President

REAL ESTATE INDUSTRIES GROUP

Paul Hazen
Executive Vice President

Northern California Division
Frank H. McLaughlin
Senior Vice President

Southern California Division
John C. Kelterer
Senior Vice President

Loan Administration
DeWitt C. Moon
Senior Vice President

RETAIL BANKING GROUP

Robert L. Altick, Jr.
Executive Vice President

Richard D. Jackson
Executive Vice President

Northern Area
Leslie C. Smith
Executive Vice President

Daniel S. Livingston
Senior Vice President

Southern Area
John F. Grundhofer
Executive Vice President

Charles M. Johnson
Senior Vice President
and Deputy Area Head

Roland E. Drinkgern
Senior Vice President

James R. Gibson
Senior Vice President

Southern Central Area
John H. Griffith
Executive Vice President

Commercial Banking Division
Russell F. Dwyer
Senior Vice President

Community Reinvestment Committee
George G. Skou
Senior Vice President

Consumer Loan Division
Eugene E. Cochrane
Senior Vice President

Loan Administration
Ralph E. Peters
Senior Vice President

Staff Services Division
D. Pat McGuire
Senior Vice President

SUBSIDIARIES:

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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
c/o International Banking Group
San Francisco, California 94144

REPRESENTATIVE OFFICES:

Argentina: Buenos Aires
Australia: Sydney
Brazil: Sao Paulo
Chile: Santiago
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
United States: Chicago
Venezuela: Caracas

MAJOR AFFILIATES:

Allgemeine Deutsche
Credit-Anstalt
Frankfurt, Germany

Arrendadora Serfin S.A.
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 was established in 1977 to provide valuable advice and counsel in the international sphere of business of Wells Fargo Bank.

Wells Fargo & Company Non-Bank Subsidiaries

CENTRAL WESTERN INSURANCE COMPANY
330 Washington Street
Marina del Rey, California 90291

WELLS FARGO BUSINESS CREDIT
12700 Park Central Place
Dallas, Texas 75251

Thomas D. Drennan
President and Chief
Executive Officer

WELLS FARGO CREDIT CORPORATION
6991 E. Camelback
Scottsdale, Arizona 85251

Robert D. Dunham
President and Chief
Executive Officer

WELLS FARGO LEASING CORPORATION
425 California Street
San Francisco, California 94104

Richard Oppenheimer
President and Chief
Executive Officer

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

Henry F. Trione
Chairman of the Board

Thomas A. Gray
Executive Vice President

WELLS FARGO REALTY ADVISORS
330 Washington Street
Marina del Rey, California 90291

David M. Petrone
President and Chief
Executive Officer

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

Arthur W. White
President and Chief
Executive Officer

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

Ronald G. Hillman
President and Chief
Executive Officer

The International Advisory Council

Chairman:
The Rt. Hon. Lord Sherfield G.C.B., G.C.M.G.
Chairman, Wells Fargo Limited
London, England

Angelo Calmon de Sá
President and Chief Executive Officer
Banco Economico, S.A.
Bahia, Brasil

Richard P. Cooley
President
Wells Fargo & Company

Göran Ennerfelt
Executive Vice President
A. Johnson & Company
Stockholm, Sweden

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

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Chaparrosa Agri-Service Inc.
San Antonio, Texas

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Juffali Brothers
Jedda, Saudi Arabia

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

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Chairman of the Executive Office
Norddeutsche Landesbank
Hannover, Germany

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

Monroe E. Spaght
Royal Dutch Shell
London, England

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Honorary Chairman
Credit Chimique
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William I. M. Turner, Jr.
President and Chief Executive Officer
Consolidated-Bathurst Ltd.
Montreal, Quebec, Canada

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Chairman of the Board
Martin Corporation Limited
Sydney Cove, N.S.W., Australia

Saburo Okita
Chairman
The Japan Economic Research Center
Tokyo, Japan

STOCK EXCHANGE LISTINGS

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

TRANSFER AGENTS

Wells Fargo Bank, N.A.
Corporate Agency Department
420 Montgomery Street
San Francisco, California 94104

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 17, 1979, at 420 Montgomery Street San Francisco, California

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

Controller's Division
Wells Fargo & Company
P.O. Box 44000
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