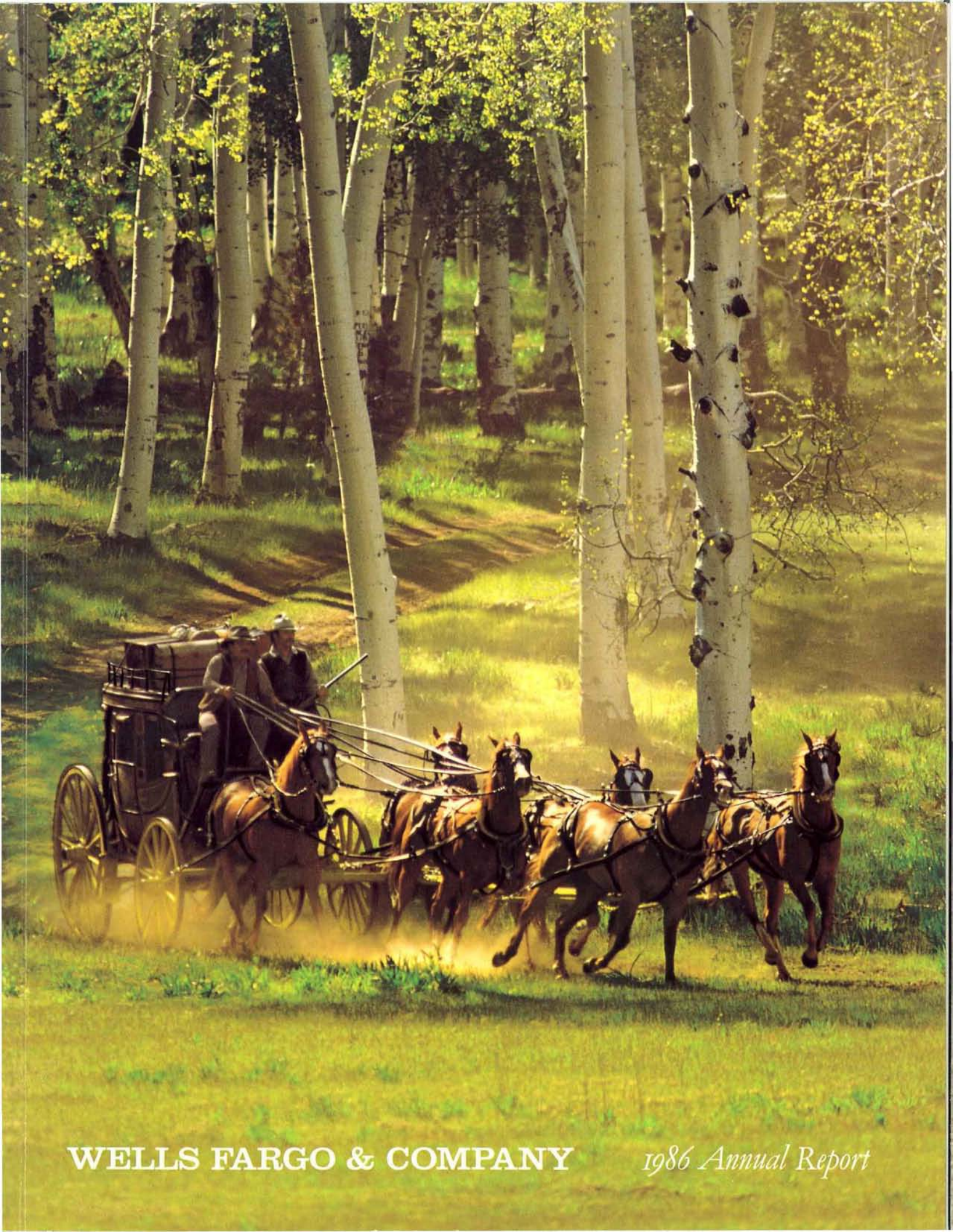
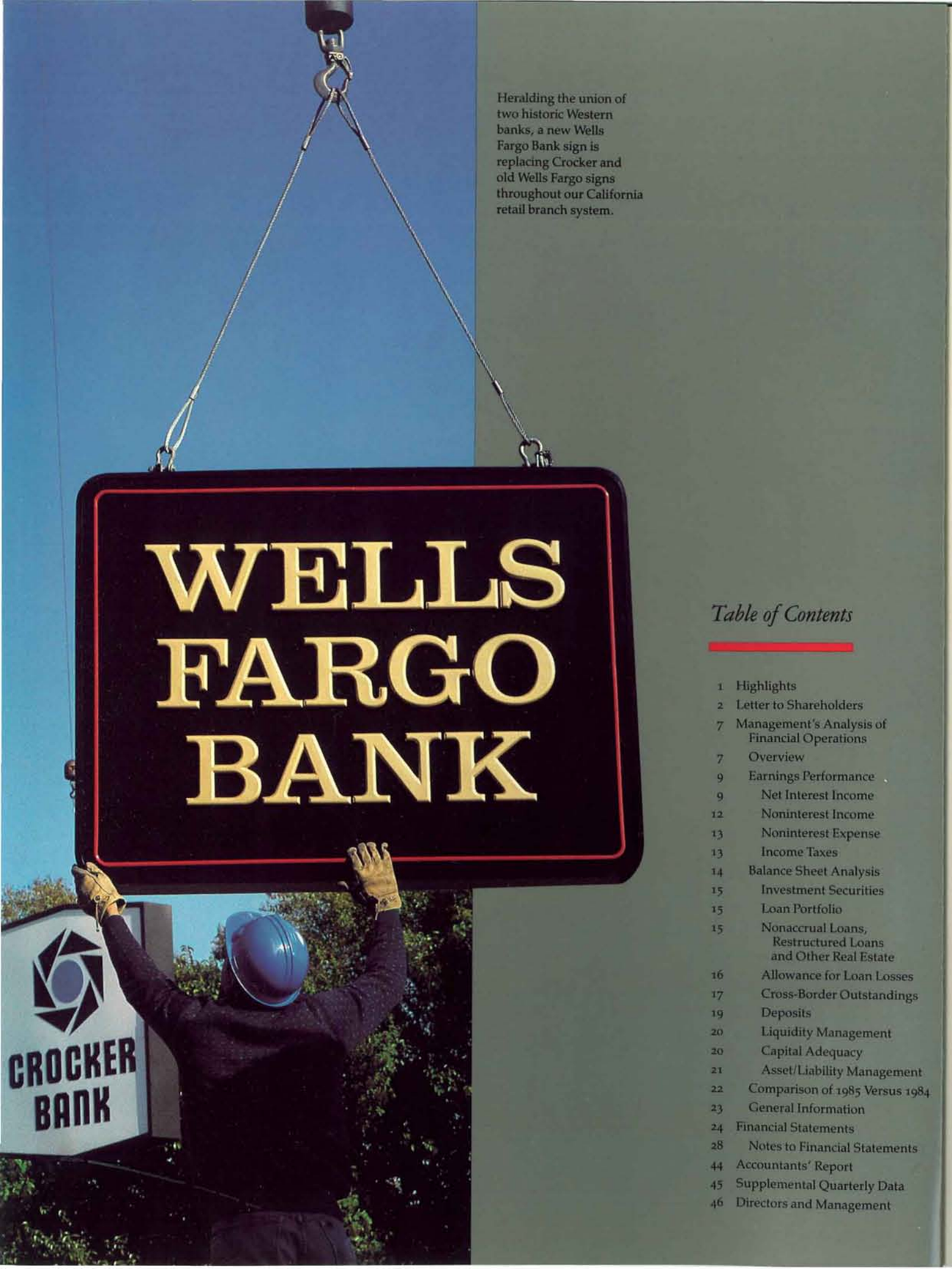


WELLS FARGO & COMPANY

1986 Annual Report



Heralding the union of two historic Western banks, a new Wells Fargo Bank sign is replacing Crocker and old Wells Fargo signs throughout our California retail branch system.

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(in millions)	1986	1985	Percentage change
FOR THE YEAR			
Net income	**$273.5**	$190.0	44%
Per common share (1)			
Net income	**5.03**	4.15	21
Dividends declared	**1.41**	1.24	14
Average common shares outstanding (in thousands) (1)	**50,875**	42,702	19
Net income to average total assets	**.73%**	.67%	9
Net income applicable to common stock to average common stockholders' equity	**14.81**	14.05	5
AT YEAR END			
Loans	**$36,771**	$24,614	49%
Allowance for loan losses	**734**	418	76
Assets	**44,577**	29,429	51
Stockholders' equity	**2,343**	1,458	61
Primary capital	**3,551**	2,217	60
Total capital	**6,094**	4,333	41
Primary capital to assets	**7.85%**	7.44%	6
Total capital to assets	**13.47**	14.53	(7)
Book value per common share (1)	**$36.11**	$30.94	17
Common stockholders	**22,398**	22,281	1
Staff (2)	**21,500**	14,000	54
Branches (domestic and foreign)	**517**	314	65

(1) Adjusted to reflect the 2-for-1 common stock split.
(2) Full-time equivalent, excluding hourly employees and unpaid leaves.

The year 1986 was an extraordinary one for Wells Fargo & Company. The acquisition of Crocker National Corporation, announced February 7 and finalized May 30, opened a new chapter in our Company's history. This combination of two banking institutions deeply rooted in California history has created a new organization better equipped for an era of intensified competition in banking.

FINANCIAL RESULTS As our new organization gained a stronger market presence and competitive position, it also produced earnings of $10.05 per share in 1986. Adjusting for the recent 2-for-1 common stock split, Wells Fargo & Company earned $5.03 per common share in 1986, an increase of 21 percent from 1985. Net income rose 44 percent to $274 million.

1986 was an extraordinary year for Wells Fargo.

The Crocker acquisition made a positive contribution to this earnings performance. Earnings per share also reflect an increase in common shares outstanding; Wells Fargo sold 5.3 million pre-split shares of common stock in 1986 to help finance the acquisition.

Other financial highlights for 1986 include:

- The Company continued to build its key profitability ratios. Return on average common stockholders' equity (ROE) was 14.81 percent, up from 14.05 percent in 1985. Return on average assets (ROA) rose to .73 percent, from .67 percent in 1985. In the fourth quarter of 1986, ROE was 15.24 percent and ROA was .72 percent.
- Net interest income on a taxable-equivalent basis increased 34 percent from a year earlier, to $1.7 billion.
- Noninterest income was $460 million, up 16 percent from 1985.
- Wells Fargo increased its primary capital strength while adding Crocker's assets to the balance sheet. At year end, the ratio of primary capital to total assets was 7.85 percent, compared with 7.44 percent at the end of 1985. The ratio of total capital to total assets declined to 13.47 percent, from 14.53 percent at the end of 1985, because assets increased at a faster rate than subordinated debt.
- At the end of 1986, nonaccrual loans, restructured loans and other real estate (ORE) totaled $1.3 billion, or 3.5 percent of total loans and ORE. The allowance for loan losses equaled 2 percent of total loans. At the end of 1985, nonaccrual loans, restructured loans and ORE totaled $959 million, or 3.9 percent of total loans and ORE. The allowance for loan losses amounted to 1.7 percent of total loans.

The price of Wells Fargo's common stock increased 60 percent in 1986, following a 34 percent increase the previous year. In October, the Board of Directors declared a 2-for-1 common stock split, distributed January 20, 1987, to shareholders of record December 31, 1986.

Wells Fargo strengthened its financial performance in 1986.

The Board of Directors also declared a 15 percent increase in the quarterly dividend on common stock, payable January 20, 1987, to shareholders of record December 31, 1986. The increased dividend was 39 cents a share after adjusting for the stock split. In 1985, Wells Fargo increased the quarterly dividend twice, a total of 26 percent.

Chairman Carl E. Reichardt

President Paul Hazen

STRATEGIC GOALS Throughout the 1980s, the U.S. banking industry has changed rapidly and fundamentally. Worldwide financial strains and deregulation have caused a continuing industry restructuring, characterized by mergers and acquisitions, the largest number of bank failures since the Depression, interstate banking, and a fading of distinctions between banks and other financial institutions. In California, legislation was passed in 1986 allowing regional interstate banking this year and full interstate banking in 1991.

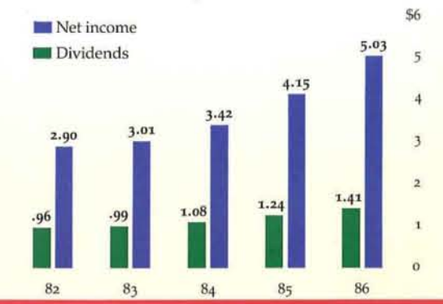
We are building for a new era in banking.

To prepare for this competitive environment, Wells Fargo embarked several years ago on a corporate strategy of reorganizing and rationalizing its operations. Strategic goals identified were:

- Concentrating our resources on lines of business in which we have the experience and competitive strength to excel and profit.
- Building our market presence and reputation as a major regional banking company serving California and the West.
- Focusing nationally on selected banking activities.
- Responding to our customers' needs for financial services in a timely and efficient manner.
- Controlling costs in all of our businesses.
- Maintaining a strong balance sheet in order to respond quickly and effectively to business opportunities.
- Building value for our shareholders.

Net Income & Dividends per Common Share ($)

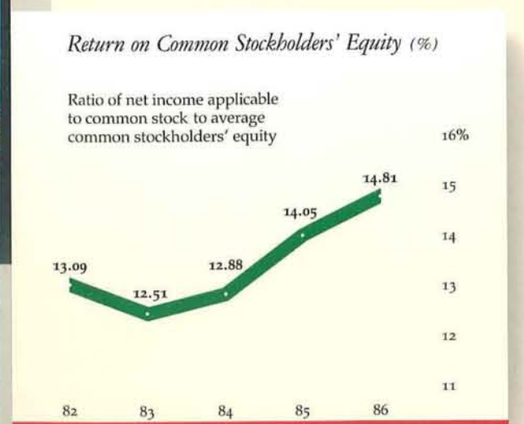
Adjusted to reflect the 2-for-1 common stock split



Wells Fargo is fortunate in having as its home base and primary market the state of California. If California were a separate nation, it would rank as the sixth largest economy in the world today. Southern California, which by itself would rank as

We intend to be a major regional banking company.

the 10th largest economy in the world, continues to be one of the nation's most dynamic markets for commercial banking. Given this home base, we see significant opportunities for expansion and profitability in markets we know and can serve well.



ACQUISITION BENEFITS The acquisition of Crocker was a major step in the implementation of our strategy. It has enabled us to strengthen our presence in virtually all of our targeted markets in California and to improve our capabilities in key national markets. Just as important, the acquisition has given us the opportunity to leverage our experience in streamlining operations and controlling costs.

We continue to work to realize the economies of scale which are inherent in this unique match of two major California banks. There were 513 Wells Fargo branches statewide at the end of 1986, compared with 310 Wells Fargo branches and 319 Crocker branches at the end of 1985. We originally estimated that within two years of the acquisition the Company would reduce noninterest expense by $240 million from its combined annualized level at Crocker and Wells Fargo in the fourth quarter of 1985. We are ahead of that schedule.

Serving California consumers is a key focus in Wells Fargo's regional strategy, and the acquisition has expanded our ability to meet the growing demands of this market. We have increased our deposit market share from approximately 5 percent to about 8½ percent of all deposits in financial institutions in California.

In Southern California, we have increased our market share of total deposits from about 1½ percent of the market to 3⅔ percent. We will continue to seek cost-effective opportunities to expand our retail presence in Southern California and effectively market our services.

Wells Fargo is now the fifth largest domestic lender in the United States. On the wholesale side, we are working to make further gains in the California middle market. We

The California consumer is a key focus of our strategy.

continue to provide total relationship banking for the state's growth-oriented companies and the entrepreneurs who operate them. Crocker brought to us a strong presence among small businesses in the state and skilled personnel to assist in serving them.

Wells Fargo is also competing aggressively in other specialized areas of wholesale banking where we believe we can add value. We have improved our ability to offer cash management products to corporate and middle-market customers. Our greater size and the new banking relationships brought to us by Crocker have increased our competitiveness in these activities.

Our Bank is committed to servicing the growing trade volume among Pacific Rim nations and the United States, particularly trade moving through the West Coast. To facilitate this activity, Wells Fargo maintains a solid Asian presence specializing in trade finance.

We are committed to serving business and commerce.

Our commitment to the real estate business has enabled us to build long-term relationships with many of the nation's top developers. There are currently oversupply problems in many commercial real estate markets around the United States, and we are closely monitoring those situations. Nevertheless, there continue to be profitable opportunities for financing commercial real estate development, particularly single-family housing projects, light industrial buildings and shopping centers.

Wells Fargo has increased its ability to serve the trust, investment and personal banking needs of Californians. Reflecting that emphasis, we have created the Private Banking Group, which combines the delivery of these services to customers with complex financial needs.

In December, we announced a definitive agreement to purchase the

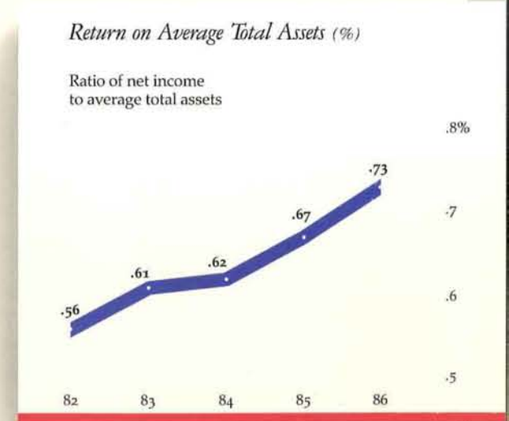
Wells Fargo is a leader in trust and investment services.

consumer trust business of Bank of America. We believe the acquisition will be approved by banking regulators in the first quarter of 1987. With this new acquisition and the recent addition of Crocker's trust clients, Wells Fargo will manage about $25 billion in customer assets and approximately 26,000 accounts, making us the largest personal trust institution in the West. We expect the purchase to begin to make a contribution to earnings per share within 12 months after completion.

In 1986, Wells Fargo became the national leader in the field of asset management for pension plans and other institutional funds. Wells Fargo Investment Advisors, a nonbank subsidiary specializing in index funds that match the performance of broad segments of the stock and bond markets, had $56 billion under management and advisement at the end of the year, compared with $29.5 billion a year earlier.

MANAGEMENT AND STAFF Skill, determination and discipline have characterized Wells Fargo's managers and staff, and particularly so in 1986. Our success in rapidly integrating two of the nation's largest banking organizations is a tribute to the staff's ability to solve problems and its desire to compete effectively in the marketplace.

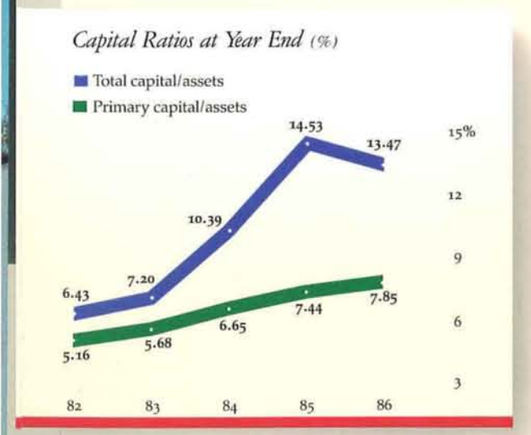
Wells Fargo will continue to rely on this spirit as we work to solidify our market presence and move ahead toward our corporate goals. In keeping with our goal of operating a lean company is a commit-



ment to foster a culture that minimizes bureaucracy and directly rewards results. Incentive programs for our sales staff and managers and greater autonomy for our branches are two examples of that commitment.

We will continue to improve efficiency.

To express our thanks to the staff for the exceptional job they did last year, the Company has given more than 20,000 employees an extra day off, $100 in cash and an additional week of vacation in 1987.



In November, four key members of Wells Fargo's management team were named vice chairmen of the Company. John F. Grundhofer, 48, is senior executive in Southern California and heads the Company's wholesale banking units, including Corporate and Commercial Banking. Robert L. Joss, 45, oversees the Funding, Private Banking and International Banking Groups and Wells Fargo Investment Advisors. David M. Petrone, 42, supervises most of the nonbank subsidiaries, the Bank's Real Estate Industries Group and all of the Company's other activities related to real estate. William F. Zuendt, 40, heads all of the Bank's retail businesses.

BOARD OF DIRECTORS Arjay Miller and B. Regnar Paulsen retired from the Board of Directors in 1986 after 17 and 16 years of service, respectively, and were named directors emeriti. Both men brought unique wisdom and insight to our deliberations during their tenure with the board. The Company continues to benefit from their thoughtful counsel as directors emeriti.

Wells Fargo & Company was deeply saddened by the death on August 14, 1986, of John Ward Mailliard III, 72, who had served as a director for 31 years before being named a director emeritus in 1985. Mr. Mailliard helped guide the Company through many of our most challenging years. We greatly miss his guidance and counsel.

CONCLUSION In summary, the expansion of Wells Fargo & Company in 1986 has increased our business development potential while helping us strengthen our financial performance. Looking ahead, we will continue to improve efficiency and work to realize the potential of our new organization; at the same time, we will be alert for additional opportunities to build our position in our targeted markets.

Carl E. Reichardt
Chairman

Paul Hazen
President

March 10, 1987

Overview

Net income in 1986 was $273.5 million, an increase of 44 percent over $190.0 million in 1985. Net income per share was $5.03, up 21 percent from $4.15 in 1985. All earnings per share amounts have been adjusted to reflect the 2-for-1 common stock split in the form of a 100 percent stock dividend paid on January 20, 1987 to shareholders of record December 31, 1986.

The 1986 results include the earnings of the former Crocker National Corporation (Crocker) beginning June 1, 1986. The percentage increase in net income per share was lower than the percentage increase in net income primarily due to the issuance of 5.3 million pre-split shares of common stock in 1986 in connection with the acquisition of Crocker.

On May 30, 1986, the Company acquired from Midland Bank plc all the issued and outstanding common stock of Crocker, a bank holding company whose principal subsidiary was Crocker National Bank. On the acquisition date, Crocker and Crocker National Bank were combined with and began operating under the names of Wells Fargo & Company and Wells Fargo Bank, respectively.

The aggregate purchase price paid to Midland at closing was $1.1 billion in cash. The acquisition was partially funded by $682 million in net proceeds from sales of common and preferred stock.

The acquisition was accounted for as a purchase transaction. Accordingly, the Company's consolidated financial statements include Crocker's results of operations beginning June 1, 1986. The acquisition of Crocker contributed to substantially all of the significant increases in income, expense, assets and liabilities, when comparing 1986 with prior years.

An increase in net interest income, as well as realizing economies of scale associated with the Crocker acquisition, contributed to the earnings performance. Net interest income on a taxable-equivalent basis increased 34 percent to $1.7 billion in 1986. The net interest margin was 5.09% in 1986, an increase of 16 basis points over 1985.

The average volume of loans in 1986 was $30.5 billion, up 31 percent from 1985, primarily due to increases of 74 percent in consumer loans and 29 percent in the commercial, financial and agricultural (commercial) portfolio.

Table 1. Six-Year Summary of Selected Financial Data (1)

(in millions)	1986	1985	1984	1983	1982	1981	Change 1986/1985	Five-year compound growth rate
INCOME STATEMENT								
Net interest income	**$1,608.9**	$1,220.2	$1,069.5	$915.0	$821.9	$731.0	32%	17%
Provision for loan losses	**361.7**	371.8	194.6	121.1	115.4	63.4	(3)	42
Noninterest income	**459.6**	395.7	270.6	279.5	293.9	231.3	16	15
Noninterest expense	**1,315.2**	943.8	886.6	843.7	836.6	743.5	39	12
Net income	**273.5**	190.0	169.3	154.9	138.6	124.0	44	17
Per common share (2)								
Net income	**5.03**	4.15	3.42	3.01	2.90	2.66	21	14
Dividends declared	**1.41**	1.24	1.08	.99	.96	.96	14	8
BALANCE SHEET								
Loans	**$36,771.1**	$24,614.2	$22,893.9	$20,267.6	$19,768.5	$17,977.7	49%	15%
Allowance for loan losses	**734.0**	417.5	260.3	199.6	190.5	153.1	76	37
Assets	**44,577.1**	29,429.4	28,184.1	27,017.6	24,814.0	23,219.2	51	14
Senior debt	**2,019.1**	2,129.7	1,708.6	1,493.7	1,335.2	968.4	(5)	16
Subordinated debt	**2,392.4**	2,056.5	1,011.7	38.8	38.8	38.8	16	128
Stockholders' equity	**2,342.7**	1,458.0	1,343.7	1,347.8	1,100.4	1,020.9	61	18

(1) Reflects the acquisition of Crocker National Corporation beginning June 1, 1986.
(2) Adjusted to reflect the 2-for-1 common stock split.

The average volume of core deposits in 1986 was $24.9 billion, a 40 percent increase over 1985. Core deposits, which consist of noninterest-bearing deposits, interest-bearing checking accounts, savings accounts and savings certificates, funded 67 percent and 62 percent of the Company's average total assets in 1986 and 1985, respectively.

Noninterest income was $459.6 million in 1986, compared with $395.7 million in 1985. Noninterest income included investment securities gains of $29.4 million in 1986, compared with $55.5 million in 1985. A $50.2 million gain on the sale of a mortgage banking subsidiary was also included in noninterest income for 1985. Noninterest expense of $1,315.2 million in 1986 was up 39 percent compared with 1985.

The Company's provision for loan losses was $361.7 million in 1986, compared with $371.8 million in 1985. During 1986, net charge-offs were $279.0 million, or .91 percent of average loans, compared with $211.6 million, or .90 percent of average loans, during 1985. The allowance for loan losses increased to 2.00 percent of total loans at the end of 1986, compared with 1.70 percent at the end of 1985.

Nonaccrual and restructured loans were $970.7 million, or 2.6 percent of total loans, at December 31, 1986, compared with $789.8 million, or 3.2 percent of total loans, at December 31, 1985. Other real estate increased to $319.6 million at year-end 1986, from $169.3 million at the end of 1985.

Primary capital was 7.85 percent of total assets at December 31, 1986, compared with 7.44 percent at the end of 1985. Total capital was 13.47 percent of total assets at the end of 1986, compared with 14.53 percent a year earlier.

The Company's key performance ratios and per common share data are shown in the following table.

Table 2. Ratios and Per Common Share Data

	Year ended December 31,		
	1986	1985	1984
PROFITABILITY RATIOS			
Net income to:			
Average total assets	.73%	.67%	.62%
Average stockholders' equity	13.37	13.50	12.60
Net income applicable to common stock to average common stockholders' equity	14.81	14.05	12.88
CAPITAL RATIOS			
Year-end balances:			
Equity to assets	5.26%	4.95%	4.77%
Primary capital to assets (1)	7.85	7.44	6.65
Total capital to assets (2)	13.47	14.53	10.39
Average balances:			
Equity to assets	5.47	4.93	4.93
Primary capital to assets	7.98	7.06	6.36
Total capital to assets	14.35	12.57	8.44
PER COMMON SHARE DATA (3)			
Dividend payout (4)	28%	30%	32%
Book value	$36.11	$30.94	$28.11
Market prices (5):			
High	57⅛	32⅜	24⅝
Low	30¾	22¾	15¾
Year end	50¾	31¾	23⅝

(1) Based on regulatory concepts, primary capital ($3,551 million at December 31, 1986) is defined as stockholders' equity ($2,343 million), qualifying mandatory convertible debt ($529 million, net of note fund and dedicated stockholders' equity discussed on page 35) and allowance for loan losses ($679 million, exclusive of allocated transfer risk reserves discussed on page 16).
(2) Based on regulatory concepts, total capital ($6,094 million at December 31, 1986) is defined as primary capital, certain senior and subordinated debt of the Parent and its nonbank subsidiaries ($2,498 million) and subordinated notes of the Bank ($45 million).
(3) Adjusted to reflect the 2-for-1 common stock split.
(4) Dividends declared per common share as a percentage of net income per common share.
(5) Based on daily closing prices listed on the New York Stock Exchange Composite Transaction Reporting System.

Earnings Performance

Wells Fargo & Company (Parent) is a bank holding company whose principal subsidiary is Wells Fargo Bank, N.A. (Bank). In addition, the Parent, through its nonbank subsidiaries, provides equipment lease, real estate and agricultural financing; originates and services real estate loans for investors; advises a real estate investment trust; provides consumer, accounts receivable and inventory financing; manages funds for pension plans, institutions and foundations; and provides credit insurance to borrowers from certain of the Parent's subsidiaries. In this Annual Report, Wells Fargo & Company and its subsidiaries are referred to as the Company.

A condensed consolidating statement of income of the Parent and its subsidiaries is shown in Table 3. The Bank, nonbank subsidiaries and Parent contributed 69 percent, 17 percent and 14 percent, respectively, to consolidated net income. The Parent's contribution excludes its equity in earnings of subsidiaries.

Net income of the nonbank subsidiaries increased by $28.7 million over 1985. The majority of the increase was due to Wells Fargo Business Credit and Wells Fargo Leasing Corporation.

Net Interest Income

Net interest income is the difference between interest income (which includes certain loan-related fees) and interest expense. Net interest income was $1,608.9 million in 1986 and $1,220.2 million in 1985. Net interest income on a taxable-equivalent basis was $1,696.8 million in 1986, an increase of 34 percent over $1,268.6 million in 1985. Net interest income on a taxable-equivalent basis reflects adjustments for certain securities and loans that are exempt from federal income taxes ($57.7 million in 1986 and $48.4 million in 1985), as well as for the net-of-tax accounting related to the Crocker acquisition ($30.2 million in 1986), which is discussed further under Income Taxes. The taxable-equivalent adjustments are based on the 46% federal tax rate and applicable state taxes.

Net interest income on a taxable-equivalent basis expressed as a percentage of average total earning assets is referred to as the net interest margin, which represents the average net effective yield on earning assets. For 1986, the net interest margin was 5.09%, 16 basis points higher than 1985. Individual components of net interest income and the net interest margin are presented in the rate/yield table on page 10.

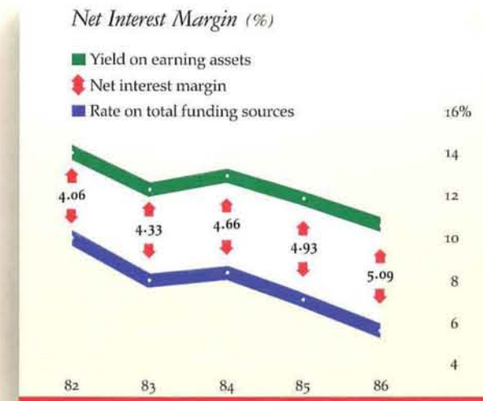


Table 3. Condensed Consolidating Statement of Income

(in millions)	Year ended December 31, 1986				
	Wells Fargo & Company (Parent)	Wells Fargo Bank	Nonbank subsidiaries	Inter-company eliminations	Consolidated Wells Fargo & Company
Interest income	$467.5	$3,007.7	$492.0	$(461.7)	$3,505.5
Interest expense	480.7	1,546.4	354.5	(461.7)	1,919.9
Amortized gain on interest rate hedging	—	23.3	—	—	23.3
Net interest income	(13.2)	1,484.6	137.5	—	1,608.9
Provision for loan losses	—	316.3	45.4	—	361.7
Net interest income after provision for loan losses	(13.2)	1,168.3	92.1	—	1,247.2
Equity in earnings of subsidiaries	235.6	—	—	(235.6)	—
Noninterest income	70.1	358.3	82.3	(51.1)	459.6
Noninterest expense	7.1	1,248.4	110.8	(51.1)	1,315.2
Income before income tax expense	285.4	278.2	63.6	(235.6)	391.6
Income tax expense	11.9	88.4	17.8	—	118.1
Net income	$273.5	$ 189.8	$ 45.8	$(235.6)	$ 273.5

Table 4. Average Balances, Yields and Rates Paid (Taxable-Equivalent Basis)

(in millions)	1986 Average balance	1986 Yields/ rates	1986 Interest income/ expense	1985 Average balance	1985 Yields/ rates	1985 Interest income/ expense	1984 Average balance	1984 Yields/ rates	1984 Interest income/ expense	1983 Average balance	1983 Yields/ rates	1983 Interest income/ expense	1982 Average balance	1982 Yields/ rates	1982 Interest income/ expense
EARNING ASSETS															
Interest-earning deposits	$ 1,210	6.94%	$ 84.0	$ 509	9.17%	$ 46.7	$ 926	11.48%	$ 106.3	$ 1,342	10.74%	$ 144.1	$ 1,756	13.80%	$ 242.4
Investment securities:															
U.S. Treasury securities	585	7.88	46.1	882	9.71	85.6	641	10.85	69.5	233	10.19	23.7	204	10.04	20.4
Securities of other U.S. government agencies and corporations	170	8.66	14.7	20	7.70	1.6	65	8.57	5.6	133	8.81	11.7	215	8.96	19.2
Obligations of states and political subdivisions	135	8.67	11.7	162	8.78	14.2	218	8.83	19.3	282	8.96	25.3	476	9.15	43.6
Other securities	332	12.16	40.4	289	15.12	43.6	202	17.60	35.6	67	16.35	11.0	35	7.56	2.7
Total investment securities	1,222	9.24	112.9	1,353	10.72	145.0	1,126	11.54	130.0	715	10.03	71.7	930	9.24	85.9
Trading account securities	190	6.88	13.0	266	8.56	22.8	137	10.88	14.9	111	9.39	10.4	85	14.41	12.3
Federal funds sold	198	6.71	13.3	210	8.30	17.4	374	10.75	40.2	233	9.53	22.2	187	11.89	22.2
Loans:															
Commercial, financial and agricultural	10,091	9.13	921.0	7,840	10.71	839.4	7,504	12.50	937.9	6,803	11.58	787.7	5,822	14.90	867.2
Real estate construction-related	4,826	9.67	466.6	3,746	11.38	426.2	2,721	13.60	370.0	2,194	12.68	278.2	2,166	15.30	331.4
Real estate mortgage	5,968	10.65	635.9	4,760	11.10	528.3	4,980	11.17	556.3	4,962	11.14	552.9	5,634	11.16	628.5
Consumer	6,408	13.64	873.8	3,690	14.74	544.0	2,671	15.16	404.9	2,190	14.63	320.3	1,761	15.01	264.4
Lease financing	1,115	12.23	136.4	915	14.20	130.0	872	13.88	121.1	914	14.27	130.5	902	14.82	133.7
Foreign	2,101	8.96	188.1	2,427	11.28	273.7	2,834	13.09	371.0	2,839	11.90	337.8	2,302	15.63	359.7
Fees and sundry interest	—	—	127.0	—	—	91.8	—	—	92.1	—	—	96.4	—	—	85.1
Total loans (1)	30,509	10.98	3,348.8	23,378	12.12	2,833.4	21,582	13.22	2,853.3	19,902	12.58	2,503.8	18,587	14.36	2,670.0
Total earning assets	$33,329	10.72	3,572.0	$25,716	11.92	3,065.3	$24,145	13.02	3,144.7	$22,303	12.34	2,752.2	$21,545	14.08	3,032.8
FUNDING SOURCES															
Interest-bearing liabilities:															
Deposits:															
Savings deposits	$ 2,393	5.30	126.9	$ 1,381	5.50	75.9	$ 1,507	5.51	83.1	$ 1,768	5.29	93.6	$ 2,428	5.33	129.5
NOW accounts	2,107	4.81	101.3	1,429	5.12	73.1	1,376	5.10	70.2	1,270	5.18	65.7	1,272	5.17	65.8
Market rate checking	442	5.05	22.3	326	5.75	18.7	287	6.89	19.8	225	6.98	15.7	—	—	—
Market rate savings	6,883	5.34	367.9	5,327	6.63	353.0	4,742	8.51	403.4	4,577	8.35	382.3	330	9.43	31.2
Savings certificates	7,609	7.42	564.7	5,920	9.24	547.2	5,343	10.73	573.3	4,295	10.46	449.3	5,787	12.86	744.1
Certificates of deposit	807	9.00	72.6	278	13.94	38.8	414	14.06	58.2	640	13.94	89.3	1,012	14.15	143.3
Other time deposits	308	8.06	24.8	265	9.98	26.4	697	11.00	76.6	679	9.96	67.6	1,125	12.82	144.1
Deposits in foreign offices	717	7.52	53.9	1,135	9.88	112.2	1,820	11.46	208.7	1,966	11.16	219.3	2,140	14.13	302.4
Total interest-bearing deposits	21,266	6.27	1,334.4	16,061	7.75	1,245.3	16,186	9.23	1,493.3	15,420	8.97	1,382.8	14,094	11.07	1,560.4
Commercial paper	1,619	6.76	109.4	1,951	8.23	160.5	2,139	10.56	225.8	1,720	9.15	157.3	2,421	12.48	302.1
Other short-term borrowings	1,245	6.30	78.5	1,321	7.62	100.7	1,070	10.01	107.2	1,171	8.78	102.9	1,315	12.84	168.8
Senior and subordinated debt:															
Senior debt	2,235	9.68	216.4	1,797	10.64	191.1	1,441	12.08	174.1	1,141	12.78	145.8	1,051	12.48	131.2
Subordinated debt	2,225	7.10	157.9	1,562	8.73	136.3	385	10.28	39.5	39	4.54	1.8	39	4.54	1.8
Total senior and subordinated debt	4,460	8.39	374.3	3,359	9.75	327.4	1,826	11.70	213.6	1,180	12.52	147.6	1,090	12.20	133.0
Total interest-bearing liabilities	28,590	6.63	1,896.6	22,692	8.08	1,833.9	21,221	9.61	2,039.9	19,491	9.19	1,790.6	18,920	11.44	2,164.3
Portion of noninterest-bearing funding sources	4,739	—	—	3,024	—	—	2,924	—	—	2,812	—	—	2,625	—	—
Total funding sources	$33,329	5.69	1,896.6	$25,716	7.13	1,833.9	$24,145	8.45	2,039.9	$22,303	8.03	1,790.6	$21,545	10.05	2,164.3
Amortized gain on interest rate hedging		.06	21.4		.14	37.2		.09	19.4		.02	3.2		.03	6.7
Net interest margin and net interest income on a taxable-equivalent basis		5.09%	$1,696.8		4.93%	$1,268.6		4.66%	$1,124.2		4.33%	$ 964.8		4.06%	$ 875.2
NONINTEREST-EARNING ASSETS															
Cash and due from banks	$ 2,353			$ 1,639			$ 1,712			$ 1,713			$ 1,712		
Other (2)	1,692			1,214			1,376			1,422			1,561		
Total noninterest-earning assets	$ 4,045			$ 2,853			$ 3,088			$ 3,135			$ 3,273		
NONINTEREST-BEARING FUNDING SOURCES															
Deposits	$ 5,463			$ 3,366			$ 3,422			$ 3,420			$ 3,380		
Other liabilities	1,275			1,103			1,247			1,267			1,459		
Stockholders' equity	2,046			1,408			1,343			1,260			1,059		
Noninterest-bearing funding sources used to fund earning assets	(4,739)			(3,024)			(2,924)			(2,812)			(2,625)		
Total net noninterest-bearing funding sources	$ 4,045			$ 2,853			$ 3,088			$ 3,135			$ 3,273		
TOTAL ASSETS	$37,374			$28,569			$27,233			$25,438			$24,818		

The average prime rate of Wells Fargo Bank was 8.33%, 9.93%, 12.03%, 10.79% and 14.85% for the years ended 1986, 1985, 1984, 1983 and 1982, respectively.
(1) Nonaccrual and restructured loans and related income are included in their respective loan categories.
(2) Includes the average allowance for loan losses of $587 million, $336 million, $222 million, $197 million and $162 million in 1986, 1985, 1984, 1983 and 1982, respectively.

Substantial growth in earning assets contributed to the improvement in net interest income in 1986. Loan volume averaged $30.5 billion during 1986, up 31 percent over 1985. Consumer loans increased 74 percent, the commercial and real estate construction-related portfolios each increased 29 percent and real estate mortgage loans increased 25 percent. Additional discussion of changes in the loan portfolio appears on page 15.

The change in the mix of earning assets, as well as the increase in the percentage of noninterest-bearing funding sources used to fund earning assets, contributed to the 16 basis point improvement in net interest margin. These factors were partially offset by a decline in the amortized gain on interest rate hedging, which contributed 6 basis points and 14 basis points to the net interest margin in 1986 and 1985, respectively. The yields on average total loans and earning assets decreased 114 basis points and 120 basis points, respectively, in 1986, while the rate paid on average total funding sources decreased 144 basis points. The rate paid on interest-bearing deposits, the largest funding source, declined 148 basis points.

A schedule of loan fees and sundry interest is presented below.

Table 5. Loan Fees and Sundry Interest

(in millions)	Year ended December 31,		
	1986	1985	1984
LOAN FEES			
Commercial, financial and agricultural	$ 36.6	$28.1	$30.2
Real estate construction-related	7.3	4.9	10.7
Real estate mortgage	19.9	4.5	7.6
Credit card	35.4	31.6	23.1
Other revolving credit	2.8	2.5	2.1
Other consumer	13.5	10.3	8.4
Lease financing	2.4	1.9	1.4
Foreign	.5	1.1	1.7
Sundry interest	8.6	6.9	6.9
Total	$127.0	$91.8	$92.1

Total loan fees and sundry interest increased 38 percent in 1986 compared with 1985. The increase in real estate mortgage loan fees was primarily due to an increase in prepayment charges. Commercial, financial and agricultural fees increased 31 percent, substantially due to an increase in fees related to corporate loans. Sundry interest principally consists of interest recovered on charged off loans.

Noninterest Income

The table below shows the major components of noninterest income.

Table 6. Noninterest Income

(in millions)	Year ended December 31,			Percentage change	
	1986	1985	1984	1986/1985	1985/1984
Service charges on deposit accounts	$153.0	$109.0	$ 95.2	40%	14%
Domestic fees and commissions	116.9	88.2	75.4	33	17
Trust and investment services income	90.1	55.1	51.2	64	8
Investment securities gains	29.4	55.5	3.0	(47)	—
Trading account profits and commissions	20.3	13.3	3.8	53	251
International fees, commissions and foreign exchange	17.8	17.7	20.7	—	(14)
Sale of a mortgage banking subsidiary	—	50.2	—	—	—
All other	32.1	6.7	21.3	378	(69)
Total	$459.6	$395.7	$270.6	16	46

The increase in domestic fees and commissions in 1986 compared with 1985 was primarily due to higher letter of credit fees, domestic loan syndication fees, credit card merchant fees and advisory loan service fees. The largest component of domestic fees and commissions was credit card merchant fees, which were $24.6 million and $19.2 million in 1986 and 1985, respectively.

A significant portion of the growth in trust and investment services income in 1986 compared with 1985 was attributable to additional funds invested by new and existing customers and an improvement in the stock market.

In 1986 and 1985, investment securities gains primarily resulted from sales of U.S. Treasury securities. If it were not for the net-of-tax accounting related to Crocker, investment securities gains would have been $11.8 million higher, or $41.2 million in 1986. See further discussion under Income Taxes.

In 1986, trading account profits and commissions primarily resulted from sales of U.S. Treasury securities. The majority of the 1985 amount was due to gains from an arbitrage program.

During the first quarter of 1985, the Company recognized a pretax gain of $50.2 million ($32.1 million after tax) on the sale of Wells Fargo Mortgage Company. A deferred gain of approximately $40 million is being amortized over the expected remaining life (approximately 12 years) of the residential mortgages held by the Bank. The Company continues to conduct its commercial mortgage banking business.

Most of the increase in "all other" income in 1986 compared with 1985 was due to the recognition of $33.3 million in gains from sales of venture capital investments and other cost method equity investments, sales proceeds in excess of equipment lease residual values of $11.0 million and the 1985 recognition of $11.6 million in net closing costs associated with restructuring the Company's international activities. These increases in "all other" income were partially offset by losses on abandonment of furniture and equipment that were $9.1 million higher in 1986 than 1985. If it were not for the net-of-tax accounting related to Crocker, "all other" income would have been $25.8 million higher, or $57.9 million in 1986. See further discussion under Income Taxes.

Noninterest Expense

The table below shows the major components of noninterest expense.

Table 7. Noninterest Expense

(in millions)	Year ended December 31,			Percentage change	
	1986	1985	1984	1986/1985	1985/1984
Salaries	$ 526.0	$414.5	$405.8	27%	2%
Employee benefits	148.1	99.5	83.5	49	19
Net occupancy	143.7	87.8	81.7	64	8
Equipment	108.0	75.9	74.2	42	2
Postage, stationery and supplies	60.0	39.9	39.6	51	1
Telephone and telegraph	41.7	31.8	27.7	31	15
Other real estate	36.0	12.6	3.7	185	246
Professional services	27.8	22.3	19.8	25	12
Contract services	27.0	18.9	21.3	43	(11)
Advertising	24.9	18.3	17.1	36	7
Federal deposit insurance	20.7	13.8	12.3	50	12
Travel and entertainment	20.4	17.4	19.0	17	(8)
Outside data processing	17.4	14.5	13.1	20	11
Insurance	16.5	8.5	3.4	95	148
Operating losses	15.2	14.9	9.5	2	57
Protection	13.1	9.3	9.1	41	2
Goodwill amortization	13.0	1.2	1.3	968	(4)
All other	55.7	42.7	44.5	30	(4)
Total	$1,315.2	$943.8	$886.6	39	6

The 1986 over 1985 increase in salaries expense reflected the additional personnel resulting from the acquisition of Crocker. The Company's full-time equivalent staff increased to approximately 21,500 at December 31, 1986, compared with approximately 14,000 a year earlier.

A significant portion of the employee benefits expense increase in 1986 compared with 1985 was due to higher expenses relating to executive stock option plans resulting from an increase in both the market price of the Company's common stock and in the number of options granted.

The 1986 over 1985 increase in net costs related to other real estate primarily resulted from the reappraisal of agricultural-related properties.

Income Taxes

The Company's effective income tax rate for 1986 was 30%, compared with 37% in 1985. The decrease in the effective tax rate was substantially due to the effect of purchase accounting.

The acquisition of Crocker was a business combination accounted for as a purchase transaction. Accordingly, Crocker's assets and liabilities were revalued to fair value at the time of acquisition, net of the related tax effects. The resulting pretax income and expense amounts recognized related to these assets and liabilities include the previously recorded income tax effects. To make the components of the income statement comparable to an income statement that does not include net-of-tax accounting, these tax effects of $80.5 million would have to be added to the income tax expense line in 1986. Correspondingly, $80.5 million would have to be added to income before income tax expense as follows: $30.2 million increase to net interest income, $37.6 million increase to noninterest income and $12.7 million decrease to noninterest expense. Reflecting these changes, the Company's income before income tax expense and income tax expense would have been $472.1 million and $198.6 million, respectively, resulting in the same net income of $273.5 million. If it were not for net-of-tax accounting, the Company's effective income tax rate would have been 42%, compared with 37% in 1985, primarily due to an increase in income subject to U.S. taxation.

In management's opinion, the effective income tax rate is not indicative of the Company's true economic tax burden, because it omits the effects of the Company's role as an intermediary for tax incentives, indirect taxation through mandatory maintenance of noninterest-earning reserve balances with the Federal Reserve Bank and net-of-tax accounting.

For a more complete discussion of income taxation, refer to note 11 to the financial statements on page 39.

TAX REFORM ACT OF 1986 On October 22, 1986, the President signed into law the Tax Reform Act of 1986 (Act), which primarily affects 1987 and later years. The Company is affected by various provisions of the Act, including the general reduction of corporate income tax rates from 46% to 34%, changes in the law permitting the use of the carryover of Crocker's tax benefits, the repeal of the reserve method for determining the tax allowance for loan losses, current U.S. taxation of unremitted future earnings from foreign subsidiaries and the limitation of the use of the cash basis method of reporting taxable income. Certain other provisions, such as the imposition of an alternative minimum tax, changes in the net operating loss carryback/carry-forward periods for financial institutions and changes in the utilization of foreign tax credits, may have an effect on the Company.

The Company does not anticipate significant changes to its results of operations due to the repeal of the investment tax credit and change in depreciation rules.

Separately, the Financial Accounting Standards Board issued for comment in September 1986 an exposure draft of a new Statement, Accounting for Income Taxes. If this Statement is adopted in its present form, major changes would include the use of the liability method for deferred taxes, elimination of the net-of-tax treatment for purchase accounting and the elimination of the indefinite reinvestment criteria for foreign entities.

While quantification of the effects of the Act and the Statement is not feasible at this time, management does not anticipate that these effects, taken as a whole, will cause any material adverse impact on the Company's financial position.

Balance Sheet Analysis

A condensed consolidating balance sheet of the Parent and its subsidiaries is shown below.

Table 8. Condensed Consolidating Balance Sheet

(in millions)					December 31, 1986
	Wells Fargo & Company (Parent)	Wells Fargo Bank	Nonbank subsidiaries	Inter-company eliminations	Consolidated Wells Fargo & Company
ASSETS					
Cash and due from banks	$ 16.8	$ 2,953.4	$ 71.9	$ (79.7)	$ 2,962.4
Interest-earning deposits	260.0	271.4	.4	(260.4)	271.4
Investment securities	430.1	2,091.0	23.9	—	2,545.0
Trading account securities	—	118.1	—	—	118.1
Federal funds sold	—	10.5	—	—	10.5
Loans	69.5	32,281.7	4,419.9	—	36,771.1
Allowance for loan losses	3.0	664.8	66.2	—	734.0
Net loans	66.5	31,616.9	4,353.7	—	36,037.1
Investment in subsidiaries	2,490.6	—	—	(2,490.6)	—
Intercompany loans and advances	5,303.4	—	230.2	(5,533.6)	—
Other assets	397.4	2,175.5	248.7	(189.0)	2,632.6
Total assets	$8,964.8	$39,236.8	$4,928.8	$(8,553.3)	$44,577.1
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits	$ —	$33,285.6	$ 47.3	$ (340.1)	$32,992.8
Borrowings	6,260.3	1,482.3	205.0	—	7,947.6
Intercompany borrowings	219.9	1,299.0	4,014.7	(5,533.6)	—
Other liabilities	141.9	1,044.3	296.8	(189.0)	1,294.0
Total liabilities	6,622.1	37,111.2	4,563.8	(6,062.7)	42,234.4
Stockholders' equity	2,342.7	2,125.6	365.0	(2,490.6)	2,342.7
Total liabilities and stockholders' equity	$8,964.8	$39,236.8	$4,928.8	$(8,553.3)	$44,577.1

Investment Securities

Investment securities were $2.5 billion at December 31, 1986, a 50 percent increase over 1985. Substantially all of the increase was the result of purchases of Government National Mortgage Association securities. These securities were purchased to help reduce the one-year-and-over net liability position, which is discussed in the Asset/Liability Management section on page 21. Note 4 to the financial statements on page 31 shows the composition of the investment portfolio by type of issuer.

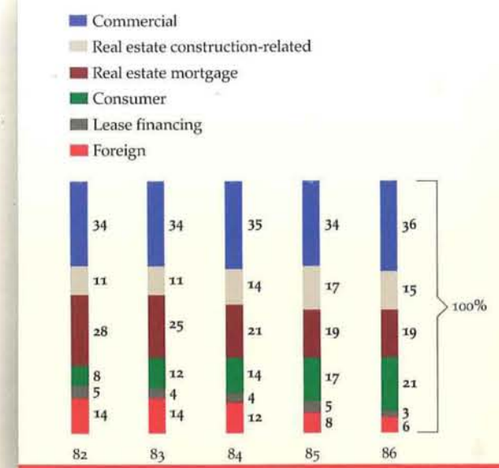
Loan Portfolio

A comparative schedule of year-end loans is presented in note 5 to the financial statements on page 32; average loan balances are presented in the rate/yield table on page 10. Average consumer loans for 1986 increased 74 percent over 1985, the commercial and real estate construction-related portfolios each increased 29 percent and real estate mortgage loans increased 25 percent.

Growth in real estate junior lien mortgage loans and credit card activity accounted for most of the increase in consumer loans. Real estate junior lien mortgage loans averaged $2.6 billion during 1986, an increase of 89 percent over 1985; credit card loans averaged $1.8 billion, an increase of 56 percent. There were 1.8 million cardholder accounts at year-end 1986, an increase of 50 percent over year-end 1985. The increase in the commercial portfolio reflected growth in middle-market loans. In December 1986, approximately $1.8 billion in loans were added to the commercial portfolio, primarily resulting from corporate commercial lending. The increase in average real estate construction-related loans, which generally have maturities of five years or less, was broadly based and primarily resulted from loans made to finance the construction of commercial properties. Most of the increase in real estate mortgage loans occurred in the 1–4 family mortgage loan portfolio.

Included in the commercial portfolio were agricultural loans of approximately $767 million and $700 million at December 31, 1986 and 1985, respectively. Agricultural loans include loans to finance agricultural production, fisheries and forestries and other loans to farmers. Agricultural loans that are primarily secured by real estate are included in real estate mortgage loans; such loans were $133 million and $125 million at December 31, 1986 and 1985, respectively.

Loan Mix at Year End (%)



Nonaccrual Loans, Restructured Loans and Other Real Estate

Table 9 presents comparative data for nonaccrual loans, restructured loans and other real estate (ORE). Note 1 to the financial statements on page 28 describes the Company's policies relating to nonaccrual and restructured loans and ORE. Management's classification of a loan as nonaccrual or restructured does not necessarily indicate that the principal of the loan is uncollectible in whole or in part.

Commercial nonaccruals increased 5 percent at December 31, 1986 compared with year-end 1985. However, excluding Crocker nonaccruals at year-end 1986, commercial nonaccruals would have decreased by approximately 13 percent. Crocker nonaccruals accounted for substantially all of the increase in commercial agricultural nonaccruals and approximately 50 percent of the increase in real estate construction-related nonaccruals at year-end 1986 compared with a year earlier.

Foreign nonaccruals increased at December 31, 1986 compared with a year earlier, reflecting increases in loans placed on nonaccrual status to borrowers in Venezuela and Costa Rica, partially offset by the return to accrual status of loans to borrowers in Argentina.

The increase in ORE at December 31, 1986 compared with year-end 1985 was primarily due to properties acquired in settlement of loans used to finance the construction of hotels and to finance agricultural-related activities. Approximately 10 percent of the increase in ORE was attributable to Crocker.

Table 9. Nonaccrual Loans, Restructured Loans and Other Real Estate

(in millions)	1986	1985	1984	1983	December 31, 1982
Nonaccrual loans:					
Commercial, financial and agricultural (1)	**$484.4**	$463.0	$382.4	$379.1	$249.8
Real estate construction-related	**115.4**	51.0	26.2	57.9	146.6
Real estate mortgage (2)	**84.9**	49.5	43.7	15.6	17.5
Consumer	**4.0**	3.6	.6	8.3	1.6
Lease financing	**12.8**	9.5	14.4	11.1	17.0
Foreign	**255.4**	194.8	249.9	236.4	107.9
Total nonaccrual loans	**$956.9**	$771.4	$717.2	$708.4	$540.4
Restructured loans (all domestic)	**$ 13.8**	$ 18.4	$ 17.4	$ 40.2	$ 20.7
Nonaccrual and restructured loans as a percentage of total loans	**2.6%**	3.2%	3.2%	3.7%	2.8%
Other real estate (ORE) (3)	**$319.6**	$169.3	$ 87.6	$ 77.7	$ 58.4
Nonaccrual loans, restructured loans and ORE as a percentage of total loans and ORE	**3.5%**	3.9%	3.6%	4.1%	3.1%

(1) Includes agricultural loans of $223 million, $180 million and $64 million at December 31, 1986, 1985 and 1984, respectively.
(2) Includes agricultural loans secured by real estate of $19 million, $24 million and $22 million at December 31, 1986, 1985 and 1984, respectively.
(3) Includes agricultural-related properties of $112 million, $94 million and $46 million at December 31, 1986, 1985 and 1984, respectively.

Loans contractually past due 90 days or more as to interest or principal, but not included in the nonaccrual or restructured categories, were $192.7 million at December 31, 1986, compared with $147.6 million at December 31, 1985. All loans in this category are both well secured and in the process of collection or are 1–4 family residential real estate loans or consumer loans that are exempt under regulatory rules from being classified as nonaccrual.

Interest on nonaccrual and restructured loans that was recognized as income amounted to $21.9 million and $35.9 million in 1986 and 1985, respectively. The decline in 1986 was primarily due to a decrease in nonaccrual loans to borrowers in Argentina.

Allowance for Loan Losses

An analysis of the changes in the allowance for loan losses, including net charge-offs by loan category, is presented in note 5 to the financial statements on page 32. At December 31, 1986, the allowance for loan losses was $734.0 million, or 2.00 percent of total loans, compared with $417.5 million, or 1.70 percent of total loans, at December 31, 1985. Included in the allowance at December 31, 1986 and 1985 are allocated transfer risk reserves of $55.4 million and $27.6 million, respectively. Federal banking agencies require banking institutions to establish allocated transfer risk reserves against international assets which, in the agencies' judgment, have ". . . been impaired by a protracted inability of public or private borrowers in a foreign country to make payments on their external indebtedness."

The Company's determination of the level of the allowance and, correspondingly, the provision for loan losses rests upon various judgments and assumptions including, but not necessarily limited to, general economic conditions, loan portfolio composition and prior loan loss experience. The Company considers the allowance for loan losses of $734.0 million adequate to cover losses inherent in loans, commercial loan commitments and standby letters of credit outstanding at December 31, 1986. No assurance can be given that the Company will not in any particular period sustain loan losses that are sizable in relation 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.

The provision for loan losses in 1986 was $361.7 million, compared with $371.8 million in 1985. During 1986, net charge-offs were $279.0 million, compared with $211.6 million in 1985. As a percentage of average loans outstanding, net charge-offs were .91 percent in 1986 and .90 percent in 1985. Most of the increase in net charge-offs in 1986 compared with 1985 was due to credit card loans, in which there was significant growth as well as a higher ratio of charge-offs to average loans.

Net charge-offs of agricultural-related loans (included in both the commercial and real estate mortgage loan portfolios) were $42.3 million in 1986 and $36.7 million in 1985.

Loan loss recoveries in 1986 were $56.4 million, compared with $25.6 million in 1985. The increase in 1986 occurred primarily in the commercial loan portfolio.

Loans are charged off when classified as a loss by either internal loan examiners or regulatory examiners. Additionally, any loan that is past due as to principal or interest and that is not both well secured and in the process of collection is charged off (to the extent that it exceeds the net realizable value of the collateral) after a predetermined period of time that is based on loan category.

Cross-Border Outstandings

The following table shows the Company's cross-border outstandings to borrowers in individual countries that accounted for .75 percent or more of total assets at December 31, 1986, 1985 or 1984. Outstandings are defined as loans, interest-earning time deposits with other banks, other interest-earning investments, accrued interest receivable, acceptances and other monetary assets that are denominated in dollars or other nonlocal currency. Country distributions are based on the location of the obligor or investment, except (1) for cross-border outstandings guaranteed by a third party, in which case the country is that of the guarantor, and (2) when tangible liquid collateral is held outside the foreign country, in which case the country is that in which the collateral is located. Loans made or deposits placed with the branch of a bank outside the bank's home country are considered outstandings of the home country.

Table 10. Cross-Border Outstandings at Year End

(in millions)	Governments and official institutions (1)	Banks and other financial institutions	Commercial and industrial	Total
Brazil				
1986	**$404**	**$178**	**$ 12**	**$594**
1985	356	235	12	603
1984	269	335	13	617
Mexico (2)				
1986	**355**	**40**	**192**	**587**
1985	352	45	209	606
1984	343	52	268	663
Venezuela				
1986	**142**	**5**	**75**	**222**
1985	117	43	99	259
1984	121	44	111	276
Japan				
1986	**—**	**120**	**226**	**346**
1985	—	292	65	357
1984	—	360	60	420
Italy				
1986	**32**	**28**	**—**	**60**
1985	37	41	3	81
1984	106	135	24	265

(1) Includes commercial enterprises that are majority-owned by central governments.
(2) The Company also had approximately $41 million, $39 million and $28 million in 1986, 1985 and 1984, respectively, in standby letters of credit in support of Mexican entities, substantially all of which were in the private sector. Standby letters of credit in support of entities in other Latin American countries were not significant.

The remainder of the Company's foreign outstandings was spread among 44, 45 and 55 countries at December 31, 1986, 1985 and 1984, respectively. At December 31, 1986, the only other country in which the Company had outstandings equaling or exceeding .25 percent of total assets was Argentina ($131 million or .29 percent of total assets).

A Country Review Committee, which includes senior officers of the International Banking Group and Economics Department of the Bank, analyzes each country where the Company has or may have exposure in order to assess the cross-border risk. Based on the Committee's assessments, International Banking Group management recommends specific country limits.

As has been widely reported, various foreign countries have experienced serious economic and/or political difficulties in meeting scheduled payments of interest and principal on their debt. In the event of further deterioration in these countries, additional loans may be placed on nonaccrual status, reserved for or charged off under Company policies and bank regulatory requirements.

The following table summarizes the changes in 1986 in the Company's cross-border outstandings to borrowers in individual countries that accounted for 1 percent or more of total assets at December 31, 1986, and are currently experiencing liquidity problems that may have a material impact on the timely repayment of the outstandings.

Table 11. Changes in Cross-Border Outstandings—Brazil and Mexico

(in millions)	Brazil	Mexico
Outstandings at January 1, 1986	$603	$606
Net change in short-term (original maturities of one year or less) outstandings	(3)	—
Changes in other outstandings:		
Additional outstandings	13	7
Interest income accrued	58	50
Principal collected	(15)	(24)
Accrued interest collected	(58)	(50)
Other changes	(4)	(2)
Outstandings at December 31, 1986	$594	$587
Short-term outstandings at December 31, 1986	$171	$ —

Table 12 summarizes the terms of restructuring agreements approved in 1986 with borrowers in Brazil and Mexico. These agreements are discussed following the table.

Table 12. Restructuring Agreements—Brazil and Mexico

(in millions)	Brazil		Mexico	
	1985 maturities	1986 maturities	Restructured debt	Money facilities
Amount restructured in 1986	$46	$60	$240	$80
Weighted average year of maturity:				
Pre-restructuring	1985	1986	1992	1989
Post-restructuring	1991	*	2000	1990
Weighted average interest rate:				
Pre-restructuring	Prime + 1¾%	Prime + 1¾%	LIBOR + 1½%	Prime + 1⅛%
Post-restructuring	LIBOR + 1⅛%	LIBOR + 1⅛%	LIBOR + 13/16%	LIBOR + 13/16%

*Determination of the final maturity was deferred under interim measures until 1987.

BRAZIL In September 1986, the Brazilian government's foreign creditors agreed on the restructuring terms of the 1985 and 1986 maturities of medium-term debt, of which the Company's share is approximately $106 million, and the extension to March 1987 of the 1986 Interbank and Trade Commitment Letters, of which $195 million is included in the Company's outstandings. The Company believes that the effect of the restructuring on it will not be material.

In January 1987, a group of creditor governments agreed to reschedule $4.1 billion in loan payments from Brazil. It is possible that this may lead to requests of commercial banks for new money and concessionary interest rates on existing debt.

In February 1987, spurred by a declining trade surplus, high inflation and a general destabilization of the economy, the Brazilian government unilaterally imposed restrictions on repayment of principal and interest to foreign commercial creditor banks. These restrictions are expected to continue until the end of forthcoming debt negotiations. The restrictions include the payment of interest on all medium- and long-term foreign commercial creditor bank debt to a new deposit facility with Brazil's Central Bank, which is to be remunerated under terms to be established in the negotiation process. The Brazilian government stated that payments on short-term Interbank and Trade Commitment Letters will not undergo any changes.

As a result of this announcement, payments of interest and principal on the affected debt may not remain current during the negotiation process. As of February 20, 1987, the Company had approximately $420 million of debt affected by the restrictions, with an average interest rate of 9.0% and approximately $10 million of related accrued interest receivable.

The Company is unable to predict the precise nature of any new borrowings or concessionary interest rates or the effects of the restrictions.

Brazilian loans on nonaccrual status, all of which were to private sector borrowers, totaled $7 million at December 31, 1986, compared with $15 million at December 31, 1985.

MEXICO In July 1986, the Mexican government signed agreements covering economic policy goals and new borrowings with the International Monetary Fund and several other governmental finance organizations. These organizations agreed to lend up to $7.0 billion of additional funds to Mexico over the period 1986 to 1987. Related to this agreement, the Mexican government and the Bank Advisory Group reached final agreement in October 1986 on the terms under which Mexico's creditor banks would provide $7.7 billion in additional loans over the same period of time. The terms of the new loans have been approved by the requisite percentage of creditor banks. The Company's estimated share of these new loans is approximately $83 million, which is scheduled for disbursement starting in the second quarter of 1987. The terms of the new loans require payments over 12 years, with interest-only payments due the first five years, at an interest rate of 13/16% over the London Interbank Offered Rate (LIBOR).

In August 1986, the Mexican government and the Bank Advisory Group agreed with the World Bank and certain foreign creditors of Mexico to the terms of a $1.6 billion bridge loan. The World Bank and other governmental finance organizations have disbursed $1.1 billion of this bridge loan. In December 1986, the creditor banks disbursed the remaining $.5 billion after more than 90 percent of these banks accepted the terms of the $7.7 billion in new loans discussed above. The Company's share of this bridge loan was $7 million.

On September 30, 1986, the Bank Advisory Group and the Mexican government agreed to a restructuring of $43.7 billion of previously restructured public debt. Under the previous restructuring agreement, the debt was payable over 14 years through 1998, at interest rates ranging from 1⅛% over prime and ⅞% over LIBOR to 1¼% over LIBOR. Under the new terms, the debt is payable over 20 years, with interest-only payments due the first seven years. The two parties also agreed to a rate reduction for $8.8 billion in existing money facilities that were signed in 1984 and 1983 and are due beginning in 1989. Under the previous terms, the interest rate was 1⅛% over prime.

The new interest rate for both the restructured debt and the money facilities is 13/16% over LIBOR. The restructuring terms have been approved by the requisite percentage of Mexico's creditor banks. The Company's outstandings in Mexico include approximately $240 million and $80 million of the restructured debt and the money facilities, respectively. The Company believes that the effect of the restructuring on it will not be material.

Mexican loans on nonaccrual status, all of which were to private sector borrowers, totaled $29 million at December 31, 1986, compared with $16 million at the end of 1985 and $39 million at the end of 1984. In March 1987, additional Mexican loans of $59 million were placed on nonaccrual status, all to private sector borrowers.

VENEZUELA In February 1987, the Bank Advisory Committee and the Republic of Venezuela agreed to the restructuring terms of Venezuela's public sector debt, which had previously been rescheduled. The Company's share of this debt totals approximately $140 million. The agreement calls for an interest rate reduction from 1⅛% over LIBOR to ⅞% over LIBOR with principal payments extended through 1999. Quarterly principal payments due in the first quarter of 1987 will be deferred under an interim arrangement until the restructuring agreement is approved by Venezuela's foreign creditor banks. The Company believes the effect of this restructuring on it will not be material.

Venezuelan loans on nonaccrual status, all of which were to private sector borrowers, totaled $52 million at December 31, 1986, compared with $13 million at the end of 1985 and $19 million at the end of 1984.

Deposits

Comparative year-end detail of total deposits is presented in the following table.

Table 13. Deposits

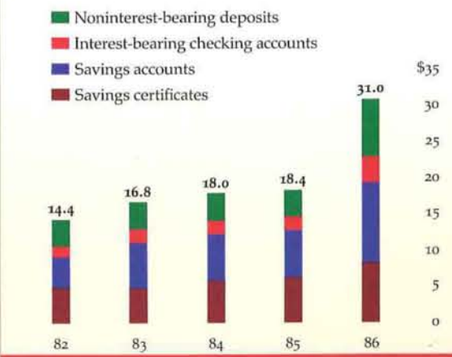
(in millions)	December 31, 1986	1985
Noninterest-bearing deposits	$ 8,041.4	$ 3,702.1
Interest-bearing checking accounts	3,465.7	1,718.1
Savings accounts	11,136.3	6,876.5
Savings certificates	8,351.9	6,060.8
Core deposits	30,995.3	18,357.5
Certificates of deposit	1,121.1	232.3
Other time deposits	226.9	223.9
Interest-bearing deposits—foreign	649.5	687.6
Total deposits	$32,992.8	$19,501.3

Core deposits and total deposits each increased 69 percent at December 31, 1986 compared with year-end 1985. There were significant increases in all core deposit categories, with the largest increases occurring in noninterest-bearing deposits and savings accounts.

Average core deposits and average total deposits increased 40 percent and 38 percent, respectively, in 1986 compared with 1985, reflecting significant increases in noninterest-bearing deposits and savings accounts.

Average core deposits funded 67 percent and 62 percent of the Company's average total assets in 1986 and 1985, respectively. Average core deposits funded 77 percent and 75 percent of the Bank's average total assets in 1986 and 1985, respectively.

Core Deposits at Year End ($ billions)



Liquidity Management

Liquidity refers to the Company's ability to maintain a cash flow adequate to fund operations and meet obligations and other commitments on a timely and cost-effective basis.

In recent years, core deposits have provided the Company with a sizable source of relatively stable and low-cost funds. In 1986, the Parent raised $784 million from issuances of unsecured debt, consisting of subordinated debt of $300 million and senior debt of $484 million. In addition, the Parent assumed from Crocker approximately $140 million of unsecured senior debt. During 1986, senior debt of approximately $765 million matured or was redeemed. In 1985, the Parent issued subordinated debt of $1,018 million and unsecured senior debt of $759 million.

The Company's average core deposits, senior and subordinated debt and stockholders' equity funded 84 percent and 79 percent of its average total assets in 1986 and 1985, respectively. Most of the remaining funding was provided by short-term borrowings, which primarily consisted of commercial paper issued by the Parent, federal funds borrowed by the Bank and sales of securities under repurchase agreements by both the Parent and the Bank. The Parent, in addition to raising funds for its own use, acts as a funding source for the nonbank subsidiaries, borrowing funds in a variety of markets and lending them to the nonbank subsidiaries.

Other sources of liquidity include maturity extensions of short-term borrowings, confirmed lines of credit from banks, sale or runoff of assets and short-term interest-earning deposits. The Company's policy is to extend maturities of short-term borrowings when it is cost-effective to do so and to maintain confirmed lines of credit from a variety of money center, regional and international banks. At December 31, 1986, the Company had $470 million in bank line coverage from unaffiliated banks.

The Company shifts borrowing activities from market to market to obtain the lowest-cost funds in each maturity category while maintaining access to different borrowing markets. Global funds management is centralized to facilitate such shifts and to control overall borrowing positions.

Under shelf registrations filed with the Securities and Exchange Commission, the Parent had registered but unissued debt securities of $556 million at December 31, 1986. Refer to note 7 to the financial statements on page 34 for a schedule of senior and subordinated debt as of December 31, 1986 and 1985.

To accommodate future growth and current business needs, the Company has a capital expenditure program. Capital expenditures for 1987 are estimated at $130 million for the relocation and remodeling of Company facilities, routine replacement of furniture and equipment and additional automation equipment for branches. The Company will fund these expenditures from various sources, including net income of the Company and borrowings of various maturities.

Capital Adequacy

The Company utilizes a variety of leverage measures to evaluate capital adequacy. Primary capital was 7.85 percent of total assets at December 31, 1986, compared with 7.44 percent at the end of 1985. Total capital was 13.47 percent of total assets, compared with 14.53 percent at the end of 1985. The decline in the total capital ratio reflected an increase in total assets that was greater than that of subordinated debt during the same period. Total capital increased to $6.1 billion at year-end 1986 from $4.3 billion at the end of 1985, mostly due to the issuances of common and preferred stock and senior and subordinated debt and to an increase in the allowance for loan losses. Subordinated debt of $300 million issued in 1986 included $200 million of mandatory equity notes, which were included in primary capital. All of the subordinated debt and $200 million of the unsecured senior debt issued in 1986, as well as the debt of approximately $140 million assumed from Crocker, were included in total capital.

Management reviews the various leverage measures monthly and takes appropriate action to ensure that they are within established internal and external guidelines. Management believes that its current leverage and liquidity positions are strong and exceed guidelines established by industry regulators, and that its capital position is adequate to support its various businesses. Management also monitors the extent and term of standby letters of credit relative to its capital position. At December 31, 1986, standby letters of credit were $2.4 billion, or 68 percent of primary capital.

Asset/Liability Management

The principal objectives of asset/liability management are to manage the sensitivity of net interest spreads to potential changes in interest rates and to enhance profitability in ways that promise sufficient reward for understood and controlled risk. Specific asset/liability strategies are chosen to achieve an appropriate trade-off between average spreads and the variability of spreads.

When management decides to maintain maturity imbalances, it does so on the basis of statistical studies of interest rates of different maturities. Funding positions are kept within predetermined limits designed to ensure that risk-taking is not excessive and that liquidity is properly maintained.

The Company hedges primarily to reduce mismatches in the rate maturity of certain loans and deposit liabilities through the use of interest rate futures. Gains and losses on these futures contracts are deferred and amortized over the expected loan or deposit liability holding period.

Approximately 75 percent of the Bank's prime-based loan portfolio is funded by market rate savings and six-month consumer deposits. The Bank uses interest rate futures to shorten the effective maturity of a portion of these deposits to the overnight to three-month range, which management believes will provide more stable and more profitable spreads between prime-based loans and the rates on those funding sources.

The use of interest rate futures resulted in an amortized gain on interest rate hedging of $23.3 million and $37.2 million in 1986 and 1985, respectively.

The following table shows the Company's interest rate sensitivity based on average balances for December 1986. Interest rate sensitivity measures the interval of time before earning assets and interest-bearing liabilities may respond to changes in market rates of interest. Assets and liabilities are categorized by remaining interest-rate maturities rather than by principal maturities of obligations. For example, a new five-year loan with a rate that is adjusted every 180 days would have a remaining interest rate maturity of 180 days. In 60 days, the same loan would have a remaining interest rate maturity of 120 days.

Table 14. Interest Rate Sensitivity

(in billions) Remaining interest rate maturity	Averages for December 1986: Assets	Liabilities and equity	Net assets (liabilities) (column 1 minus column 2)		Net assets (liabilities) as a percent of total assets	
1–29 days	$ 3.6	$ 9.5	$(5.9)		(13.4)%	
Prime-based	14.7	—	14.7	2.3	33.4	5.2
Market rate savings	—	7.6	(7.6)		(17.3)	
30–179 days	5.2	4.1	1.1		2.5	
180–364 days	1.6	1.4	.2		.5	
1–5 years	6.4	2.3	4.1		9.3	
Over 5 years	4.3	1.1	3.2	(2.5)	7.3	(5.7)
Nonmarket	8.2	18.0	(9.8)		(22.3)	
Total	$44.0	$44.0				

Management has made certain judgments and approximations in assigning assets and liabilities to rate maturity categories: (1) the remaining maturities of fixed-rate loans have been estimated based on recent repayment patterns rather than on contractual maturity; (2) "nonmarket" assets include noninterest-earning assets and credit card outstandings; "nonmarket" liabilities include savings deposits, NOW accounts, demand deposits, other noninterest-bearing liabilities and equity; and (3) asset and liability maturities reflect the effects of interest rate swaps.

The one-year-and-over net liability position was $2.5 billion for December 1986 (5.7 percent of total assets), compared with a net asset position of $800 million as of December 1985 (2.7 percent of total assets). Most of the change was due to the addition of Crocker balances and decreases in interest rates, which caused refinancing of longer term fixed rate loans with floating rate loans and growth in nonmarket deposit liabilities.

Comparison of 1985 Versus 1984

In 1985, net income was $190.0 million, up 12 percent from $169.3 million in 1984. Net income per share for 1985 was $4.15, compared with $3.42 in 1984.

Net interest income on a taxable-equivalent basis increased 13 percent to $1,268.6 million in 1985 from $1,124.2 million in 1984, due to a 7 percent growth in average earning assets and an increase in net interest margin to 4.93 percent in 1985, compared with 4.66 percent in 1984. The improvement in net interest margin was primarily attributable to the change in the mix of earning assets, as well as more favorable relationships between lending and deposit rates.

Average loan volume in 1985 was $23.4 billion, an increase of 8 percent over 1984. The average balances of both the real estate construction-related and consumer loan categories increased 38 percent in 1985 compared with 1984. Average foreign loans decreased 14 percent. The increase in real estate construction-related loans was broadly based and primarily resulted from loans made to finance commercial properties. Growth in credit card activity and real estate junior lien mortgage loans accounted for most of the increase in consumer loans. The decrease in foreign loans reflected a general reduction and realignment of the Company's international activities.

Average core deposits increased 6 percent to $17.7 billion in 1985, substantially due to growth in both market rate savings accounts and savings certificates. A schedule of average loan and deposit balances for 1985 and 1984 is shown in the rate/yield table on page 10.

Noninterest income was $395.7 million in 1985, compared with $270.6 million in 1984. Most of the 1985 increase was due to a $50.2 million gain on the sale of Wells Fargo Mortgage Company (WFMC), an increase of $52.5 million in investment securities gains and increases in service charges on deposit accounts and in domestic fees and commissions, partially offset by the recognition in 1985 of $11.6 million in closing costs associated with restructuring the Company's activities.

Noninterest expense was $943.8 million in 1985, a 6 percent increase from 1984. Salaries expense increased by 2 percent in 1985, as growth in salaries expense was restrained by the sale of WFMC and the closing of offices. Employee benefits expense increased 19 percent in 1985 compared with 1984, primarily due to an increase in retirement plan expense. Net costs related to other real estate increased to $12.6 million in 1985, from $3.7 million in 1984, primarily resulting from the operation and reappraisal of real estate obtained in settlement of troubled agricultural- and energy-related loans.

The allowance for loan losses at the end of 1985 was 1.70 percent of total loans, compared with 1.14 percent at the end of 1984. The provision for loan losses was $371.8 million in 1985, compared with $194.6 million in 1984. During 1985, net charge-offs were $211.6 million, compared with $133.3 million during 1984. As a percentage of average loans outstanding, net charge-offs were .90 percent in 1985 and .62 percent in 1984. The majority of the 1985 increase in net charge-offs was attributable to credit card loans and energy-related loans.

Nonaccrual and restructured loans were $789.8 million at December 31, 1985, compared with $734.6 million at December 31, 1984. Nonaccrual and restructured loans represented 3.2 percent of total loans at both December 31, 1985 and 1984. The most significant increase in nonaccrual loans occurred in agricultural loans included in the commercial portfolio, which were $180 million and $64 million at December 31, 1985 and 1984, respectively. Foreign nonaccruals decreased by $55.1 million to $194.8 million, reflecting the return to accrual status of loans to certain borrowers in Argentina and charge-offs of Mexican private sector loans, partially offset by increases in nonaccrual loans to borrowers in Brazil and Peru.

The Company's effective tax rate increased to 37% in 1985, compared with 35% in 1984. Most of the 1985 increase resulted from a greater amount of earnings subject to U.S. taxation, partially offset by an increase in income taxed at the capital gains rate.

The Company's ratio of primary capital to assets was 7.44 percent at December 31, 1985, compared with 6.65 percent at the end of 1984. Total capital was 14.53 percent of assets at December 31, 1985 and 10.39 percent a year earlier. The increase in total capital was primarily due to the issuance of $1.0 billion of subordinated debt during 1985.

General Information

Common stock of the Company is traded on the New York Stock Exchange, the Pacific Stock Exchange, the London Stock Exchange and the Frankfurter Börse. The high, low and end-of-period annual and quarterly closing prices of the Company's stock as reported on the New York Stock Exchange Composite Transaction Reporting System are presented in the following graphs. The number of holders of record of the Company's common stock was 22,545 as of January 31, 1987.

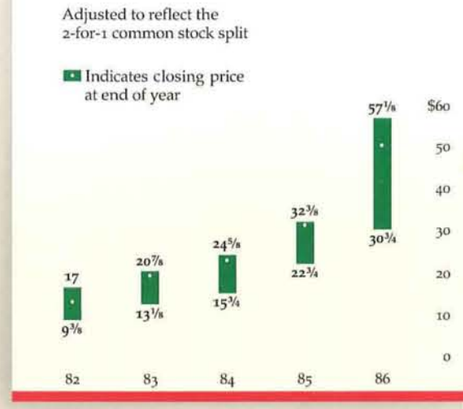
In early 1986, the Company's stockholders approved an increase in the number of authorized common shares from 50 million to 75 million shares. In October 1986, the Board of Directors approved a 2-for-1 common stock split in the form of a 100 percent stock dividend paid January 20, 1987 to holders of record as of December 31, 1986. All per common share amounts and average common shares outstanding for the current and prior years have been adjusted to reflect this stock split.

Common dividends declared per share totaled $1.41 in 1986, $1.24 in 1985 and $1.08 in 1984. The Company intends to continue its present policy of paying quarterly cash dividends to stockholders. Future dividends will be determined by the Company's Board of Directors in light of the earnings and financial condition of the Company. In the fourth quarter of 1986, the common stock quarterly dividend was increased from $.34 per share to $.39 per share.

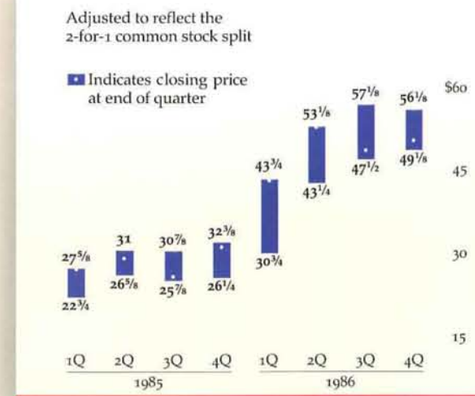
In December 1986, the Company and Bank of America announced a definitive agreement for the Company to purchase the consumer trust business of Bank of America. The acquisition is expected to be completed in the first quarter of 1987, subject to appropriate regulatory approvals. Bank of America's consumer trust, investment and custody services generate over $45 million in annual fee revenues. With this acquisition, the Company will manage approximately $25 billion in customer assets and approximately 26,000 accounts.

In February 1987, the Board of Directors approved a change in the Company's state of incorporation from California to Delaware and an increase in the authorized number of common shares from 75 million to 150 million and of preferred shares from 10 million to 25 million, all subject to stockholder approval.

Price Range of Common Stock—Annual (S)



Price Range of Common Stock—Quarterly (S)



(in millions)	Year ended December 31,		
	1986	1985	1984
INTEREST INCOME			
Loans	**$3,306.9**	$2,809.3	$2,830.9
Interest-earning deposits	**84.1**	46.6	106.3
Investment securities:			
Taxable	**84.3**	113.9	99.4
Exempt from federal income taxes	**4.5**	7.4	9.9
Trading account securities	**12.4**	22.3	14.9
Federal funds sold	**13.3**	17.4	40.2
Total interest income	**3,505.5**	3,016.9	3,101.6
INTEREST EXPENSE			
Deposits	**1,358.8**	1,245.3	1,493.3
Short-term borrowings	**187.9**	261.2	332.7
Senior and subordinated debt	**373.2**	327.4	225.5
Total interest expense	**1,919.9**	1,833.9	2,051.5
Amortized gain on interest rate hedging	**23.3**	37.2	19.4
NET INTEREST INCOME	**1,608.9**	1,220.2	1,069.5
Provision for loan losses	**361.7**	371.8	194.6
Net interest income after provision for loan losses	**1,247.2**	848.4	874.9
NONINTEREST INCOME			
Service charges on deposit accounts	**153.0**	109.0	95.2
Domestic fees and commissions	**116.9**	88.2	75.4
Trust and investment services income	**90.1**	55.1	51.2
Investment securities gains	**29.4**	55.5	3.0
Sale of a mortgage banking subsidiary	**—**	50.2	—
Other	**70.2**	37.7	45.8
Total noninterest income	**459.6**	395.7	270.6
NONINTEREST EXPENSE			
Salaries	**526.0**	414.5	405.8
Employee benefits	**148.1**	99.5	83.5
Net occupancy	**143.7**	87.8	81.7
Equipment	**108.0**	75.9	74.2
Other	**389.4**	266.1	241.4
Total noninterest expense	**1,315.2**	943.8	886.6
INCOME BEFORE INCOME TAX EXPENSE	**391.6**	300.3	258.9
Income tax expense	**118.1**	110.3	89.6
NET INCOME	**$ 273.5**	$ 190.0	$ 169.3
NET INCOME APPLICABLE TO COMMON STOCK	**$ 255.7**	$ 177.2	$ 154.2
PER COMMON SHARE			
Net income	**$ 5.03**	$ 4.15	$ 3.42
Dividends declared	**$ 1.41**	$ 1.24	$ 1.08
Average common shares outstanding (in thousands)	**50,875**	42,702	45,029

The accompanying notes are an integral part of these statements.

(in millions)	December 31,	
	1986	1985
ASSETS		
Cash and due from banks	**$ 2,962.4**	$ 1,402.2
Interest-earning deposits	**271.4**	534.5
Investment securities (market value $2,550.3 and $1,675.1)	**2,545.0**	1,696.1
Trading account securities	**118.1**	146.6
Federal funds sold	**10.5**	39.6
Loans	**36,771.1**	24,614.2
Allowance for loan losses	**734.0**	417.5
Net loans	**36,037.1**	24,196.7
Premises and equipment, net	**668.3**	444.4
Due from customers on acceptances	**258.5**	254.9
Goodwill	**498.3**	14.9
Accrued interest receivable	**306.6**	222.6
Other assets	**900.9**	476.9
Total assets	**$44,577.1**	$29,429.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing—domestic	**$ 8,028.6**	$ 3,693.7
Noninterest-bearing—foreign	**12.8**	8.4
Interest-bearing—domestic	**24,301.9**	15,111.6
Interest-bearing—foreign	**649.5**	687.6
Total deposits	**32,992.8**	19,501.3
Short-term borrowings:		
Federal funds borrowed and repurchase agreements	**1,290.9**	1,800.0
Commercial paper outstanding	**2,206.4**	1,436.2
Other	**38.8**	109.0
Total short-term borrowings	**3,536.1**	3,345.2
Acceptances outstanding	**259.6**	255.2
Accrued interest payable	**117.8**	128.4
Senior debt	**2,019.1**	2,129.7
Other liabilities	**916.6**	555.1
	39,842.0	25,914.9
Subordinated debt	**2,392.4**	2,056.5
Total liabilities	**42,234.4**	27,971.4
Stockholders' equity:		
Preferred stock	**405.0**	150.0
Common stock—$5 par value, authorized 75,000,000 shares; issued and outstanding 53,662,192 shares and 21,139,311 shares (42,278,622 shares after stock split)	**268.3**	105.7
Additional paid-in capital	**443.8**	158.2
Retained earnings	**1,232.4**	1,051.0
Equity adjustment from foreign currency translation	**(6.8)**	(6.9)
Total stockholders' equity	**2,342.7**	1,458.0
Total liabilities and stockholders' equity	**$44,577.1**	$29,429.4

The accompanying notes are an integral part of these statements.

(in millions)	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Foreign currency translation	Total stockholders' equity
Balance December 31, 1983	$150.0	$119.4	$265.0	$ 820.5	$(7.1)	$1,347.8
Net income—1984				169.3		169.3
Common stock issued under employee benefit and dividend reinvestment plans		1.0	5.7			6.7
Exercise of warrants and conversion of convertible notes		.8	3.0			3.8
Common stock repurchased		(15.0)	(103.8)			(118.8)
Preferred stock dividends				(15.1)		(15.1)
Common stock dividends				(48.0)		(48.0)
Equity adjustment from foreign currency translation (net of income tax benefit of $.9)					(2.0)	(2.0)
Net change	—	(13.2)	(95.1)	106.2	(2.0)	(4.1)
Balance December 31, 1984	150.0	106.2	169.9	926.7	(9.1)	1,343.7
Net income—1985				190.0		190.0
Common stock issued under employee benefit and dividend reinvestment plans		1.3	9.5			10.8
Exercise of warrants and conversion of convertible notes		.7	2.7			3.4
Equity adjustment from foreign currency translation (net of income tax expense of $1.3)					2.2	2.2
Common stock repurchased		(2.5)	(23.9)			(26.4)
Preferred stock dividends				(12.8)		(12.8)
Common stock dividends				(52.9)		(52.9)
Net change	—	(.5)	(11.7)	124.3	2.2	114.3
Balance December 31, 1985	150.0	105.7	158.2	1,051.0	(6.9)	1,458.0
Net income—1986				273.5		273.5
Preferred stock issued, net of issuance costs	255.0		(4.7)			250.3
Common stock issued in public offerings		26.7	405.0			431.7
Common stock issued under employee benefit and dividend reinvestment plans		1.4	18.2			19.6
Exercise of warrants and conversion of convertible notes		.3	1.3			1.6
Equity adjustment from foreign currency translation (net of income tax expense of $.1)					.1	.1
2-for-1 common stock split		134.2	(134.2)			—
Preferred stock dividends				(17.8)		(17.8)
Common stock dividends				(74.3)		(74.3)
Net change	255.0	162.6	285.6	181.4	.1	884.7
Balance December 31, 1986	$405.0	$268.3	$443.8	$1,232.4	$(6.8)	$2,342.7

The accompanying notes are an integral part of these statements.

(in millions)	Year ended December 31, 1986	1985	1984
Financial resources provided by (applied to):			
Operations:			
Net income	$ 273.5	$ 190.0	$ 169.3
Noncash charges:			
Provision for loan losses	361.7	371.8	194.6
Depreciation and amortization	84.9	64.8	58.1
Deferred income tax provision	22.4	29.0	44.2
Financial resources provided by operations	742.5	655.6	466.2
Cash dividends declared	(92.1)	(65.7)	(63.1)
Net financial resources provided by operations	650.4	589.9	403.1
Deposits and other financing activities:			
Noninterest-bearing deposits	4,339.3	(219.7)	77.1
Interest-bearing deposits	9,152.2	(480.3)	(236.8)
Short-term borrowings	190.9	547.1	146.6
Senior and subordinated debt	225.3	1,466.0	1,187.7
Preferred stock issued, net of issuance costs	250.3	—	—
Common stock issued in public offerings	431.7	—	—
Common stock issued under employee benefit and dividend reinvestment plans	19.6	10.8	6.7
Exercise of warrants and conversion of convertible notes	1.6	3.4	3.8
Common stock repurchased	—	(26.4)	(118.8)
Financial resources provided by deposits and other financing activities	14,610.9	1,300.9	1,066.3
Other activities:			
Cash and due from banks	(1,560.2)	646.8	143.5
Net additions to premises and equipment	(295.8)	(51.3)	(48.9)
Goodwill	(496.4)	—	—
Other assets	(424.0)	(98.3)	(86.1)
Other liabilities	339.1	(10.3)	20.9
Other, net	(93.7)	29.3	(.4)
Financial resources provided by (applied to) other activities	(2,531.0)	516.2	29.0
Increase in financial resources invested in earning assets	$12,730.3	$2,407.0	$ 1,498.4
Increase (decrease) in earning assets:			
Interest-earning deposits	$ (263.1)	$ 101.9	$(1,132.8)
Investment securities	848.9	607.5	120.3
Trading account securities	(28.5)	(51.9)	136.3
Federal funds sold	(29.1)	(185.4)	(385.5)
Net loans	12,202.1	1,934.9	2,760.1
Increase in earning assets	$12,730.3	$2,407.0	$ 1,498.4

The accompanying notes are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Wells Fargo & Company and Subsidiaries (Company) conform with generally accepted accounting principles and prevailing practices within the banking industry. Certain amounts in financial statements for prior years have been reclassified to conform with the current financial statement presentation.

The following is a description of the more significant policies.

CONSOLIDATION The consolidated financial statements of the Company include the accounts of Wells Fargo & Company (Parent), Wells Fargo Bank, N.A. (Bank) and the nonbank subsidiaries of the Parent.

Foreign branches and significant, majority-owned subsidiaries are consolidated on a line-by-line basis. Significant intercompany accounts and transactions are eliminated in consolidation. Other subsidiaries and affiliates in which there is at least 20 percent ownership are generally accounted for by the equity method and investments where there is less than 20 percent ownership are carried at cost. These investments are reported in other assets; related income, including disposition gains and losses, is included in noninterest income.

SECURITIES Trading account securities are carried at market value. Realized and unrealized gains or losses are reported in noninterest income.

Debt securities held for investment purposes are carried at cost, adjusted for amortization of premium and accretion of discount. Gains and losses on the sale of investment securities are reported using the identified certificate method.

Nonmarketable securities acquired for various reasons, such as troubled debt restructurings, are included in other assets.

PREMISES AND EQUIPMENT Premises and equipment are stated at cost less accumulated depreciation and amortization. Capital leases are included in premises and equipment at the capitalized amount less accumulated amortization.

Depreciation and amortization are computed primarily using the straight-line method with appropriate salvage values. Estimated useful lives range up to 40 years for buildings, 3–15 years for furniture and equipment and up to the lease term for leasehold improvements. Capitalized leased assets are amortized on a straight-line basis over the lives of the respective leases, which generally range from 20–35 years.

LOANS Loans are reported at the principal amount outstanding, net of unearned income. Unearned income on loans is recognized as income primarily on a declining basis (sum-of-the-digits method) over the term of the loan, except at certain nonbank subsidiaries where unearned income is amortized using an interest method.

A portion of loan origination fees intended to offset direct origination costs are recognized as income at the time of the loan closing. Any excess fees are amortized to interest income over the expected loan period using an interest method or the straight-line method if it is not materially different.

Unearned income from direct lease financing transactions is amortized over the lease terms using an interest method. Income on leveraged leases is recognized to attain a constant yield on the outstanding investment in the lease, net of related deferred tax liability, in the years in which the net investment is positive. At the lease inception, Wells Fargo Leasing Corporation recognizes a portion of unearned income equal to the approximate direct costs of acquiring leases plus an estimated provision for lease losses.

Nonaccrual loans Loans, other than 1–4 family residential real estate loans and consumer loans for which no portion of the principal has been charged off, are placed on nonaccrual status when the loan becomes 90 days past due as to interest or principal, unless both well secured and in the process of collection, or when the full timely collection of interest or principal becomes uncertain. When a loan is placed on nonaccrual status, the accrued and unpaid interest receivable is reversed and the loan is accounted for on the cash or cost recovery method thereafter, until qualifying for return to accrual status.

Restructured loans In cases where a borrower experiences financial difficulties and the Company makes certain modifications to contractual terms, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Allowance for loan losses The Company's determination of the level of the allowance for loan losses rests upon various judgments and assumptions, including, but not necessarily limited to, general economic conditions, loan portfolio composition and prior loan loss experience. The Company considers the allowance for loan losses adequate to cover losses inherent in loans, commercial loan commitments and standby letters of credit outstanding.

OTHER REAL ESTATE Other real estate, consisting of real estate acquired as a result of troubled debt restructurings and excess real estate, is carried at the lower of cost or fair value and is included in other assets. When the property is acquired, any excess of the loan balance over fair value of the property is charged to the allowance for loan losses. Subsequent write-downs, if any, and disposition gains and losses are included in noninterest expense.

INCOME TAXES The Company files a consolidated federal income tax return and a combined California franchise tax return. Generally, the tax liabilities are settled between subsidiaries as if each had filed a separate return. Payments are made to the Parent by those subsidiaries with net tax liabilities on a separate return basis. Subsidiaries with net tax losses and excess tax credits receive payment for these benefits from the Parent. 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 other liabilities, result from timing differences between income as reported in the financial statements and as reported for income tax return purposes.

Federal income taxes are not provided on earnings of foreign subsidiaries or affiliates that are intended to be indefinitely reinvested abroad.

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 deferred and amortized as lease financing income over the term of the related lease.

FOREIGN CURRENCY TRANSLATION The Company employs the net investment concept for foreign operations. Under this concept, a functional currency is designated for each foreign entity based on the currency of the primary economic environment in which the entity operates. The assets, liabilities and operations of an entity denominated in other than its functional currency are initially remeasured into its functional currency with the gain or loss recognized in current period income. For consolidation purposes, the financial statements are then translated into U.S. dollars using the current rate method. Translation adjustments are disclosed as a separate component of stockholders' equity. Such adjustments are reversed upon sale or upon complete, or substantially complete, liquidation of the investment and recognized in net income.

Forward exchange contracts that hedge equity investments are revalued monthly at current market rates. The gain or loss, less applicable income taxes from such revaluation, is included in the translation adjustment in the separate component of stockholders' equity. The amortization of the premiums or discounts on these contracts is included in income.

Gains or losses from other foreign currency transactions, including foreign exchange trading activities, are recognized in the current period in noninterest income. Premiums or discounts on forward exchange contracts that are associated with the funding of assets with liabilities of a different currency (swap transactions) are deferred and amortized into interest income or expense over the life of the contract.

INTEREST RATE FUTURES The Company hedges primarily to reduce mismatches in the rate maturity of certain loans and deposit liabilities through the use of interest rate futures. Gains and losses on these futures contracts are deferred and amortized over the expected loan or deposit liability holding period. This amortization is shown as a separate component of net interest income. Futures contracts obtained for hedging assets in the trading portfolio are marked to market and gains and losses are included in noninterest income.

NET INCOME PER COMMON SHARE Net income per common share is computed by dividing net income (after deducting dividends on preferred stock) by the average number of common shares outstanding during the year. The impact of common stock equivalents and other potentially dilutive securities is not material.

Note 2. Acquisition of Crocker National Corporation

On May 30, 1986, the Company acquired from Midland Bank plc (Midland) all the issued and outstanding common stock of Crocker National Corporation (Crocker), a bank holding company whose principal subsidiary was Crocker National Bank. On the acquisition date, Crocker and Crocker National Bank were combined with and began operating under the names of Wells Fargo & Company and Wells Fargo Bank, respectively.

The aggregate purchase price paid to Midland at closing was $1.1 billion in cash. The acquisition was partially funded by $682 million in net proceeds from sales of common and preferred stock.

The acquisition was a business combination accounted for as a purchase transaction. Accordingly, the Company's consolidated financial statements include Crocker's results of operations beginning June 1, 1986, and Crocker's assets and liabilities were revalued to fair value at the time of acquisition, net of the related tax effects. The excess of purchase price over fair value of net assets acquired (goodwill) is being amortized using the straight-line method over 25 years. Goodwill may change as additional information, such as completing the identification and measurement of preacquisition contingencies, is obtained or as certain carryover tax benefits are utilized.

The following unaudited pro forma condensed combined statement of income for the years ended December 31, 1986 and 1985 reflects the acquisition of Crocker as if it had been consummated on January 1, 1985. The pro forma amounts are not necessarily indicative of what would have occurred or will occur in the future, primarily due to operating efficiencies and cost reductions that have been or are expected to be achieved following the acquisition.

(in millions)	Year ended December 31, 1986	1985
Interest income	$4,225	$5,037
Interest expense	2,387	3,152
Amortized gain on interest rate hedging	23	34
Net interest income	1,861	1,919
Provision for loan losses	451	482
Net interest income after provision for loan losses	1,410	1,437
Noninterest income	578	623
Noninterest expense	1,617	1,724
Income tax expense	109	112
Income before extraordinary item	262	224
Extraordinary item—tax benefit of loss carryforward	5	9
Net income	$ 267	$ 233
Net income applicable to common stock	$ 245	$ 207
Per common share:		
Income before extraordinary item	$ 4.50	$ 3.71
Net income	$ 4.59	$ 3.88
Average common shares outstanding (in thousands)	53,342	53,397

Note 3. Cash, Loan and Dividend Restrictions

Federal Reserve Board regulations require reserve balances on deposits to be maintained by the Bank with the Federal Reserve Bank. The average required reserve balance was approximately $870 million and $530 million in 1986 and 1985, respectively.

The Bank is subject to certain restrictions under the Federal Reserve Act, including restrictions on any extension of credit to its affiliates. In particular, the Parent and its nonbank subsidiaries are prohibited from borrowing from the Bank unless the loans are secured by specified collateral. Such secured loans and other regulated investments made by the Bank are limited in amount as to the Parent or to any of its nonbank subsidiaries to 10 percent of the Bank's capital and surplus and, in the aggregate to all such entities, to 20 percent of the Bank's capital and surplus. The Bank's capital and surplus at December 31, 1986 was $2.1 billion.

Dividends payable by the Bank to the Parent without the express approval of the Office of the Comptroller of the Currency are limited to the Bank's net profits (as defined) for the preceding two years plus net profits up to the date of any dividend declaration. Under this formula, the Bank can declare additional dividends in 1987 of approximately $313 million of its undistributed earnings at December 31, 1986 plus net profits for 1987 up to the date of any such dividend declaration. Dividends declared by the Bank to the Parent in 1986 were $87.7 million.

Note 4. Investment Securities

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

(in millions)	December 31, 1986		1985		1984	
	Book value	**Market value**	Book value	Market value	Book value	Market value
U.S. Treasury securities	$ 673.4	$ 682.4	$1,134.8	$1,147.9	$ 637.7	$ 645.7
Securities of other U.S. government agencies and corporations	1,248.2	1,256.2	19.6	18.0	21.0	23.5
Obligations of states and political subdivisions	119.0	112.0	135.2	110.9	190.9	157.7
Other securities	504.4	499.7	406.5	398.3	238.9	222.1
Total investment securities	$2,545.0	$2,550.3	$1,696.1	$1,675.1	$1,088.5	$1,049.0

The market value of U.S. Treasury securities, securities of other U.S. government agencies and corporations and certain other securities is determined based on current quotations. The 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.

Dividend income of $25.7 million, $21.2 million and $14.4 million in 1986, 1985 and 1984, respectively, is included in taxable income on investment securities in the consolidated statement of income.

The book value of investment securities pledged to secure public deposits and for other purposes as required or permitted by law was $224 million, $268 million and $275 million at December 31, 1986, 1985 and 1984, respectively.

Note 5. Loans and Allowance for Loan Losses

The following table shows comparative year-end detail of the loan portfolio:

(in millions)	December 31, 1986	1985
DOMESTIC		
Commercial, financial and agricultural	$13,222.2	$ 8,474.9
Real estate construction-related	5,583.5	4,186.2
Real estate first mortgage loans secured by 1-4 family residential properties	4,506.2	3,109.6
Other real estate mortgage loans	2,440.8	1,509.8
Total real estate mortgage loans	6,947.0	4,619.4
Monthly payment	1,743.7	1,074.7
Credit card	2,074.8	1,298.1
Other revolving credit	748.4	310.3
Real estate junior lien mortgage loans secured by 1-4 family residential properties	3,190.6	1,523.7
Total consumer	7,757.5	4,206.8
Lease financing	1,199.9	1,114.7
FOREIGN		
Governments and official institutions	864.2	673.4
Banks and other financial institutions	418.8	457.1
Commercial and industrial (1)	778.0	881.7
Total foreign	2,061.0	2,012.2
Total loans (net of unearned income of $421.0 and $416.4)	$36,771.1	$24,614.2

(1) Includes commercial enterprises that are majority-owned by central governments.

The components of lease financing at December 31, 1986 and 1985 are as follows:

(in millions)	December 31, 1986	1985
Direct lease financing minimum lease payments receivable	$ 922.8	$ 924.5
Direct lease financing unguaranteed residual value	393.0	370.7
Leveraged leases	148.8	83.2
Equipment pending lease placement	.8	14.4
Investment in lease financing	1,465.4	1,392.8
Unearned income	(265.5)	(278.1)
Investment in lease financing, net of unearned income	$1,199.9	$1,114.7

Wells Fargo Leasing Corporation recognized $5.1 million, $7.5 million and $2.0 million of unearned income in 1986, 1985 and 1984, respectively, to offset initial direct costs of acquiring leases and an estimated provision for lease losses.

Direct lease financing minimum lease payments receivable mature as follows:

(in millions)	
Year ended December 31,	
1987	$239.8
1988	220.4
1989	176.2
1990	122.2
1991	56.7
Thereafter	107.5
Total	$922.8

For financial statement purposes, the Company had unamortized investment tax credits on property purchased for lease to customers of $31.9 million, $40.5 million and $25.7 million at December 31, 1986, 1985 and 1984, respectively.

Changes in the allowance for loan losses were as follows:

(in millions)	Year ended December 31, 1986	1985	1984
Balance, beginning of year	$417.5	$260.3	$199.6
Crocker's allowance at acquisition date	241.7	—	—
Provision for loan losses	361.7	371.8	194.6
Net loan charge-offs:			
Commercial, financial and agricultural	115.6	116.3	88.1
Real estate construction-related	3.9	.3	3.6
Real estate 1-4 family first mortgage loans	1.1	.4	.8
Other real estate mortgage loans	11.2	7.5	4.5
Total real estate mortgage loans	12.3	7.9	5.3
Monthly payment	11.4	5.9	1.3
Credit card	88.9	42.0	8.2
Other revolving credit	8.1	3.5	1.5
Real estate 1-4 family junior lien mortgage loans	1.2	1.6	1.3
Total consumer	109.6	53.0	12.3
Lease financing	11.7	9.3	4.9
Foreign	25.9	24.8	19.1
Total net loan charge-offs (1)	279.0	211.6	133.3
Other deductions	7.9	3.0	.6
Balance, end of year	$734.0	$417.5	$260.3
Allowance as a percentage of total loans	2.00%	1.70%	1.14%

(1) Includes recoveries of $56.4 million, $25.6 million and $27.8 million in 1986, 1985 and 1984, respectively.

Changes in allocated transfer risk reserves, which are included in the allowance for loan losses, were as follows:

(in millions)	Year ended December 31, 1986	1985	1984
Balance, beginning of year	$27.6	$ 6.0	$ .8
Provision	27.8	22.1	5.2
Deductions	—	.5	—
Balance, end of year	$55.4	$27.6	$6.0

Nonaccrual and restructured loans were $970.7 million and $789.8 million at December 31, 1986 and 1985, respectively. Related commitments to lend additional funds totaled approximately $64 million and $30 million at December 31, 1986 and 1985, respectively.

If interest due on all nonaccrual and restructured loans had been accrued at the original contract rates, it is estimated that income before income taxes would have been greater by the amount shown in the following table:

(in millions)	Year ended December 31, 1986	1985	1984
Interest that would have been recorded under original terms	$102.2	$92.0	$94.9
Gross interest recorded	21.9	35.9	37.1
Foregone interest	$ 80.3	$56.1	$57.8

Note 6. Premises and Equipment

The following table presents comparative data for premises and equipment:

(in millions)	December 31, 1986	1985
Land	$ 36.9	$ 26.5
Premises	297.8	140.9
Furniture and equipment	496.7	359.2
Leasehold improvements	206.5	103.3
Premises leased under capital leases	123.4	124.7
Total	1,161.3	754.6
Less accumulated depreciation and amortization	493.0	310.2
Net book value	$ 668.3	$444.4

Included in accumulated depreciation and amortization was accumulated amortization related to capital leases of $51.8 million and $47.5 million at December 31, 1986 and 1985, respectively.

Depreciation and amortization expense was $71.9 million, $60.3 million and $55.3 million for the years ended December 31, 1986, 1985 and 1984, respectively.

Note 7. Senior and Subordinated Debt

The following is a summary of the major categories of senior and subordinated debt (reflecting unamortized debt discount and premium where applicable) at December 31, 1986 and 1985:

(in millions)	December 31, 1986	1985
SENIOR		
Intermediate-term (original maturities from 1–12 years)		
Parent:		
11.40% Notes due 1987 (1)	$ 50.0	$ 50.0
12% Notes due 1987 (1)	100.0	99.9
13¼% Notes due 1987 (2)	—	100.0
12¼% Notes due 1989 (2)	—	74.8
16⅛% New Zealand Dollar Notes due 1989 (NZ $100.0 face amount) (3)	52.6	—
12.30% Notes due 1990 (1)(2)	100.0	100.0
14½% Notes due 1991 ($100.0 face amount) (2)	99.2	99.1
8% Notes due 1993 (2)	100.0	—
8% Notes due July 15, 1993 ($100.0 face amount) (1)	99.9	—
9½% Notes due 1993 ($100.0 face amount) (2)	99.3	99.2
Floating Rate Extendable Notes due 1988 (4)	80.0	100.0
Floating Rate Extendable Notes due 1992 (5)	64.2	299.7
6.00% to 12.60% Medium-Term Notes due 1986 through 1996	674.6	695.7
Subsidiaries:		
15% Guaranteed Notes due 1987	—	75.0
Zero Coupon Notes due 1988—effective rate of 14.75% ($164.2 face amount)—Parent guaranteed (6)	138.9	121.3
Other notes	27.8	2.4
Total intermediate-term senior debt	1,686.5	1,917.1
Long-term (original maturities of more than 12 years)		
Parent:		
8¾% Debentures due 1997 ($55.0 face amount) (7)	55.5	—
8.60% Debentures due 2002 ($79.5 face amount) (7)	78.3	—
Other notes	98.8	100.4
Notes payable by subsidiaries	6.8	14.8
Total long-term senior debt	239.4	115.2
Obligations of subsidiaries under capital leases (note 15)	93.2	97.4
Total senior debt	2,019.1	2,129.7
SUBORDINATED		
Intermediate-term (original maturities from 1–12 years)		
Parent:		
12⅝% Notes due 1991 ($100.9 face amount) (1)(8)	103.3	109.4
12⅞% Notes due 1991 ($100.0 face amount) (1)(2)	99.9	99.9
13⅜% Notes due 1991 ($100.0 face amount) (1)(8)	99.8	99.8
13.50% Notes due 1991 (1)(2)	150.0	150.0
8¾% Notes due 1996 (2)	100.0	—
Floating Rate Notes due 1992 (2)(8)	150.0	150.0
Floating Rate Notes due 1994 (U.K. pounds sterling denominated £60,000 face amount) (2)(8)(9)	89.0	86.7
Floating Rate Notes due 1994 (2)(8)	150.0	150.0
Deutsche Mark Floating Rate Notes due 1995 (DM 300.0) (8)(10)	156.1	122.7
Floating Rate Notes due 1996 ($100.0 face amount) (2)(11)	99.5	99.4
Floating Rate Capital Notes due 1996 ($150.0 face amount) (2)(12)	149.9	149.9
Floating Rate Notes due 1997 (2)(8)	250.0	250.0
Floating Rate Notes due June 1997 ($100.0 face amount) (2)(13)	99.9	99.9
Floating Rate Notes due July 1997 (2)(8)(13)	100.0	100.0
Floating Rate Capital Notes due 1997 (2)(8)(12)	100.0	100.0
Floating Rate Capital Notes due 1998 (2)(8)(12)	200.0	—
Subsidiaries:		
Floating Rate Notes due 1996—Parent guaranteed (2)(8)(11)	50.0	50.0
Total intermediate-term subordinated debt	2,147.4	1,817.7
Long-term (original maturities of more than 12 years)		
Parent:		
Floating Rate Notes due 2000 (2)(8)	200.0	200.0
Notes payable by subsidiaries	45.0	38.8
Total long-term subordinated debt	245.0	238.8
Total subordinated debt	2,392.4	2,056.5
Total senior and subordinated debt	$4,411.5	$4,186.2

(1) The Company has entered into an interest rate swap agreement, whereby the Company receives fixed rate interest payments approximately equal to interest on the Notes and makes interest payments based on a floating rate.
(2) Initially redeemable in whole or in part, at par, at various dates through March 1993.
(3) The Company has entered into a swap agreement, whereby the Company receives New Zealand dollars sufficient to cover interest and principal on the Notes and makes payments in U.S. dollars covering interest and principal. The transaction amount at the date of issue and swap was $58.3 million. The difference of $5.7 million at December 31, 1986 was substantially due to the foreign currency transaction adjustment.
(4) Repayable in whole or in part, at par, in 1987 at the option of the holder.
(5) Repayable in whole or in part, at par, in 1989 at the option of the holder.
(6) May be redeemed in whole, at par, at any time in the event withholding taxes are imposed in the United States or the Netherlands Antilles.
(7) Assumed from Crocker National Corporation.
(8) May be redeemed in whole, at par, at any time in the event withholding taxes are imposed in the United States.
(9) The Company has entered into a swap agreement, whereby the Company receives pounds sterling sufficient to cover floating rate interest and principal on the Notes and makes payments in U.S. dollars covering interest and principal. The transaction amount at the date of issue and swap was $74.0 million. The differences of $15.0 million and $12.7 million at December 31, 1986 and 1985, respectively, were due to the foreign currency transaction adjustment.
(10) These notes are subject to a maximum interest rate of 8%. The Company has sold this interest rate cap under an agreement, whereby it receives fixed payments in deutsche marks and makes payments based on the amount by which a floating rate exceeds 8%. The Company has also entered into a swap agreement, whereby the Company receives deutsche marks approximately equal to interest and principal on the Notes and makes payments in U.S. dollars. The transaction amount at the date of issue and swap was $117.7 million. The differences of $38.4 million and $5.0 million at December 31, 1986 and 1985, respectively, were due to the foreign currency transaction adjustment.
(11) Equity Commitment Notes.
(12) Mandatory Equity Notes.
(13) Subject to a maximum interest rate of 13%.

The principal payments, including sinking fund payments, on senior and subordinated debt are due as follows:

(in millions)	1987	1988	1989	1990	1991	Thereafter	Total
Parent Company	$405.6	$297.0	$167.0	$190.1	$585.6	$2,357.7	$4,003.0
	428.7	469.3	221.1	198.3	591.3	2,481.5	4,390.2

The interest rates on the floating rate note issues are determined periodically by formulas based on certain money market rates subject, in certain circumstances, to minimum or maximum interest rates as specified in the terms of the respective issues.

The Company's mandatory convertible debt, which is identified by notes (11) and (12) to the table on the preceding page, qualifies as primary capital, subject to certain regulatory limitations. The terms of the Equity Commitment Notes, which totaled $150 million (face amount) at December 31, 1986, require the Company to deposit proceeds from the issuance of capital securities into a note fund. The cumulative minimum proceeds to be deposited will be $50 million by 1988, $100 million by 1992 and $150 million by 1996. As of December 31, 1986, $16 million had been deposited in a note fund and $54 million of stockholders' equity had been dedicated for future deposit to a note fund. The terms of the Mandatory Equity Notes require the Company to sell or exchange with the noteholder the Company's common stock, perpetual preferred stock or other capital securities at maturity or earlier redemption of the notes.

Certain of the agreements under which debt has been issued contain provisions that restrict the payment of dividends, the disposition of assets, the creation of property liens and the issuance of capital stock of the Company. The Company was in compliance with the provisions of the borrowing agreements at December 31, 1986.

Note 8. Preferred Stock

At December 31, 1986, 10,000,000 shares of nonconvertible preferred stock were authorized and 4,501,800 shares were issued and outstanding, of which 1,501,800 shares were issued during 1986 as described below.

Adjustable Rate Cumulative Preferred Stock, Series A: At December 31, 1986 and 1985, there were 3,000,000 shares with a stated value of $50 per share issued and outstanding. These shares are redeemable at the option of the Company between April 1, 1988 and March 31, 1993 at a redemption price of $51.50 per share and, thereafter, at $50.00 per share plus accrued and unpaid dividends. Dividends are cumulative and payable quarterly on March 31, June 30, September 30 and December 31 of each year. For each quarterly period, the dividend rate is 2.75% less than the highest of the three-month Treasury bill discount rate, 10-year constant maturity Treasury security yield or 20-year constant maturity Treasury bond yield, but limited to a minimum of 6% and a maximum of 12% per annum. The average dividend rate was 6.3%, 8.5% and 10.1% during 1986, 1985 and 1984, respectively. Dividends of $9.5 million, $12.8 million and $15.1 million were declared in 1986, 1985 and 1984, respectively.

Adjustable Rate Cumulative Preferred Stock, Series B: In connection with the acquisition of Crocker, the Company issued in an April 1986 public offering 1,500,000 shares with a stated value of $50 per share. These shares are redeemable at the option of the Company between May 15, 1991 and May 14, 1996 at a redemption price of $51.50 per share and, thereafter, at $50.00 per share plus accrued and unpaid dividends. Dividends are cumulative and payable quarterly on February 15, May 15, August 15 and November 15 of each year. For each quarterly period, the dividend rate is 76% of the highest of the three-month Treasury bill discount rate, 10-year constant maturity Treasury security yield or 20-year constant maturity Treasury bond yield, but limited to a minimum of 5.5% and a maximum of 10.5% per annum. The average dividend rate was 5.7% during 1986. Dividends of $3.1 million were declared in 1986.

Market Auction Preferred Stock, Series I, II and III: In connection with the acquisition of Crocker, the Company issued in a May 1986 public offering a total of 1,800 shares with a liquidation preference of $100,000 per share. These shares are redeemable at the option of the Company on dividend payment dates at a redemption price of $100,000 per share plus accrued and unpaid dividends. Dividends are cumulative and payable every 49 days on specified dividend payment dates. Rates are determined every 49 days by auction and will generally not be greater than 110% of the "AA" Composite Commercial Paper Rate. The average dividend rate was 4.3% during 1986. Dividends of $5.2 million were declared in 1986.

All preferred shares rank senior to common shares both as to dividends and liquidation preference but have no general voting rights.

Note 9. Common Stock and Employee Stock Plans

COMMON STOCK In October 1986, the Board of Directors approved a 2-for-1 common stock split in the form of a 100 percent stock dividend paid January 20, 1987 to holders of record as of December 31, 1986. The par value of the common stock issued in connection with the stock split, $134.2 million, was transferred from additional paid-in capital to common stock at December 31, 1986. In the financial statements and the accompanying notes, the per common share amounts, average number of common shares outstanding, shares reserved for issuance and stock option data for the current and prior years have been adjusted to reflect the stock split.

The following table summarizes common stock reserved and authorized as of December 31, 1986:

	Number of shares
Equity incentive plan	3,239,962
Tax advantage plan	2,968,228
Dividend reinvestment plan	1,959,522
Employee stock purchase plan	1,615,366
Warrants	121,584
Employee stock ownership plan	52,112
Stock option and appreciation plan	44,150
3¼% convertible capital notes	26,368
Stock option plan	21,168
Stock bonus plan	13,780
Restricted share rights plan	4,344
Total shares reserved	10,066,584
Shares not reserved	11,271,224
Shares issued and outstanding	53,662,192
Total shares authorized	75,000,000

Warrants to purchase a total of 96,944 shares of common stock of the Company at a price of $12.32 per share, attached to 6½% Deutsche Mark Debentures, are currently detachable and expire on October 31, 1988.

Under the terms of mandatory convertible debt, the Company must exchange with the noteholder or sell various capital securities of the Company as described in note 7 to the financial statements on page 35.

EMPLOYEE STOCK PLANS In 1982, the Wells Fargo & Company Equity Incentive Plan (EIP) replaced the Stock Option Plan, Stock Option and Appreciation Plan and the Restricted Share Rights Plan (Other Plans) as a means for the future granting of stock options and restricted share rights to key employees.

Equity Incentive Plan The EIP provides for the granting to key employees of incentive stock options and nonqualified stock options as defined under current tax laws and restricted share rights. The options may be exercised for periods of up to 10 years, at the fair market value at time of grant. In 1986, the stockholders approved an amendment to increase the total number of shares of common stock issuable under the EIP to 3,500,000 in the aggregate and 700,000 in any one calendar year.

Other Plans In conjunction with the adoption of the EIP, the Other Plans have been amended such that no additional awards or grants will be issued.

Transactions involving options of the EIP and Other Plans are summarized as follows:

	Number of shares			
	Equity Incentive Plan		Other Plans	
	1986	1985	1986	1985
Options outstanding, beginning of year	597,348	465,720	115,034	251,434
Granted	491,000	275,000	—	—
Cancelled	(60,800)	(13,800)	—	—
Surrendered (as defined below)	(36,620)	(21,836)	—	(101,644)
Exercised	(80,168)	(107,736)	(49,716)	(34,756)
Options outstanding, end of year	910,760	597,348	65,318	115,034
Options exercisable, end of year	268,218	154,148	65,318	115,034
Shares available for grant, end of year	1,755,706	290,262	—	—
Price range of options:				
Outstanding	$9.44–$55.38	$9.44–$29.56	$13.13–$14.06	$13.13–14.06
Surrendered or exercised	$9.44–$29.56	$9.44–$18.38	$13.13–$14.06	$12.44–14.06

The terms of the EIP and the Other Plans provide that, when the option becomes exercisable, the optionee may surrender the option and receive an appreciation payment based on the difference 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 payment be in shares of the Company's common stock based on the market price at date of surrender.

As of December 31, 1986, the EIP had 359,730 tentative share rights and 189,450 final share rights outstanding to 390 employees and the Other Plans had 4,344 final share rights outstanding to two employees under the restricted share rights provisions of these plans. Generally, the tentative share rights convert into final share rights three years after the rights are granted. The number of final shares is based on the Company's performance in the three years following the date of grant. The holders of the share rights are entitled at no cost to the number of shares of common stock represented by the final share rights held by each person five years after the tentative share rights were granted.

Loans, at the discretion of the Company, may be made to assist the participants of the EIP and Other Plans in the acquisition of shares under options. The amount of expense accrued for the EIP and Other Plans was $24.1 million, $8.3 million and $4.9 million in 1986, 1985 and 1984, respectively.

Employee Stock Purchase Plan Under the Employee Stock Purchase Plan, employees of the Company with over one year of service, except certain key employees, are eligible to participate. The plan provides for an option price of the lower of market value at grant date or 85–100 percent (as determined by the Board of Directors for each option period) of fair market value at the end of the option period, 12 months after the date of grant. For the current option period, the Board approved a closing option price of 85 percent of fair market value. The plan is noncompensatory and results in no expense to the Company.

Transactions involving the Employee Stock Purchase Plan are summarized as follows:

	Number of options	
	1986	1985
Options outstanding, beginning of year	129,126	183,704
Granted	137,074	137,160
Cancelled	(16,414)	(26,744)
Exercised ($27.90 in 1986 and $17.09 in 1985)	(119,640)	(164,994)
Options outstanding, end of year	130,146	129,126
Options available for grant, end of year	1,485,220	1,605,880

For information on other employee benefit stock ownership plans, see note 10.

Note 10. Employee Benefits

Expenses relating to the retirement and investment plans were as follows:

(in millions)	Year ended December 31,		
	1986	1985	1984
Retirement plans	$25.2	$20.9	$9.7
Investment plan	$11.3	$ 9.0	$7.9

Former Crocker employees who have remained as employees of the Company have been given credit for their prior service for purposes of determining eligibility for participation and vesting under employee benefit plans.

RETIREMENT PLANS Effective December 31, 1984, the Company terminated the noncontributory, defined benefit retirement plan, which covered substantially all employees. Pension costs under that plan were actuarially computed and were funded as accrued. Prior to termination, certain plan benefits were increased to the extent of plan assets. As a result, no gain or loss arose from the termination. This former plan was overfunded at mid-1984; therefore, no retirement plan expense accrual or contribution was necessary for the last half of 1984.

Effective January 1, 1985, the Company adopted a defined contribution retirement plan with basic Company contributions based on 4% of employee compensation. In addition, the Company makes special transition contributions ranging from .5% to 5% for eligible employees. The plan covers salaried employees with one year of service and contains a vesting schedule graduated from 3–10 years of service.

Also effective January 1, 1985, the Company amended the Tax Advantage Plan (TAP) to allow the Company to make retirement contributions of 2% of employee compensation without a requirement for employee contributions. All salaried employees with one year of service are eligible to receive these Company contributions, which are immediately vested. The Company also makes matching contributions to TAP of up to 4% of employee compensation that are included in investment plan expense and are further discussed under Investment Plan.

The Company assumed an obligation for Crocker's defined benefit pension plan as a result of the acquisition. Benefits were frozen as of the acquisition date and, thereafter, participants who continued as employees of the Company participate in the defined contribution retirement plan. The defined benefit pension obligation of approximately $225 million as of December 31, 1986 is expected to be extinguished by the purchase of annuity contracts, pending final approval from the Pension Benefit Guaranty Corporation and the Internal Revenue Service. Since the funding of the annuity contracts is accounted for as a preacquisition contingency of a purchased enterprise, the incremental funding requirements, if any, for terminating the defined benefit pension plan will be treated as an allocation of the purchase price and, thus, will be an addition to goodwill.

INVESTMENT PLAN All salaried employees who have one year of service are eligible to contribute up to 10% of their pretax compensation to TAP through salary deductions under Section 401(k) of the Internal Revenue Code. The Company makes matching contributions of up to 4% of employee compensation for those who have three years of service and who elect to contribute under the plan. The Company's contributions are immediately vested and are tax deductible by the Company.

Employees direct the investment of their TAP funds and may elect to invest up to 50 percent in the Company's common stock.

As a result of the Crocker acquisition, the Company has assumed the Crocker National Bank Savings Plan (Crocker Savings Plan). On August 1, 1986, all Crocker Savings Plan balances were transferred to TAP, except for amounts attributable to the Crocker Real Estate Equity Fund (CREEF), which is in the process of liquidation, and employer contributions. Liquidation payments attributable to CREEF are being transferred to TAP on a quarterly basis as these payments become available. When CREEF is fully liquidated, the employer contributions will be transferred to TAP.

EMPLOYEE STOCK OWNERSHIP PLAN Under the Employee Stock Ownership Plan (ESOP), the Company is allowed to make certain reductions in its federal income tax payments if the savings are passed to the plan. Generally, all salaried employees who have worked for three continuous years are eligible to participate. Although the Tax Reform Act of 1986 terminates the ESOP credit for compensation paid or accrued after December 31, 1986, the ESOP was amended in 1985 by the Company to remove the requirement that the Company must receive a tax benefit for the contribution. Thus, ESOP contributions may be made in 1987 and future years.

RETIREE HEALTH AND LIFE INSURANCE The Company provides certain health care and life insurance benefits for retired employees. The Company reserves its right to terminate these plans at any time, but if they continue in effect, substantially all of the Company's salaried employees may become eligible for these benefits if they reach retirement age while working for the Company. The health care and similar benefits for active and retired employees are self-funded by the Company or provided through Health Maintenance Organizations (HMOs). The Company recognized the cost of health care benefits by expensing the annual incurred claims and HMO premiums totaling $30.6 million, $20.7 million and $19.2 million in 1986, 1985 and 1984, respectively. The life insurance and similar benefits for active and retired employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The Company recognizes the cost of these benefits by expensing the annual insurance premiums, which were $1.2 million, $.9 million and $.7 million in 1986, 1985 and 1984, respectively. The cost of providing health and life insurance benefits for 4,515 retirees is not separable from the cost of providing benefits for approximately 23,000 active employees.

Note 11. Income Taxes

Current and deferred income tax provisions were as follows:

(in millions)	Year ended December 31,		
	1986	1985	1984
Current:			
Federal	$ 41.5	$ 27.5	$ 5.4
State and local	37.2	25.5	20.6
Foreign	17.0	28.3	19.5
	95.7	81.3	45.5
Deferred:			
Federal	27.9	30.8	45.9
State and local	(6.1)	(1.7)	(.5)
Foreign	.6	(.1)	(1.2)
	22.4	29.0	44.2
Total	$118.1	$110.3	$89.7

The Company's income tax expense for 1986, 1985 and 1984 included $8.9 million, $28.2 million and $1.6 million, respectively, related to investment securities gains.

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

(in millions)	Year ended December 31,		
	1986	1985	1984
Deferred income on lease financing	$ 38.6	$ 99.4	$ 64.0
Lower loan loss deduction for income tax purposes	(34.7)	(88.2)	(24.6)
Cash basis accounting for tax purposes	33.4	17.6	(5.1)
Other real estate writedowns	(11.6)	(5.9)	(1.3)
Foreign exchange	(3.7)	(1.0)	8.2
Realization of losses (gains) on sales of equity investments	(2.7)	(6.6)	.2
Other	3.1	13.7	2.8
Total	$ 22.4	$ 29.0	$ 44.2

Amounts for the current year are based upon estimates and assumptions as of the date of this report and could vary significantly from amounts shown on the tax returns as filed. Accordingly, the variance from the amounts previously reported for prior years are primarily the result of adjustments to conform to the tax returns as filed.

The following is a reconciliation of the statutory federal income tax expense and rate to the effective income tax expense and rate:

(in millions)	Year ended December 31, 1986 Amount	1986 Percent	1985 Amount	1985 Percent	1984 Amount	1984 Percent
Statutory federal income tax expense and rate	$180.1	46.0%	$138.1	46.0%	$119.1	46.0%
Increase (decrease) in tax rate resulting from:						
Income and expense related to Crocker's assets and liabilities accounted for net of tax	(37.5)	(9.6)	—	—	—	—
Tax-exempt income	(21.2)	(5.4)	(16.6)	(5.5)	(14.7)	(5.7)
State and local taxes on income, net of federal income tax benefit	21.1	5.4	12.9	4.3	10.8	4.2
Capital gains rate difference	(9.4)	(2.4)	(7.0)	(2.4)	(1.8)	(.7)
Recalculation of leveraged lease income due to tax rate changes under the Tax Reform Act of 1986	(8.2)	(2.1)	—	—	—	—
Amortization of investment tax credit	(6.7)	(1.7)	(6.6)	(2.2)	(5.6)	(2.2)
Amortization of goodwill	6.0	1.5	.6	.2	.6	.2
Indefinitely reinvested earnings of foreign subsidiaries and an affiliate	—	—	(6.4)	(2.1)	(15.9)	(6.2)
Investment tax credit on furniture and equipment	(2.7)	(.7)	(4.6)	(1.5)	(3.2)	(1.2)
Other	(3.4)	(.8)	(.1)	(.1)	.4	.2
Effective income tax expense and rate	$118.1	30.2%	$110.3	36.7%	$ 89.7	34.6%

The Company had deferred income taxes payable of $154.7 million, $186.2 million and $195.3 million at December 31, 1986, 1985 and 1984, respectively. It had current income taxes payable (receivable) of $(35.8) million, $(6.6) million and $9.5 million at the same dates.

The Company has not provided federal taxes on $124.5 million of undistributed earnings of a foreign subsidiary and an affiliate, because the earnings are indefinitely reinvested in those companies. If the earnings were distributed to the Parent, federal taxes on them, less credit for foreign taxes, would be provided at that time.

The Company's income before income tax expense includes approximately $31.0 million, $60.8 million and $79.9 million generated by its subsidiaries and branches located outside the U.S. in 1986, 1985 and 1984, respectively.

The acquisition of Crocker was a business combination accounted for as a purchase transaction. Accordingly, Crocker's assets and liabilities were revalued to fair value at the time of acquisition, net of the related tax effects. The resulting pretax income and expense amounts recognized related to these assets and liabilities include the previously recorded income tax effects. Thus, the relationship between income before income tax expense and income tax expense for 1986 is not comparable to previous years or to other companies that are not affected by net-of-tax accounting.

In management's opinion, the effective income tax rate is not indicative of the Company's true economic tax burden, because it omits the effects of the Company's role as an intermediary for tax incentives, indirect taxation through mandatory maintenance of noninterest-earning reserve balances with the Federal Reserve Bank and net-of-tax accounting.

Note 12. Foreign Activities

The Company's foreign activities include international banking operations conducted through its foreign and domestic branches, representative offices, subsidiaries, affiliates, Edge Act subsidiaries and International Banking Facilities. As required by the Securities and Exchange Commission (SEC), the Company reports its foreign activities on the basis of the domicile of the customer. For the years presented in the next table, the Company had no individually significant foreign geographic areas, as defined by the SEC.

Since the Company's foreign and domestic activities are integrated, an identification of foreign activities necessarily involves certain assumptions. For the years presented, such assumptions include:

(a) cost for capital funds is charged based on the amount and nature of the assets funded;
(b) adjustments are made for the difference between host country and U.S. tax rates;
(c) income and expenses are primarily allocated based on the distribution of assets;
(d) the provision for loan losses is based on actual net charge-offs during the year and an allocation of the Company's allowance to a level management deems appropriate for foreign loans;
(e) foreign exchange trading activities in domestic and foreign offices are included in foreign activities.

Selected financial data for foreign and domestic activities at December 31, 1986, 1985 and 1984 and for the years then ended follows:

(in millions)	Foreign	Domestic	Total
Total revenue			
1986	$ 289.1	$ 3,699.3	$ 3,988.4
1985	345.5	3,104.3	3,449.8
1984	491.3	2,900.3	3,391.6
Income (loss) before income tax expense			
1986	(9.9)	401.5	391.6
1985	(1.7)	302.0	300.3
1984	8.0	250.9	258.9
Net income (loss)			
1986	(6.9)	280.4	273.5
1985	(1.0)	191.0	190.0
1984	5.4	163.9	169.3
Assets at year end			
1986	3,401.9	41,175.2	44,577.1
1985	3,419.2	26,010.2	29,429.4
1984	4,254.5	23,929.6	28,184.1

The allowance for loan losses related to foreign activities includes specific reserves for private sector loans outstanding and allocated transfer risk reserves. Although management has allocated a specific portion of the allowance to foreign loans, the unallocated portion and any unabsorbed portion of the allocated allowance are available for any loan category. Changes in the allowance were as follows:

(in millions)	Year ended December 31, 1986	1985	1984
Balance, beginning of year	$45.2	$30.9	$24.9
Provision for loan losses	60.6	42.2	25.6
Gross charge-offs	30.6	27.8	20.1
Recoveries	(4.7)	(3.0)	(1.0)
Net loan charge-offs	25.9	24.8	19.1
Other additions (deductions)	.2	(3.1)	(.5)
Balance, end of year	$80.1	$45.2	$30.9

The net gains arising out of foreign currency transactions, which were included in noninterest income, were $8.7 million in 1986, $3.6 million in 1985 and negligible in 1984.

Note 13. Parent Company

Condensed financial information of Wells Fargo & Company (Parent) is presented below:

Condensed Statement of Income

(in millions)	Year ended December 31, 1986	1985	1984
Income			
Dividends from subsidiaries:			
Wells Fargo Bank	$ 87.7	$ 62.1	$ 54.6
Nonbank subsidiaries	42.1	33.3	22.7
Interest income (primarily from subsidiaries)	467.5	466.1	421.1
Noninterest income	70.1	68.6	.4
Total income	667.4	630.1	498.8
Expense			
Interest on:			
Short-term borrowings	116.2	166.6	226.2
Senior and subordinated debt	333.5	272.4	160.9
Indebtedness to nonbank subsidiary	31.0	42.8	46.7
Provision for loan losses	—	3.9	1.0
Noninterest expense	7.1	9.1	6.5
Total expense	487.8	494.8	441.3
Income before income tax expense (benefit) and undistributed income of subsidiaries	179.6	135.3	57.5
Income tax expense (benefit)	11.9	4.4	(16.2)
Equity in undistributed income (loss) of subsidiaries:			
Wells Fargo Bank	102.1	75.4	98.4
Nonbank subsidiaries	3.7	(16.3)	(2.8)
Net income	$273.5	$190.0	$169.3

Condensed Balance Sheet

(in millions)	December 31, 1986	1985
ASSETS		
Cash and due from Wells Fargo Bank	$ 16.8	$ 1.4
Investment securities	430.1	1,242.8
Loans	69.5	73.0
Allowance for loan losses	3.0	3.0
Net loans	66.5	70.0
Loans and advances to subsidiaries:		
Wells Fargo Bank	1,548.7	798.3
Nonbank subsidiaries	4,014.7	3,967.1
Investment in subsidiaries:		
Wells Fargo Bank	2,125.6	1,368.4
Nonbank subsidiaries	365.0	254.5
Other assets	397.4	206.2
Total assets	$8,964.8	$7,908.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Commercial paper outstanding	$2,206.4	$1,436.2
Other short-term borrowings	4.1	815.2
Senior and subordinated debt	4,049.8	3,786.6
Indebtedness to nonbank subsidiary	219.9	264.0
Other liabilities	141.9	148.7
Total liabilities	6,622.1	6,450.7
Stockholders' equity	2,342.7	1,458.0
Total liabilities and stockholders' equity	$8,964.8	$7,908.7

Condensed Statement of Changes in Financial Position

(in millions)	Year ended December 31, 1986	1985	1984
Financial resources provided by (applied to):			
Operations:			
Net income	$ 273.5	$ 190.0	$ 169.3
Noncash charges (credits):			
Provision for loan losses	—	3.9	1.0
Deferred income tax provision	45.7	22.6	20.6
Equity in undistributed income of subsidiaries	(105.8)	(59.1)	(95.6)
Financial resources provided by operations	213.4	157.4	95.3
Cash dividends declared	(92.1)	(65.7)	(63.1)
Net financial resources provided by operations	121.3	91.7	32.2
Other financing activities:			
Short-term borrowings	(40.9)	467.2	71.6
Senior and subordinated debt	263.2	1,535.7	1,190.3
Indebtedness to nonbank subsidiary	(44.1)	(51.6)	30.3
Preferred stock issued, net of issuance costs	250.3	—	—
Common stock issued in public offerings	431.7	—	—
Other common stock issued	21.2	14.2	10.5
Common stock repurchased	—	(26.4)	(118.8)
Financial resources provided by other financing activities	881.4	1,939.1	1,183.9
Other activities:			
Cash and due from Wells Fargo Bank	(15.4)	1.1	(1.5)
Investment in subsidiaries	(761.9)	(14.1)	(138.7)
Other, net	(243.6)	20.9	(105.3)
Financial resources provided by (applied to) other activities	(1,020.9)	7.9	(245.5)
Increase (decrease) in financial resources invested in earning assets	$ (18.2)	$2,038.7	$ 970.6
Increase (decrease) in earning assets:			
Investment securities	$ (812.7)	$1,090.9	$ 68.3
Net loans	(3.5)	(93.5)	81.5
Loans and advances to subsidiaries	798.0	1,041.3	820.8
Increase (decrease) in earning assets	$ (18.2)	$2,038.7	$ 970.6

The Parent had available lines of credit supporting commercial paper borrowings and similar arrangements with unaffiliated banks totaling $470 million and $480 million at December 31, 1986 and 1985, respectively. The lines of credit require commitment fees or compensating balances, which were not significant.

Note 14. Loans to Related Parties

Certain directors and executive officers of the Company, certain entities to which they are related and certain of their relatives were loan customers of the Company during 1986 and 1985. Substantially all such loans were made in the ordinary course of business on normal credit terms, including interest rate and collateralization, and none represent more than a normal risk of collection. Such loans were $161.9 million at December 31, 1986 and $142.4 million at December 31, 1985. During 1986, additional loans of $73.4 million were made and payments of $53.9 million were received.

Note 15. Lease Commitments

The Company is obligated under a number of noncancelable operating leases for premises and equipment with terms ranging from 1–35 years, many of which provide for periodic adjustment of rentals based on changes in various economic indicators. The table at right shows future minimum payments under capital leases and noncancelable operating leases with terms in excess of one year as of December 31, 1986.

Net rental expense for all operating leases was $96.9 million, $46.4 million and $43.4 million for the years ended December 31, 1986, 1985 and 1984, respectively.

(in millions)	Capital leases	Operating leases
Year ended December 31,		
1987	$ 17.4	$107.2
1988	17.3	95.3
1989	17.2	84.6
1990	17.1	63.0
1991	17.0	55.1
Thereafter	205.8	156.2
Total minimum lease payments	291.8	$561.4
Executory costs	(48.2)	
Amounts representing interest	(150.4)	
Present value of net minimum lease payments	$ 93.2	

Note 16. Commitments and Contingent Liabilities

In the normal course of business, there are various commitments outstanding and contingent liabilities that are properly not reflected in the accompanying financial statements. Losses, if any, resulting from these commitments are not anticipated to be material. The approximate amounts of such commitments are summarized below:

(in millions)	December 31, 1986
Standby letters of credit	$ 2,400
Commercial and similar letters of credit	400
Commitments to extend credit (1)	17,300
Commitments to purchase futures and forward contracts	5,000
Commitments to purchase foreign and U.S. currencies	1,500

(1) Excludes credit card and other revolving credit loans.

Standby letters of credit include approximately $400 million of participations purchased and are net of approximately $300 million of participations sold. Standby letters of credit are issued to cover performance obligations, including those which back financial instruments (financial guarantees). At December 31, 1986, the Company had issued financial guarantees of approximately $900 million for the following types of financial instruments:

(in millions)		Maturity ranges
Tax-exempt industrial revenue/development bonds	$400	1987–1997
Commercial paper	200	1987–1989
Loans and investments	200	1987–1997
Tax-exempt mortgage revenue put option bonds	100	1987–2012
Total financial guarantees	$900	

Substantially all fees received from the issuance of financial guarantees are deferred and amortized on a straight-line basis over the term of the guarantee. The credit criteria for granting these instruments is the same as for loans.

In the normal course of business, the Company is at all times subject to numerous pending and threatened legal actions and proceedings, some for which the relief or damages sought are substantial. 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 stockholders' equity of the Company.

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

We have examined the consolidated balance sheet of Wells Fargo & Company and Subsidiaries as of December 31, 1986 and 1985 and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for each of the years in the three-year period ended December 31, 1986. 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 consolidated financial statements present fairly the financial position of Wells Fargo & Company and Subsidiaries at December 31, 1986 and 1985, and the results of their operations and changes in their financial position for each of the years in the three-year period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.
Certified Public Accountants

San Francisco, California
January 19, 1987

Condensed Consolidated Statement of Income (1)

(in millions)	1986 Quarter ended				1985 Quarter ended			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Interest income	$733.6	$829.3	$982.7	$959.9	$753.4	$761.9	$748.2	$753.5
Interest expense	430.0	459.8	531.0	499.1	475.6	462.6	448.4	447.3
Amortized gain on interest rate hedging	4.3	4.9	8.3	5.7	9.3	8.2	12.1	7.6
Net interest income	307.9	374.4	460.0	466.5	287.1	307.5	311.9	313.8
Provision for loan losses	92.5	77.5	76.5	115.1	128.6	48.6	89.2	105.4
Net interest income after provision for loan losses	215.4	296.9	383.5	351.4	158.5	258.9	222.7	208.4
Noninterest income								
Service charges on deposit accounts	28.3	34.7	46.4	43.7	25.8	27.7	27.2	28.3
Domestic fees and commissions	22.1	26.0	32.5	36.3	21.6	19.5	23.5	23.6
Trust and investment services income	15.8	19.0	28.1	27.2	13.1	13.4	14.4	14.2
Investment securities gains (losses)	35.2	(10.8)	(.2)	5.2	3.8	1.7	29.6	20.3
Sale of a mortgage banking subsidiary	—	—	—	—	50.2	—	—	—
Other (2)	6.7	11.6	24.9	26.8	15.8	(2.5)	4.0	20.5
Total noninterest income	108.1	80.5	131.7	139.2	130.3	59.8	98.7	106.9
Noninterest expense								
Salaries	100.8	118.0	149.8	157.4	104.4	103.1	105.4	101.7
Employee benefits	28.9	37.8	45.0	36.4	25.5	24.1	24.8	25.1
Net occupancy	22.6	28.0	45.8	47.3	21.0	21.3	22.0	23.4
Equipment	19.5	23.9	32.4	32.2	18.3	19.4	18.2	20.0
Other	68.1	84.9	116.6	119.8	57.2	70.1	69.8	69.0
Total noninterest expense	239.9	292.6	389.6	393.1	226.4	238.0	240.2	239.2
Income before income tax expense	83.6	84.8	125.6	97.5	62.4	80.7	81.2	76.1
Income tax expense	32.0	18.7	48.2	19.1	17.4	33.2	32.6	27.1
Net income (3)	$ 51.6	$ 66.1	$ 77.4	$ 78.4	$ 45.0	$ 47.5	$ 48.6	$ 49.0
Net income applicable to common stock	$ 48.9	$ 61.6	$ 72.1	$ 73.2	$ 41.6	$ 44.0	$ 45.6	$ 46.0
Per common share (4)								
Net income	$ 1.13	$ 1.17	$ 1.35	$ 1.36	$ .97	$ 1.03	$ 1.06	$ 1.09
Dividends declared	$ .34	$ .34	$ .34	$ .39	$ .30	$ .30	$ .30	$ .34
Average common shares outstanding (in thousands) (4)	43,449	52,876	53,405	53,629	42,665	42,865	43,020	42,259

(1) Amounts in 1986 include the earnings of the former Crocker National Corporation beginning June 1, 1986.
(2) Amounts in 1985 include a total of $11.6 million in net closing costs associated with restructuring the Company's international activities, of which $9.3 million was recognized in the second quarter.
(3) The fourth quarter of 1986 includes an increase in net income of $6.4 million due to the effect on leveraged leases of reduced future tax rates under the Tax Reform Act of 1986.
(4) Adjusted to reflect the 2-for-1 common stock split.

Directors

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

William R. Breuner
Retired Chairman of the Board
John Breuner Company
(retailer of home furnishings)

James F. Dickason
Chairman of the Board and
Chief Executive Officer
Newhall Management Corporation
(agricultural, recreational, petroleum
and land development)

James K. Dobey
Retired Chairman of the Board
Wells Fargo & Company

Paul Hazen
President and Chief Operating Officer

Robert K. Jaedicke
Dean
Graduate School of Business
Stanford University

Donald M. Koll
Chairman of the Board and
Chief Executive Officer
The Koll Company
(real estate development)

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

Roger D. Lapham Jr.
Chairman and Managing Director
Rama Corporation, Ltd.
(investment and consulting)

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

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

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

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

Carl E. Reichardt
Chairman and Chief Executive Officer

Harry O. Reinsch
Director, The Bechtel Group, Inc.
(engineering, construction,
management of power-generating
facilities)

Donald B. Rice
President and Chief Executive Officer,
The RAND Corporation
(nonprofit research and analysis firm)

Wilson Riles
President, Wilson Riles &
Associates, Inc.
(education consultants)

Henry F. Trione
Chairman of the Board
Geyser Peak Winery
(wine growers and vintners)

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

Directors Emeriti

Wells Fargo Bank, N.A.

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

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

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

Arjay Miller
Dean Emeritus
Graduate School of Business
Stanford University

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

Management

Wells Fargo & Company

Chairman and Chief Executive Officer
Carl E. Reichardt

President and Chief Operating Officer
Paul Hazen

Vice Chairmen
John F. Grundhofer
Robert L. Joss
David M. Petrone
William F. Zuendt

Executive Vice Presidents
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Thomas H. Boughey
Ronald E. Eadie
Jack L. Hancock
E. Alan Holroyde
Clyde W. Ostler
Fredrick W. Petri
Guy Rounsaville Jr.
Dale R. Walker
Robert M. Walker

Chief Financial Officer
Clyde W. Ostler

Chief Counsel and Secretary
Guy Rounsaville Jr.

Chief Credit Officer
Robert M. Walker

Chief Loan Examiner
Douglas P. Holloway

Controller
Frank A. Moeslein

General Auditor
Doyle L. Arnold

Treasurer
Alan J. Pabst

Director of Investor Relations
Leslie L. Altick

Director of Corporate Communications
Lona L. Jupiter

Director of Taxes
Alan C. Gordon

Wells Fargo Bank, N.A.

Chairman and Chief Executive Officer
Carl E. Reichardt

President and Chief Operating Officer
Paul Hazen

Branch Banking
Jerry A. Grundhofer
Executive Vice President

Commercial Banking Group
Charles M. Johnson
Executive Vice President

Stephen G. Carpenter
Executive Vice President and
Southern California Division
Manager

Consumer Services Division
Jack Kopec
Executive Vice President

Corporate Banking Group
Ronald S. Parker
Executive Vice President

James C. Flood
Executive Vice President

Credit Policy Group
Robert M. Walker
Executive Vice President

Finance Group
Clyde W. Ostler
Executive Vice President

Funding Group
Thomas H. Boughey
Executive Vice President

International Banking Group
Will C. Wood
Executive Vice President

Operations Group
E. Alan Holroyde
Executive Vice President

Private Banking Group
William F. Aldinger III
Executive Vice President

Real Estate Industries Group
Dale R. Walker
Executive Vice President

Thomas J. Davis
Executive Vice President
Northern California
Construction Lending

Timothy W. Washburn
Executive Vice President
Southern California
Construction Lending

Strategy and Systems Group
Jack L. Hancock
Executive Vice President

Dudley M. Nigg
Executive Vice President
Strategy

**Wells Fargo Investment
Advisors Trust Division**
Frederick L.A. Grauer
Executive Vice President

Wells Fargo Bank Global Facilities

Subsidiaries

Wells Fargo Corporate Services, Inc.:
*Atlanta, Chicago, Dallas, New York,
San Francisco*

Wells Fargo International Limited,
Cayman Islands

Branches
Hong Kong
Nassau
Seoul
Tokyo

Representative Offices
Caracas
Mexico City
São Paulo
Singapore

Wells Fargo Nonbank Subsidiaries

Crocker Mortgage Company

San Diego, California
James G. Jones, President

Wells Fargo Ag Credit

Englewood, Colorado
Larry Lewton, President

Wells Fargo Business Credit

Dallas, Texas
Thomas D. Drennan, President

Wells Fargo Capital Markets, Inc.

San Francisco, California
Charles A. Greenberg, President

Wells Fargo Credit Corporation

Scottsdale, Arizona
Larry S. Crawford, President

Wells Fargo Insurance Services/ Central Western Insurance Company

San Francisco, California
James G. Jones, President

Wells Fargo Investment Advisors

San Francisco, California
Frederick L.A. Grauer, President

Wells Fargo Leasing Corporation

San Francisco, California
Theodore J. Rogenski, President

Wells Fargo Realty Advisors

Los Angeles, California
Fredrick W. Petri, President

Wells Fargo Realty Finance

San Francisco, California
George A. Tillotson, President

Wells Fargo Securities Clearance Corporation

New York, New York
Barry X. Lynn, President

The International Advisory Council

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

Chairman:
William I. M. Turner Jr.
Chairman and Chief Executive Officer
Consolidated-Bathurst, Ltd.
Montreal, Quebec, Canada

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

Edward Carlson
Chairman Emeritus
UAL, Incorporated
Chicago, Illinois

Göran Ennerfelt
President and Chief Executive Officer
A. Johnson & Company
Stockholm, Sweden

Sir Campbell Fraser
Chairman
Scottish Television P.L.C.
London, England

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

William R. Hewlett
Vice Chairman
Hewlett-Packard Company
Palo Alto, California

George S. Ishiyama
President
Ishiyama Corporation
San Francisco, California

The Rt. Hon. Lord Kadoorie, C.B.E., J.P.
Sir Elly Kadoorie and Sons
Hong Kong

Adolf Kracht
Partner
Bankhaus Merck, Finck and Company
Munich, West Germany

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

Dr. Saburo Okita
Chairman
Institute for Domestic and International Policy Studies
Tokyo, Japan

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

Stock Exchange Listings

New York Stock Exchange
Trading Symbol: WFC
Pacific Stock Exchange
Trading Symbol: WFC
London Stock Exchange
Frankfurter Börse

Transfer Agent and Registrar of Stock

Manufacturers Hanover Trust Company of California
50 California Street
San Francisco, California 94111

Co-Transfer Agent and Co-Registrar

Manufacturers Hanover Trust Company of New York
P.O. Box 24935
Church Street Station
New York, New York 10249

Notice to Shareholders

The annual meeting of Wells Fargo & Company will be held at 2 p.m. on Tuesday, April 21, 1987 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 at no charge upon request from:

Wells Fargo & Company
Controller's Division #0103-218
525 Market Street
San Francisco, California 94163

WFC0387B

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420 Montgomery Street
San Francisco
California 94163