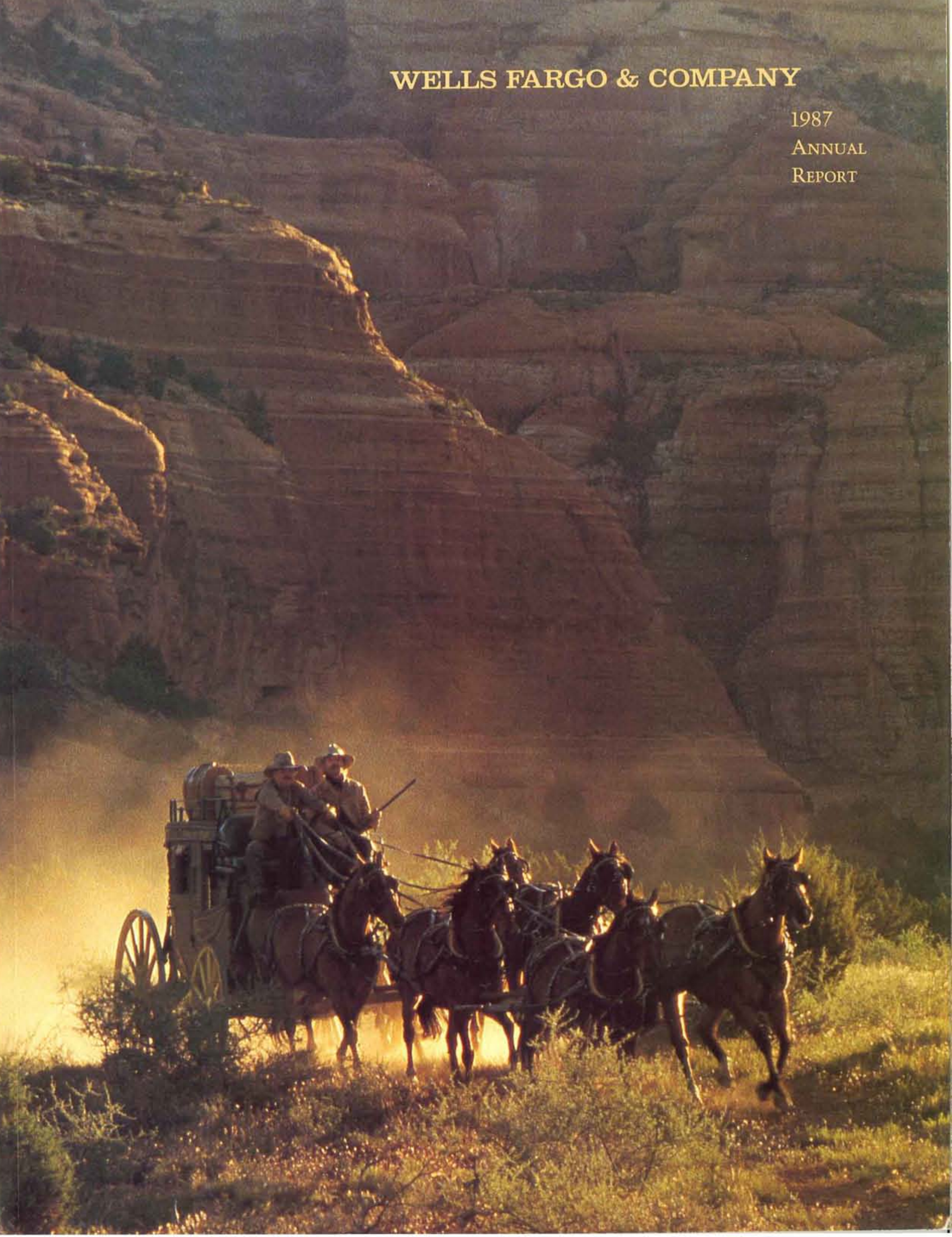
WELLS FARGO & COMPANY

1987
ANNUAL
REPORT



Highlights

Wells Fargo & Company and Subsidiaries

(in millions)	1987	1986	% Change
For the Year			
Net income	$50.8	$273.5	(81)%
Per common share			
Net income	$ .52	$5.03	(90)
Dividends declared	1.67	1.41	18
Average common shares outstanding (in thousands)	53,805	50,875	6
Net income to average total assets	.11%	.73%	(85)
Net income applicable to common stock to average common stockholders' equity	1.47	14.81	(90)
At Year End			
Loans	$36,791.1	$36,771.1	— %
Allowance for loan losses	1,357.2	734.0	85
Assets	44,183.3	44,577.1	(1)
Common stockholders' equity	1,842.6	1,937.7	(5)
Stockholders' equity	2,247.6	2,342.7	(4)
Primary capital	4,046.1	3,551.2	14
Total capital	6,369.5	6,093.7	5
Book value per common share	$34.93	$36.11	(3)
Common stockholders' equity to assets	4.17%	4.35%	(4)
Stockholders' equity to assets	5.09	5.26	(3)
Primary capital to assets	8.90	7.85	13
Total capital to assets	14.01	13.47	4
Common stockholders	25,233	22,398	13
Staff (1)	20,100	22,100	(9)
Branches (domestic and foreign)	443	517	(14)

(1) Full-time equivalent, excluding unpaid leaves.

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Letter to Shareholders

The world financial system experienced more than its usual share of volatility and adjustment in 1987. The record-setting drop in stock prices, continued restructuring of the financial services industry and establishment of large bank reserves against troubled developing country debt were all major, and sometimes unsettling, events for the banking industry and its stockholders.

Although these events had an impact on your Company, Wells Fargo was able to continue working toward its goal of adding value for shareholders and customers. The Company increased revenues and expanded key businesses in 1987, while lowering its cost structure during the course of the year. In addition, the Board of Directors raised the quarterly dividend on common stock to 50 cents per share, an increase of 28%. The increase was effective with the fourth quarter dividend payable on January 20, 1988.

Financial Results

Wells Fargo earned $50.8 million, or 52 cents per share, in 1987, despite its decision to make two special additions totaling $589 million to its allowance for loan losses in connection with loans to developing countries. These large special additions served to further strengthen Wells Fargo's loan loss allowance.

At year end, Wells Fargo's allowance was $1.36 billion, or 3.69% of total loans, compared with $734 million, or 2.00% of total loans, at the end of 1986. At year-end 1987, the allowance could be viewed as covering 50% of Wells Fargo's $1.7 billion in medium- and long-term cross-border outstandings to developing countries and approximately 1.5% of all other loans to domestic and foreign borrowers. Wells Fargo believes this level of coverage provides adequate protection against future loan losses while providing greater flexibility in managing our developing country portfolio.

Had Wells Fargo not made its special provisions to the allowance, net income would have been $382.6 million, or $6.69 per share. In 1986, net income was $273.5 million, or $5.03 per share.

Excluding the effects of the special provisions, Wells Fargo's profitability ratios demonstrated underlying improvement in our core businesses. Without the special provisions, return on average common stockholders' equity (ROE) would have been 17.39% in 1987. It was 14.81% in 1986. Return on average assets (ROA) would have been 0.85%. In 1986, ROA was 0.73%. Including the effects of the additions, ROE was 1.47% and ROA was 0.11% in 1987.

Credit Quality

Credit quality improved within the domestic loan portfolio throughout 1987. Wells Fargo's domestic nonaccrual and restructured loans and other real estate (ORE) amounted to $877.7 million, or 2.5% of total domestic loans and ORE, at the end of 1987. They amounted to $1.03 billion, or 3.0%, a year earlier.

Foreign nonaccruals were $711.4 million, compared with $255.4 million at the end of 1986. Most of the increase resulted from our placing $423 million in medium- and long-term Brazilian loans onto nonaccrual status following that country's declaration of a moratorium on interest payments in the first quarter of 1987. Brazil recently made some back interest payments on these loans, and negotiations are currently under way that could lead to a new financing agreement and the resumption of regular interest payments by Brazil in 1988.

Well Fargo's objective in managing its developing country debt portfolio is to provide the best possible return to shareholders while acting as a responsible member of the financial system. We believe the recent proposal by Mexico to swap long-term bonds for its loans is encouraging, and we expect to see similar market-oriented approaches to reducing debt in the future. At the same time, we recognize that Third World indebtedness is a long-term management problem for our industry and the nations involved.

Yet, even viewed in its worst possible light, this is a problem Wells Fargo is prepared to handle.

The Company's entire portfolio of medium- and long-term debt to these nations equals less than 4% of total assets, and our allowance for loan losses could be viewed as covering half of that exposure. It is unlikely that Wells Fargo would place all of its loans to developing countries on nonaccrual status. However, if the Company did take such an action and no interest payments were received, we estimate it would reduce earnings by about $1.00 per share annually, based on current interest rate levels.

Capital

By year-end 1987, Wells Fargo recouped most of the common equity capital that was used to make our special provisions to the allowance for loan losses. The Company's common equity at the end of 1987 equaled 4.17% of total assets, compared with 4.35% at the end of 1986. Primary capital equaled 8.90% of total assets at the end of 1987, compared with 7.85% a year earlier. Total capital was 14.01%, compared with 13.47% a year earlier. We believe these ratios demonstrate Wells Fargo's ability to build capital internally, through retained earnings.

In recent months, bank regulators in the United States and other industrialized nations have proposed new international guidelines for measuring capital adequacy. Wells Fargo believes it can meet those new requirements in advance of their taking effect in 1992.

California Expansion

The major thrust of Wells Fargo's business strategy continues to be our commitment to building our market presence, productivity and customer service capability in our home state of California.

California is one of the most economically vigorous and prosperous regions of the world. Its exceptionally diverse economy has traditionally protected the state from serious economic downturns. Its affluent population is increasing at twice the U.S. rate, while its businesses specialize in many of the world's fastest-growing industries. We continue to believe there are solid opportunities for a major bank dedicated to this marketplace.

The acquisition of Crocker National Corporation in 1986 expanded virtually all of Wells Fargo's basic businesses, particularly within the California marketplace. At year-end 1987, Wells Fargo had $34.7 billion in domestic loans, compared with $22.6 billion two years earlier. Total deposits were $32.3 billion at year end, compared with $19.5 billion two years earlier. In 1987, Wells Fargo completed the consolidation and integration of Crocker's operations and thereby created a more productive organization. At the time of the acquisition, the combined California retail branch system included 621 branches, many of which were operating in overlapping service areas. The system was consolidated into a more efficient network of 439 branches. Other redundant functions and facilities, such as credit card and data processing operations, were also consolidated in 1987.

Our goal following the Crocker acquisition was to cut noninterest expense from the combined organization by $20 million on a monthly basis by the end of 1987. Excluding noninterest expense associated with the personal trust operations we acquired from Bank of America in 1987, we have accomplished that objective.

Chairman Carl E. Reichardt

Wells Fargo acquired Bank of America's personal trust business in early 1987 and has since completed its integration into the Private Banking Group. With this purchase and the addition of Crocker's trust operations in 1986, Wells Fargo has become one of the largest personal trust institutions in the United States. Because of our growth, the Private Banking Group now has the resources to offer Californians the highest quality investment management and trust services, and we are committed to providing these services to our customers. At the same time, we have achieved substantial economies of scale and a return on investment that is in keeping with our commitment to shareholders.

In early 1988, Wells Fargo took another step toward increasing its presence in California by entering into a definitive agreement to purchase Barclays Bank of California for approximately $125 million in cash from Barclays Bank PLC of England. At the end of 1987, Barclays of California had total assets of $1.3 billion and deposits of $1.16 billion. The bank currently operates 50 retail branches, evenly distributed between Northern and Southern California. We expect the purchase, which is subject to regulatory approval, to be finalized by the end of the second quarter of this year. We intend to complete the integration of Barclays operations into our own within one year of the purchase.

Your management believes the Barclays acquisition will add to our California retail business at a reasonable price. We expect the acquisition to cause minimal, if any, dilution to earnings per share in 1988 and to add positively to EPS in 1989.

There remains substantial overcapacity within California's financial services industry. We therefore expect further mergers and acquisitions as the industry strives to increase efficiency and realize value for its shareholders and customers. Wells Fargo will take advantage of these opportunities, but only if the price is right and the company fits with our strategies. Wells Fargo is not interested in making acquisitions simply for the sake of getting bigger. We continue to place increasing shareholder value as our primary criterion.

Serving the Consumer

In addition to acquisition-related activities, Wells Fargo took a number of steps to build greater convenience and responsiveness into our retail and consumer operations. For instance, in 1987, our retail branches instituted a program designed to reduce the length of time customers wait in line during peak business periods and, in early 1988, we instituted 24-hour, person-to-person telephone service for checking account customers. Wells Fargo customers can now bank with us whenever they wish—seven days a week.

At year end, Wells Fargo had $2.2 billion in 290,000 individual retirement accounts (IRAs) and other retirement accounts, making it the largest bank IRA manager in the United States. Wells Fargo's IRAs offer customers a variety of investment options in the stock, bond and money markets, backed by the expertise of the same Wells Fargo investment managers who oversee more than $50 billion in funds for pension plans and other major institutions. Wells Fargo continues to explore new possibilities for offering our retail customers greater investment opportunity.

President Paul Hazen

Serving Business

Wells Fargo continued to expand its credit and financial services for California businesses of all types and sizes during 1987. We increased our business share of the state's important commercial middle market, particularly in the fast-growing Southern California region. Wells Fargo has 23 regional commercial banking offices throughout California that are managed by bankers with the experience and autonomy to make credit decisions quickly. These offices also provide middle-market customers with fast access to virtually all of the personal and business services offered by Wells Fargo.

In addition, Wells Fargo reorganized and expanded its efforts to serve California's huge and dynamic small business market, comprising more than 500,000 companies, by establishing the Business Banking Division. The new division re-established the commercial lending capacity of our retail branches by providing centralized loan approvals and loan servicing to businesses with borrowing needs of up to $250,000. Our retail branches stepped up efforts to bring in new business relationships and to serve the full range of business and personal banking needs of these companies and their principals.

Wells Fargo also increased its share of the state's commercial real estate market. Our commercial real estate loan portfolio performed well, both in California and nationally. The dynamics of virtually every major California real estate market improved in 1987, as nonresidential construction slowed and absorption rates improved. California accounts for approximately 70% of the commercial real estate portfolio. Texas, the most troubled market in our portfolio, accounts for less than 5% of commercial real estate outstandings.

Nationally, Wells Fargo also played an active role in providing credit and financial expertise for the recapitalization of U.S. businesses. Wells Fargo's loan portfolio in this area of our business is well diversified, both geographically and by industrial type, and is well secured. The portfolio continues to perform in a very satisfactory manner.

Wells Fargo is also the nation's largest equity investment manager for pension plans and other institutional funds. Our wholly owned subsidiary, Wells Fargo Investment Advisors (WFIA), specializes in the management of index funds that replicate the performance of broad segments of the stock and bond markets. WFIA experienced no operational problems and delivered on all of its performance requirements during the sudden drop in stock market value in October. At year end, WFIA managed more than $50 billion in assets, representing the investments of hundreds of thousands of workers and their families.

Thank You

Wells Fargo's management wishes to thank our customers for their business in 1987. We plan to continue to run Wells Fargo in a manner we hope will sustain your support. We also thank our staff and the Board of Directors for their dedication and hard work in serving Wells Fargo's customers and shareholders.

Carl E. Reichardt

Carl E. Reichardt
Chairman

Paul Hazen

Paul Hazen
President

March 2, 1988

Financial Review

Overview

Net income in 1987 was $50.8 million, or $.52 per common share. This result reflected two special additions, totaling $589 million, to the allowance for loan losses made in connection with loans to developing countries. Without the effect of the special additions and their related tax benefits, net income would have been $382.6 million, or $6.69 per common share. In 1986, net income was $273.5 million, or $5.03 per common share.

In 1987, the return on average common equity was 1.47% and the return on average assets was .11%. Excluding the impact of the special additions, return on average common equity would have been 17.39% and the return on average assets would have been .85%. In 1986, the returns on average common equity and average assets were 14.81% and .73%, respectively.

Primary capital was 8.90% of total assets at December 31, 1987, compared with 7.85% at December 31, 1986. Reflecting the after-tax effect of the special additions, common stockholders' equity was 4.17% of total assets at December 31, 1987, compared with 4.35% at December 31, 1986.

The 1986 results include the earnings contribution from Crocker National Corporation (Crocker) beginning June 1. Crocker was acquired on May 30, 1986. When comparing 1987 income and expense with 1986, substantially all of the significant increases reflected the acquisition of Crocker, except for the increase in the provision for loan losses due to the special additions.

The Company's results in 1987 reflected an increase in net interest income. Despite a decrease in the net interest margin to 4.95% in 1987 from 5.09% in 1986, net interest income on a taxable-equivalent basis increased 18% to $2.0 billion in 1987, due to average earning assets being 21% higher than 1986. The average volume of loans in 1987 was $36.0 billion, 18% higher than 1986, mostly due to increases of 22% in the commercial, financial and agricultural (commercial) portfolio, 25% in real estate construction-related loans and 19% in real estate mortgage loans. The average volume of core deposits in 1987 was $29.7 billion, 19% higher than 1986. Core deposits, which consist of noninterest-bearing deposits, interest-bearing checking accounts, savings accounts and savings certificates, funded 66% and 67% of the Company's average total assets in 1987 and 1986, respectively.

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

(in millions)	1987	1986	1985	1984	1983	1982	% Change 1987/1986	Five-year compound growth rate
Income Statement								
Net interest income	$1,931.3	$1,608.9	$1,220.2	$1,069.5	$915.0	$821.9	20%	19%
Provision for loan losses	892.0	361.7	371.8	194.6	121.1	115.4	147	51
Noninterest income	470.3	459.6	395.7	270.6	279.5	293.9	2	10
Noninterest expense	1,520.5	1,315.2	943.8	886.6	843.7	836.6	16	13
Net income	50.8	273.5	190.0	169.3	154.9	138.6	(81)	(18)
Per common share								
Net income	$ .52	$5.03	$4.15	$3.42	$3.01	$2.90	(90)	(29)
Dividends declared	1.67	1.41	1.24	1.08	.99	.96	18	12
Balance Sheet								
Loans	$36,791.1	$36,771.1	$24,614.2	$22,893.9	$20,267.6	$19,768.5	—%	13%
Allowance for loan losses	1,357.2	734.0	417.5	260.3	199.6	190.5	85	48
Assets	44,183.3	44,577.1	29,429.4	28,184.1	27,017.6	24,814.0	(1)	12
Senior debt	1,574.0	2,019.1	2,129.7	1,708.6	1,493.7	1,335.2	(22)	3
Subordinated debt	2,249.7	2,392.4	2,056.5	1,011.7	38.8	38.8	(6)	125
Stockholders' equity	2,247.6	2,342.7	1,458.0	1,343.7	1,347.8	1,100.4	(4)	15

(1) Reflects the acquisition of Crocker National Corporation beginning June 1, 1986.

Noninterest income was $470.3 million in 1987, compared with $459.6 million in 1986. Noninterest income included investment securities losses of $12.9 million in 1987, compared with gains of $29.4 million in 1986. Noninterest expense was $1,520.5 million in 1987, compared with $1,315.2 million in 1986.

The Company's allowance for loan losses increased to $1.4 billion, or 3.69% of total loans, at December 31, 1987, compared with $734.0 million, or 2.00% of total loans, at December 31, 1986. At December 31, 1987, cross-border outstandings to developing countries totaled $1.9 billion, of which $240 million was short-term (substantially trade-related). At year-end 1987, the allowance could be viewed as covering 50% of the Company's $1.7 billion in medium- and long-term cross-border outstandings to developing countries. Assuming 50% coverage, approximately 1.5% of the Company's $35.1 billion of remaining loans was also covered by the allowance. However, the total allowance remains available to absorb losses inherent in the Company's entire portfolio.

The Company's provision for loan losses was $892.0 million in 1987 and $361.7 million in 1986. Excluding the special additions, the provision was $303.0 million in 1987. During 1987, net charge-offs were $263.5 million, or .73% of average loans, compared with $279.0 million, or .91% of average loans, during 1986.

Domestic nonaccrual loans, restructured loans and other real estate (ORE) were $877.7 million, or 2.5% of total domestic loans and ORE, at December 31, 1987, compared with $1,034.9 million, or 3.0%, at December 31, 1986. Foreign nonaccrual loans were $711.4 million at December 31, 1987, compared with $255.4 million at year-end 1986. Most of the foreign increase was due to the placement of certain Brazilian loans on nonaccrual status.

As widely reported, Brazil suspended interest payments on its medium- and long-term debt to foreign commercial creditor banks in February 1987. During March 1987, the Company placed all of its accruing medium- and long-term loans to Brazil's public and private sectors on nonaccrual status. Such loans totaled $423 million. As a result of this action, net income in 1987 was decreased by approximately $26 million. See further discussion regarding Brazil on page 17.

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, 1987	1986	1985
Profitability Ratios			
Net income to average total assets	.11%	.73%	.67%
Net income applicable to common stock to average common stockholders' equity (1)	1.47	14.81	14.05
Net income to average stockholders' equity	2.21	13.37	13.50
Capital Ratios			
Year-end balances:			
Common stockholders' equity to assets	4.17%	4.35%	4.44%
Stockholders' equity to assets	5.09	5.26	4.95
Primary capital to assets (2)	8.90	7.85	7.44
Total capital to assets (3)	14.01	13.47	14.53
Average balances:			
Common stockholders' equity to assets (1)	4.23	4.62	4.40
Stockholders' equity to assets	5.13	5.47	4.93
Primary capital to assets	8.26	7.98	7.06
Total capital to assets	13.57	14.35	12.57
Per Common Share Data			
Dividend payout (4)	321%	28%	30%
Book value	$34.93	$36.11	$30.94
Market prices (5):			
High	$59⅝	$57⅛	$32⅜
Low	37⅝	30¾	22¾
Year end	43	50¾	31¾

(1) Average common stockholders' equity was $1,897 million, $1,727 million and $1,258 million in 1987, 1986 and 1985, respectively.
(2) Based on regulatory concepts, primary capital ($4,046.1 million at December 31, 1987) is defined as stockholders' equity ($2,247.6 million), qualifying mandatory convertible debt ($507.2 million, net of note fund and dedicated stockholders' equity discussed on page 34) and allowance for loan losses ($1,291.3 million, exclusive of allocated transfer risk reserves discussed on page 15).
(3) Based on regulatory concepts, total capital ($6,369.5 million at December 31, 1987) is defined as primary capital, certain senior and subordinated debt of the Parent and its nonbank subsidiaries ($2,278.2 million) and subordinated notes of the Bank ($45.2 million).
(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 consumer, real estate and agricultural financing and manages funds for pension plans, institutions and foundations. 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. Excluding the after-tax effect of the special additions to the allowance for loan losses, consolidated net income would have been $382.6 million in 1987. The Bank and the nonbank subsidiaries would have contributed approximately 95% and 5%, respectively, to this amount. The Parent's contribution, excluding its equity in earnings of subsidiaries, was negligible.

Excluding the impact of the special additions, net income of the nonbank subsidiaries would have been $21.0 million in 1987, compared with $45.8 million in 1986. The decrease reflected the Parent's contribution of three nonbank subsidiaries (Wells Fargo Realty Advisors, Wells Fargo Realty Finance and Wells Fargo Leasing Corporation) to the Bank in the fourth quarter of 1987 and the sale of substantially all of the business and assets of Wells Fargo Business Credit in July 1987.

Net Interest Income

Net interest income is the difference between interest income (which includes certain loan-related fees) and interest expense. Net interest income on a taxable-equivalent basis was $1,999.4 million in 1987, an increase of 18% over $1,696.8 million in 1986. Net interest income on a taxable-equivalent basis is higher than net interest income on the consolidated statement of income because it reflects adjustments for the income from certain securities and loans that is exempt from federal income taxes ($43.7 million in 1987 and $57.7 million in 1986), as well as for the net-of-tax accounting related to the Crocker acquisition ($24.4 million in 1987 and $30.2 million in 1986), which is discussed further under Income Taxes. The taxable-equivalent adjustments are based on the federal statutory tax rate (40% and 46% for 1987 and 1986, respectively) 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 1987, the net interest margin was 4.95%, 14 basis points lower than 1986. Individual components of net interest income and the net interest margin are presented in Table 4.

Table 3 Condensed Consolidating Statement of Income

(in millions) Year ended December 31, 1987	Wells Fargo & Company (Parent)	Wells Fargo Bank	Nonbank subsidiaries	Inter-company eliminations	Consolidated Wells Fargo & Company
Interest income	$509.9	$3,705.9	$384.3	$(498.1)	$4,102.0
Interest expense	538.3	1,842.8	282.9	(498.1)	2,165.9
Amortized loss on interest rate hedging	–	(4.8)	–	–	(4.8)
Net interest income	(28.4)	1,858.3	101.4	–	1,931.3
Provision for loan losses	2.0	800.7	89.3	–	892.0
Net interest income after provision for loan losses	(30.4)	1,057.6	12.1	–	1,039.3
Equity in earnings of subsidiaries	56.1	–	–	(56.1)	–
Noninterest income	6.7	443.1	87.4	(66.9)	470.3
Noninterest expense	5.8	1,459.4	122.2	(66.9)	1,520.5
Income (loss) before income tax benefit	26.6	41.3	(22.7)	(56.1)	(10.9)
Income tax benefit	(24.2)	(23.6)	(13.9)	–	(61.7)
Net income (loss)	$ 50.8	$ 64.9	$ (8.8)	$ (56.1)	$ 50.8

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

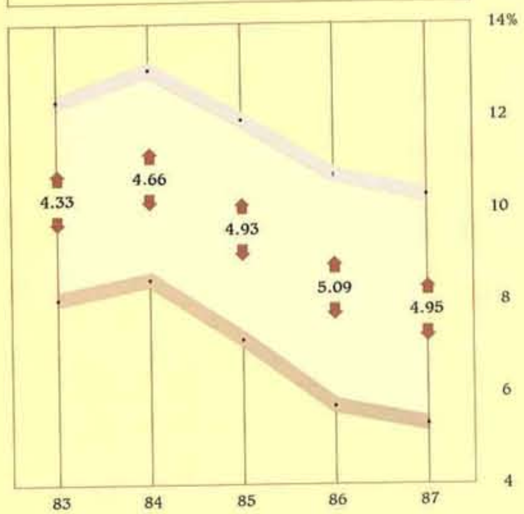
(in millions)	1987 Average balance	1987 Yields/ rates	1987 Interest income/ expense	1986 Average balance	1986 Yields/ rates	1986 Interest income/ expense	1985 Average balance	1985 Yields/ rates	1985 Interest income/ expense	1984 Average balance	1984 Yields/ rates	1984 Interest income/ expense	1983 Average balance	1983 Yields/ rates	1983 Interest income/ expense
Earning Assets															
Interest-earning deposits	$ 918	10.83%	$ 99.4	$ 1,210	6.94%	$ 84.0	$ 509	9.17%	$ 46.7	$ 926	11.48%	$ 106.3	$ 1,342	10.74%	$ 144.1
Investment securities:															
U.S. Treasury securities	716	7.25	52.0	585	7.88	46.1	882	9.71	85.6	641	10.85	69.5	233	10.19	23.7
Securities of other U.S. government agencies and corporations	1,866	8.61	160.7	170	8.66	14.7	20	7.70	1.6	65	8.57	5.6	133	8.81	11.7
Obligations of states and political subdivisions	101	7.76	7.8	135	8.67	11.7	162	8.78	14.2	218	8.83	19.3	282	8.96	25.3
Other securities	499	10.24	51.1	332	12.16	40.4	289	15.12	43.6	202	17.60	35.6	67	16.35	11.0
Total investment securities	3,182	8.53	271.6	1,222	9.24	112.9	1,353	10.72	145.0	1,126	11.54	130.0	715	10.03	71.7
Trading account securities	121	6.33	7.6	190	6.88	13.0	266	8.56	22.8	137	10.88	14.9	111	9.39	10.4
Federal funds sold	123	6.26	7.7	198	6.71	13.3	210	8.30	17.4	374	10.75	40.2	233	9.53	22.2
Loans:															
Commercial, financial and agricultural	12,262	9.20	1,128.5	10,091	9.13	921.0	7,840	10.71	839.4	7,504	12.50	937.9	6,803	11.58	787.7
Real estate construction-related	6,054	9.58	579.9	4,826	9.67	466.6	3,746	11.38	426.2	2,721	13.60	370.0	2,194	12.68	278.2
Real estate mortgage	7,095	10.23	725.6	5,968	10.65	635.9	4,760	11.10	528.3	4,980	11.17	556.3	4,962	11.14	552.9
Consumer	7,239	12.96	937.9	6,408	13.64	873.8	3,690	14.74	544.0	2,671	15.16	404.9	2,190	14.63	320.3
Lease financing	1,258	10.60	133.3	1,115	12.23	136.4	915	14.20	130.0	872	13.88	121.1	914	14.27	130.5
Foreign	2,126	5.69	121.1	2,101	8.96	188.1	2,427	11.28	273.7	2,834	13.09	371.0	2,839	11.90	337.8
Fees and sundry interest	—	—	136.5	—	—	127.0	—	—	91.8	—	—	92.1	—	—	96.4
Total loans (1)	36,034	10.44	3,762.8	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
Total earning assets	$40,378	10.28	4,149.1	$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
Funding Sources															
Interest-bearing liabilities:															
Deposits:															
Savings deposits	$ 4,111	5.01	205.9	$ 2,393	5.30	126.9	$ 1,381	5.50	75.9	$ 1,507	5.51	83.1	$ 1,768	5.29	93.6
NOW accounts	2,914	3.96	115.5	2,107	4.81	101.3	1,429	5.12	73.1	1,376	5.10	70.2	1,270	5.18	65.7
Market rate checking	432	4.02	17.4	442	5.05	22.3	326	5.75	18.7	287	6.89	19.8	225	6.98	15.7
Market rate savings	7,847	5.05	396.0	6,883	5.34	367.9	5,327	6.63	353.0	4,742	8.51	403.4	4,577	8.35	382.3
Savings certificates	8,145	6.50	529.6	7,609	7.42	564.7	5,920	9.24	547.2	5,343	10.73	573.3	4,295	10.46	449.3
Certificates of deposit	876	8.60	75.3	807	9.00	72.6	278	13.94	38.8	414	14.06	58.2	640	13.94	89.3
Other time deposits	193	8.03	15.5	308	8.06	24.8	265	9.98	26.4	697	11.00	76.6	679	9.96	67.6
Deposits in foreign offices	1,247	6.90	86.0	717	7.52	53.9	1,135	9.88	112.2	1,820	11.46	208.7	1,966	11.16	219.3
Total interest-bearing deposits	25,765	5.59	1,441.2	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
Commercial paper	3,134	6.69	209.8	1,619	6.76	109.4	1,951	8.23	160.5	2,139	10.56	225.8	1,720	9.15	157.3
Other short-term borrowings	2,031	7.63	155.0	1,245	6.30	78.5	1,321	7.62	100.7	1,070	10.01	107.2	1,171	8.78	102.9
Senior and subordinated debt:															
Senior debt	1,819	9.55	173.7	2,235	9.68	216.4	1,797	10.64	191.1	1,441	12.08	174.1	1,141	12.78	145.8
Subordinated debt	2,316	7.11	164.6	2,225	7.10	157.9	1,562	8.73	136.3	385	10.28	39.5	39	4.54	1.8
Total senior and subordinated debt	4,135	8.18	338.3	4,460	8.39	374.3	3,359	9.75	327.4	1,826	11.70	213.6	1,180	12.52	147.6
Total interest-bearing liabilities	35,065	6.12	2,144.3	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
Portion of noninterest-bearing funding sources	5,313	—	—	4,739	—	—	3,024	—	—	2,924	—	—	2,812	—	—
Total funding sources	$40,378	5.31	2,144.3	$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
Amortized gain (loss) on interest rate hedging		(.02)	(5.4)		.06	21.4		.14	37.2		.09	19.4		.02	3.2
Net interest margin and net interest income on a taxable-equivalent basis		4.95%	$1,999.4		5.09%	$1,696.8		4.93%	$1,268.6		4.66%	$1,124.2		4.33%	$ 964.8
Noninterest-Earning Assets															
Cash and due from banks	$ 2,569			$ 2,353			$ 1,639			$ 1,712			$ 1,713		
Other (2)	1,907			1,692			1,214			1,376			1,422		
Total noninterest-earning assets	$ 4,476			$ 4,045			$ 2,853			$ 3,088			$ 3,135		
Noninterest-Bearing Funding Sources															
Deposits	$ 6,300			$ 5,463			$ 3,366			$ 3,422			$ 3,420		
Other liabilities	1,187			1,275			1,103			1,247			1,267		
Stockholders' equity	2,302			2,046			1,408			1,343			1,260		
Noninterest-bearing funding sources used to fund earning assets	(5,313)			(4,739)			(3,024)			(2,924)			(2,812)		
Net noninterest-bearing funding sources	$ 4,476			$ 4,045			$ 2,853			$ 3,088			$ 3,135		
Total Assets	$44,854			$37,374			$28,569			$27,233			$25,438		

The average prime rate of Wells Fargo Bank was 8.21%, 8.33%, 9.93%, 12.03% and 10.79% for the years ended 1987, 1986, 1985, 1984 and 1983, 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 $1,020 million, $587 million, $336 million, $222 million and $197 million in 1987, 1986, 1985, 1984 and 1983, respectively.

Net Interest Margin (%)



A 21% increase in average earning assets contributed to the improvement in net interest income in 1987. Loan volume averaged $36.0 billion during 1987, 18% higher than 1986. The commercial portfolio increased 22%, real estate construction-related loans increased 25% and real estate mortgage loans increased 19%. See additional discussion in the Loan Portfolio section.

The 14 basis point decrease in the net interest margin to 4.95% in 1987 was mostly due to Brazilian loans placed on nonaccrual status during March 1987 and a decrease in the percentage of noninterest-bearing funding sources used to fund earning assets (noninterest-bearing funding sources funded 13% of earning assets in 1987, compared with 14% in 1986), partially offset by an increase in the yield on commercial loans. This increase was due to a higher level of loan fee amortization, a portion of which resulted from prepayment of commercial loans. The yields on average total loans and earning assets decreased 54 basis points and 44 basis points, respectively, in 1987, while the rate paid on average total funding sources decreased 38 basis points. The rate paid on interest-bearing deposits, the largest funding source, declined 68 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, 1987	1986	1985
Loan Fees			
Commercial, financial and agricultural	$ 35.9	$ 36.6	$28.1
Real estate construction-related	7.3	7.3	4.9
Real estate mortgage	12.5	19.9	4.5
Credit card	51.5	35.4	31.6
Other revolving credit	3.1	2.8	2.5
Other consumer	13.7	13.5	10.3
Lease financing	2.4	2.4	1.9
Foreign	.1	.5	1.1
Sundry interest	10.0	8.6	6.9
Total	$136.5	$127.0	$91.8

Total loan fees and sundry interest increased 8% in 1987 compared with 1986. Sundry interest principally consists of interest recovered on charged off loans.

In December 1986, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, which the Company implemented prospectively on January 1, 1988. The Statement requires the deferral and amortization of certain fee income and direct incremental loan origination expenses. The Company believes that the effects of the Statement, taken as a whole, will not cause a material adverse impact on its net income for 1988. In addition, the Company believes that, if this Statement had been implemented as of January 1, 1987, there would not have been a material adverse impact on 1987 net income before deduction for the after-tax effect of the special loan loss provisions.

Noninterest Income

The table below shows the major components of noninterest income.

Table 6 Noninterest Income

(in millions)	Year ended December 31, 1987	1986	1985	% Change 1987/1986	1986/1985
Service charges on deposit accounts	$180.6	$153.0	$109.0	18%	40%
Trust and investment services income	156.5	90.1	55.1	74	64
Domestic fees and commissions	141.1	116.9	88.2	21	33
Income from equity investments	24.5	38.4	5.6	(36)	588
Trading account profits and commissions	19.5	20.3	13.3	(4)	53
International fees, commissions and foreign exchange	18.5	17.8	17.7	4	–
Investment securities gains (losses)	(12.9)	29.4	55.5	–	(47)
Sale of a mortgage banking subsidiary	–	–	50.2	–	–
All other	(57.5)	(6.3)	1.1	813	–
Total	$470.3	$459.6	$395.7	2	16

The growth in trust and investment services income in 1987 compared with 1986 was primarily attributable to fees generated by the personal trust business acquired from Bank of America on April 1, 1987. (The purchase price of this acquisition was approximately $92 million, most of which has been identified as trust servicing rights, included in other assets.) A significant portion of the growth was also due to additional funds invested by new and existing customers and higher stock market prices during much of the year, as fees are generally based on the value of assets managed.

The increase in domestic fees and commissions in 1987 compared with 1986 was mostly due to increases in letter of credit fees, loan syndication fees and credit card merchant fees. The largest component of domestic fees and commissions was credit card merchant fees, which were $29.8 million and $24.6 million in 1987 and 1986, respectively.

In 1987 and 1986, the majority of the income from equity investments, which are accounted for using the cost method, resulted from gains on sales of equity positions related to leveraged buyout transactions.

In 1987, investment securities losses resulted from a writedown of certain preferred stock. Investment securities gains in 1986 would have been higher by $11.8 million, resulting in a net gain of $41.2 million, if it were not for the net-of-tax accounting related to Crocker, which is further discussed under Income Taxes. Correspondingly, income tax expense would have been $11.8 million higher, resulting in no effect on net income. The majority of the investment securities gains in 1986 resulted from sales of U.S. Treasury securities.

If it were not for the net-of-tax accounting related to Crocker, "all other" noninterest income would have been $6.0 million in 1987 and $19.5 million in 1986. Correspondingly, the income tax provisions would have been affected by the same amounts, resulting in no effect on net income.

The decrease in "all other" noninterest income in 1987 compared with 1986 also reflected a decrease in sales proceeds in excess of equipment lease residual values.

Noninterest Expense

The table below shows the major components of noninterest expense.

Table 7 Noninterest Expense

(in millions)	Year ended December 31, 1987	1986	1985	% Change 1987/1986	1986/1985
Salaries	$ 599.3	$ 526.0	$414.5	14%	27%
Employee benefits	151.5	148.1	99.5	2	49
Net occupancy	178.7	143.7	87.8	24	64
Equipment	132.9	108.0	75.9	23	42
Postage, stationery and supplies	61.3	60.0	39.9	2	51
Telecommunication	51.9	41.7	31.8	25	31
Other real estate	37.4	36.0	12.6	4	185
Operating losses	35.9	15.2	14.9	137	2
Professional services	34.2	27.8	22.3	23	25
Advertising	27.0	24.9	18.3	9	36
Federal deposit insurance	25.1	20.7	13.8	21	50
Contract services	24.7	27.0	18.9	(9)	43
Goodwill amortization	22.4	13.0	1.2	72	968
Travel and entertainment	21.4	20.4	17.4	5	17
Insurance	20.3	16.5	8.5	23	95
Outside data processing	19.0	17.4	14.5	9	20
Protection	16.1	13.1	9.3	23	41
All other	61.4	55.7	42.7	10	30
Total	$1,520.5	$1,315.2	$943.8	16	39

The 1987 over 1986 increase in salaries expense reflected the additional personnel resulting from the May 30, 1986 acquisition of Crocker. The Company's full-time equivalent staff, including hourly employees, was approximately 20,100 at December 31, 1987, compared with approximately 22,100 at December 31, 1986 and approximately 14,200 at March 31, 1986.

The additional personnel from the Crocker acquisition also increased employee benefits expense in 1987 compared with 1986. However, the increase was mostly offset by a decrease in expenses relating to executive stock option plans, substantially due to the decrease in the market price of the Company's common stock.

Other real estate expense included an increase in costs related to the operation of other real estate, mostly offset by an increase in gains on sales of other real estate.

Income Taxes

The income tax benefit for 1987 was 568% of the pretax loss; income tax expense for 1986 was 30% of pretax income. The 1987 and 1986 effective tax rates were significantly affected by net-of-tax accounting, as described below.

The acquisition of Crocker in May 1986 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 1987 income statement comparable with an income statement that does not include net-of-tax accounting, these tax effects of $99.8 million would have to be deducted from the income tax benefit line for 1987. Correspondingly, $99.8 million would have to be deducted from loss before income tax benefit as follows: $24.4 million increase to net interest income, $61.7 million increase to noninterest income and $13.7 million decrease to noninterest expense. Reflecting these changes, the Company would have had income before income tax expense of $88.9 million and income tax expense of $38.1 million, resulting in the same net income of $50.8 million. Consequently, if it were not for net-of-tax accounting, the Company's effective income tax rate would have been 43% in 1987. If the effective rate applicable to pretax income for 1986 were also adjusted to exclude the effect of net-of-tax accounting, the rate would have been 42%.

For more information on income taxes, refer to Note 10 to the Financial Statements.

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 96, Accounting for Income Taxes, in December 1987. This Statement changes the method of computing income taxes for financial statement purposes by adopting the asset and liability method.

Under the asset and liability method, the computation of the net deferred tax asset or liability gives current recognition to changes in tax laws and rates. The Statement supercedes Accounting Principles Board Opinion (APB) No. 11, Accounting for Income Taxes, under which the net deferred tax asset or liability was recorded based on the calculation of the current period's deferred tax provision and was not adjusted for subsequent changes in tax rates.

The Statement is effective in 1989; earlier implementation is permitted. Financial statements for years prior to the year of adoption may be restated to conform with the requirements of the Statement. The effect of applying the Statement on the amount of the net deferred tax asset or liability at the beginning of the year adopted or the earliest year restated is to be reflected as an adjustment to earnings for that year.

The Company has not completed the complex analysis required to accurately determine the impact of the Statement and, therefore, has not decided whether to adopt the Statement before 1989 or whether to restate any prior year financial statements. Moreover, the Statement contains certain ambiguities that will require clarification by the FASB. Based on the Company's current interpretation of the Statement and a preliminary analysis of its impact, the Company estimates that, if the principles of the Statement had been applied at December 31, 1987, the Company's deferred tax asset would have been reduced by approximately $70 million. This reduction represents tax benefits primarily related to the special additions to the allowance for loan losses, which have been recorded in accordance with APB No. 11 and which would not have been allowed under the Statement because of its more restrictive criteria for the recognition of deferred tax assets. Such benefits would be reflected in future years' financial statements as reductions in income tax expense as permitted under the Statement.

Balance Sheet Analysis

A condensed consolidating balance sheet of the Parent and its subsidiaries is shown below. Total assets for the nonbank subsidiaries decreased by $2.9 billion at December 31, 1987 from year-end 1986, substantially due to the contribution of Wells Fargo Realty Advisors, Wells Fargo Realty Finance and Wells Fargo Leasing Corporation to the Bank in late 1987 and due to the sale of substantially all of the assets of Wells Fargo Business Credit in July 1987.

Table 8 Condensed Consolidating Balance Sheet

(in millions)

					December 31, 1987
Assets	Wells Fargo & Company (Parent)	Wells Fargo Bank	Nonbank subsidiaries	Inter-company eliminations	Consolidated Wells Fargo & Company
Cash and due from banks	$ 5.4	$ 1,953.2	$ 22.7	$ (26.9)	$ 1,954.4
Interest-earning deposits	–	365.3	.1	(.1)	365.3
Investment securities	500.5	3,038.8	16.0	–	3,555.3
Trading account securities	–	46.3	–	–	46.3
Federal funds sold	–	.1	–	–	.1
Loans	332.7	34,950.7	1,507.7	–	36,791.1
Allowance for loan losses	5.0	1,276.0	76.2	–	1,357.2
Net loans	327.7	33,674.7	1,431.5	–	35,433.9
Investment in subsidiaries	2,397.6	–	–	(2,397.6)	–
Intercompany loans and advances	5,401.0	–	268.1	(5,669.1)	–
Other assets	439.8	2,272.5	259.5	(143.8)	2,828.0
Total assets	$9,072.0	$41,350.9	$1,997.9	$(8,237.5)	$44,183.3
Liabilities and Stockholders' Equity					
Deposits	$ –	$32,346.8	$ –	$ (27.0)	$32,319.8
Borrowings	6,389.2	1,972.1	210.3	–	8,571.6
Intercompany borrowings	268.1	3,837.7	1,563.3	(5,669.1)	–
Other liabilities	167.1	938.4	82.6	(143.8)	1,044.3
Total liabilities	6,824.4	39,095.0	1,856.2	(5,839.9)	41,935.7
Stockholders' equity	2,247.6	2,255.9	141.7	(2,397.6)	2,247.6
Total liabilities and stockholders' equity	$9,072.0	$41,350.9	$1,997.9	$(8,237.5)	$44,183.3

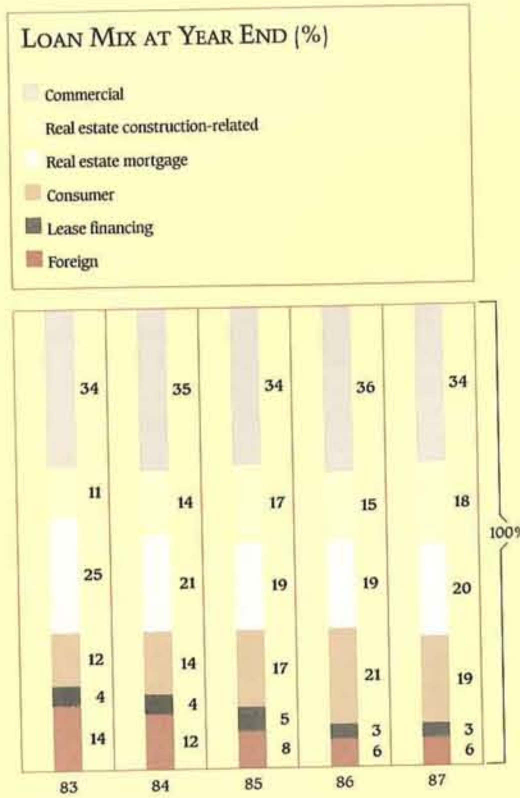
Investment Securities

Investment securities were $3.6 billion at December 31, 1987, a 40% increase over 1986. Most of the increase was the result of purchases of Government National Mortgage Association securities. These securities were purchased to partially reduce the one-year-and-over net liability position, which is discussed in the Asset/Liability Management section. Note 3 to the Financial Statements shows the composition of the investment portfolio by type of issuer.

Loan Portfolio

A comparative schedule of average loan balances is presented in Table 4; year-end balances are presented in Note 4 to the Financial Statements.

Loan volume averaged $36.0 billion in 1987, an increase of 18% over 1986. The commercial portfolio increased 22% reflecting growth in corporate and middle market loans. The 25% increase in real estate construction-related loans, which generally have maturities of five years or less, was primarily due to loans



made to finance the construction of commercial properties. The majority of the 19% increase in real estate mortgage loans occurred in the 1–4 family mortgage loan portfolio. Growth in real estate junior lien mortgage loans and credit card loans accounted for most of the 13% increase in consumer loans. Real estate junior lien mortgage loans averaged $3.1 billion in 1987, an increase of 20% over 1986; credit card loans averaged $2.0 billion, an increase of 11%. There were 1.6 million cardholder accounts at year-end 1987.

Although average commercial loans increased in 1987 compared with 1986, the 1987 year-end balance of $12.4 billion decreased by $.8 billion from year-end 1986. The decline reflected the sale of $395 million of Wells Fargo Business Credit's commercial loans in July 1987. Also, consumer loans of $7.1 billion at year-end 1987 decreased by $.7 billion from year-end 1986, primarily due to a decline in monthly payment loans.

Included in the commercial portfolio were agricultural loans of $631 million and $767 million at December 31, 1987 and 1986, 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 $189 million and $133 million at December 31, 1987 and 1986, respectively.

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 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.

A net decline in agricultural- and energy-related nonaccrual loans contributed significantly to the decrease in commercial nonaccruals at December 31, 1987 compared with year-end 1986. The decrease resulted from a combination of charge-offs, repayments and transfers to other real estate.

Real estate construction-related nonaccruals decreased at December 31, 1987 compared with a year earlier, primarily due to repayments and transfers to other real estate, partially offset by additional loans placed on nonaccrual status during 1987.

Most of the increase in foreign nonaccruals at year-end 1987 compared with 1986 was due to the March 1987 placement on nonaccrual status of all accruing medium- and long-term loans to borrowers in Brazil's public and private sectors, which totaled $423 million. Also, foreign nonaccruals at December 31, 1987 included certain private sector loans to borrowers in Mexico of $38 million and all loans to borrowers in Ecuador of $29 million, all of which were placed on nonaccrual status in March 1987.

Interest on nonaccrual and restructured loans that was recognized as income amounted to $25.1 million and $21.9 million in 1987 and 1986, respectively.

TABLE 9 NONACCRUAL LOANS, RESTRUCTURED LOANS AND OTHER REAL ESTATE

(in millions)					December 31,
	1987	1986	1985	1984	1983
Domestic nonaccrual loans:					
Commercial, financial and agricultural (1)	$417.9	$500.5	$463.0	$382.4	$379.1
Real estate construction-related	58.9	115.4	51.0	26.2	57.9
Real estate mortgage (2)	50.2	68.8	49.5	43.7	15.6
Consumer	15.4	4.0	3.6	.6	8.3
Lease financing	6.3	12.8	9.5	14.4	11.1
Total domestic nonaccrual loans	$548.7	$701.5	$576.6	$467.3	$472.0
Restructured loans (all domestic)	$ 11.7	$ 13.8	$ 18.4	$ 17.4	$ 40.2
Domestic nonaccrual and restructured loans as a percentage of total domestic loans	1.6%	2.1%	2.6%	2.4%	2.9%
Other real estate (ORE) (3)	$317.3	$319.6	$169.3	$ 87.6	$ 77.7
Domestic nonaccrual loans, restructured loans and ORE	$877.7	$1,034.9	$764.3	$572.3	$589.9
Domestic nonaccrual loans, restructured loans and ORE as a percentage of total domestic loans and ORE	2.5%	3.0%	3.4%	2.8%	3.4%
Foreign nonaccrual loans	$711.4	$255.4	$194.8	$249.9	$236.4

(1) Includes agricultural loans of $157 million, $223 million, $180 million and $64 million at December 31, 1987, 1986, 1985 and 1984, respectively.
(2) Includes agricultural loans secured by real estate of $12 million, $19 million, $24 million and $22 million at December 31, 1987, 1986, 1985 and 1984, respectively.
(3) Includes agricultural-related properties of $108 million, $112 million, $94 million and $46 million at December 31, 1987, 1986, 1985 and 1984, respectively.

The following table shows loans contractually past due 90 days or more as to interest or principal, but not included in the nonaccrual or restructured categories. All loans in this category are both well secured and in the process of collection or are consumer loans or 1–4 family residential real estate loans that are exempt under regulatory rules from being classified as nonaccrual.

TABLE 10 LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING

(in millions)					December 31,
	1987	1986	1985	1984	1983
Commercial, financial and agricultural	$ 51.5	$ 71.1	$ 46.1	$33.9	$ 97.4
Real estate construction-related	6.1	11.2	14.3	3.6	88.4
Real estate mortgage	41.3	65.4	42.0	41.8	30.5
Consumer	35.3	62.9	43.5	14.0	9.7
Lease financing	1.3	1.7	.2	–	3.6
Foreign	–	3.7	1.5	.4	88.9(1)
Total	$135.5	$216.0	$147.6	$93.7	$318.5

(1) Included approximately $30 million of loans to private sector Venezuelan borrowers for which all past-due cash was fully collateralized with dollars in the United States. Also included approximately $45 million of loans to public sector Venezuelan borrowers which were 90 days or more past due as to principal, for which interest was substantially current and active negotiations to correct the past due status were in process.

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 4 to the Financial Statements. At December 31, 1987, the allowance for loan losses was $1,357.2 million, or 3.69% of total loans, compared with $734.0 million, or 2.00% of total loans, at December 31, 1986. Included in the allowance at December 31, 1987 and 1986 are allocated transfer risk reserves of $65.9 million and $55.4 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 $1,357.2 million adequate to cover losses inherent in loans, commercial and real estate loan commitments and standby letters of credit outstanding at December 31, 1987. 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 1987 was $892.0 million, reflecting special additions totaling $589 million that were made in connection with loans to developing countries. The 1986 provision was $361.7 million. During 1987, net charge-offs were $263.5 million, compared with $279.0 million in 1986. As a percentage of average loans outstanding, net charge-offs were .73% in 1987 and .91% in 1986. The decrease was primarily due to a lower ratio of net charge-offs to average commercial loans in 1987.

Net charge-offs of agricultural-related loans (included in both the commercial and real estate mortgage loan portfolios) were $44.3 million in 1987 and $42.3 million in 1986.

Loan loss recoveries in 1987 were $73.5 million, compared with $56.4 million in 1986. A significant portion of the increase related to recoveries on charged-off credit card loans.

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 generally charged off (to the extent that it exceeds the net realizable value of any related 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 1% or more of total assets at December 31, 1987, 1986 or 1985. Outstandings are defined as loans, interest-earning time deposits with other banks, other interest-earning investments, accrued interest receivable, acceptances, other monetary assets that are denominated in dollars or other nonlocal currency and local currency outstandings that are neither hedged nor funded by local currency liabilities. 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 a branch of a bank outside the bank's home country are considered outstandings of the home country.

Table 11 Cross-Border Outstandings at Year End

(in millions)	Governments and official institutions (1)	Banks and other financial institutions	Commercial and industrial	Total	% of total assets
Mexico (2)					
1987	**$390**	**$ 34**	**$180**	**$604**	**1.4%**
1986	355	40	192	587	1.3
1985	352	45	209	606	2.1
Brazil					
1987	**414**	**167**	**11**	**592**	**1.3**
1986	404	178	12	594	1.3
1985	356	235	12	603	2.0

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

(2) The Company also had approximately $22 million, $41 million and $39 million in 1987, 1986 and 1985, 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 Brazil were not significant.

At December 31, 1987, the only other countries in which the Company had outstandings equaling or exceeding .25% of total assets were Venezuela ($214 million, or .48% of total assets), Japan ($183 million, or .41% of total assets) and Argentina ($132 million, or .30% of total assets). At December 31, 1987, loans on nonaccrual status to borrowers in Venezuela and Argentina totaled $42 million and $5 million, respectively.

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.

Table 12 summarizes the changes in 1987 in the Company's cross-border outstandings to borrowers in individual countries that accounted for 1% or more of total assets at December 31, 1987 and are currently experiencing liquidity problems that may have a material impact on the timely repayment of the outstandings.

MEXICO In April 1987, the creditor banks signed a new money Multi-Facility Agreement with the Mexican government. The $7.7 billion originally requested by Mexico was reduced to approximately $5.4 billion based on certain clauses in the agreement. The Company's estimated share of the new loans is approximately $59 million.

The Mexican government drew approximately $3.5 billion of the new loans during the second quarter of 1987, of which the Company's share was $38 million. The new loans were used in part to repay a $500 million bridge loan due to certain creditor banks.

Table 12 Changes in Cross-Border Outstandings—Mexico and Brazil

(in millions)	Mexico	Brazil
Outstandings at December 31, 1986	$587	$594
Net change in short-term (original maturities of one year or less) outstandings, excluding interest income accrued	–	5
Changes in other outstandings:		
Additional principal outstandings	63	6
Interest income accrued (1)	41	8
Principal collected	(21)	–
Accrued interest collected	(43)	(11)
Charge-offs	(21)	–
Interest payments received on nonaccrual loans not recorded as income	–	(10)
Other changes	(2)	–
Outstandings at December 31, 1987	$604	$592
Short-term outstandings at December 31, 1987	$ –	$176

(1) Net of reversals of $3 million and $12 million for Mexico and Brazil, respectively, of which $1 million and $2 million, respectively, were accrued in 1986.

The Company's share of the bridge loan was approximately $7 million. In November 1987, the Mexican government drew additional new loans of approximately $870 million, of which the Company's share was $9 million.

Effective February 1988, the Mexican government and the creditor banks agreed on a facility to reschedule obligations of private sector borrowers that fall under the Trust for the Coverage of Exchange Risks (FICORCA) program announced in April 1983. Under the terms of the agreement, creditor banks will lend the principal payments received on such private sector outstandings to FICORCA. In addition, creditor banks may choose to lend a portion of their money in FICORCA to other Mexican borrowers at terms to be negotiated. The terms of the agreement related to the money that remains in FICORCA are summarized in Table 13. The Company believes that the effect of the restructuring on it will not be material.

In December 1987, the Mexican government proposed a new program which would allow creditor banks to exchange existing Mexican public sector debt at a discount for new Mexican debt (the discount will be decided when all discounts offered by the creditor banks have been evaluated). The principal of this new Mexican debt would be secured by U.S. Treasury zero coupon bonds with 20-year maturities, which would be purchased from the U.S. Treasury by the Mexican government. In February 1988, the Company offered to exchange a portion of its existing Mexican debt. The Company is currently waiting for notification as to whether the offer has been accepted. The exchange offer and the possible acceptance of the offer by Mexico will not have a material effect on the Company.

Table 13 Restructuring Agreement—Mexico

(in millions)	
Amount subject to restructuring (1)	$124
Weighted average year of maturity:	
Pre-restructuring	1990
Post-restructuring (2)	2002
Weighted average interest rate:	
Pre-restructuring	LIBOR + $2\frac{1}{8}$%
Post-restructuring	LIBOR + $\frac{13}{16}$%

(1) Maximum amount to be restructured. Amount could decrease due to prepayment or cancellation of FICORCA obligations by private sector borrowers.

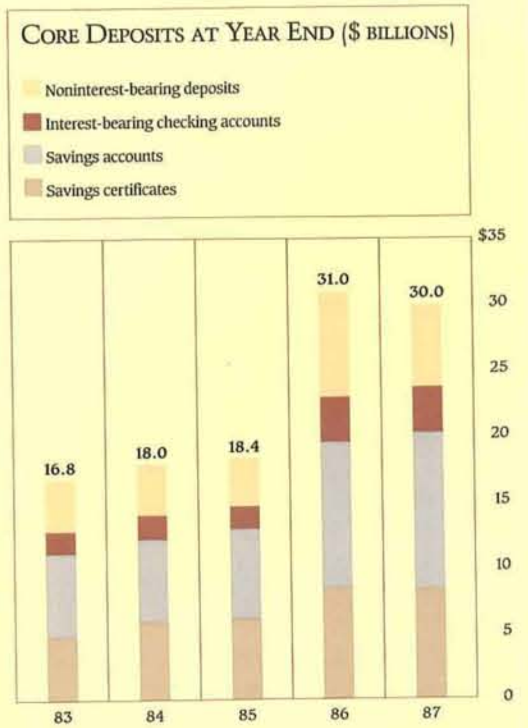
(2) Weighted average year of maturity assumes maximum participation by eligible borrowers.

Mexican loans on nonaccrual status, all of which were to private sector borrowers, totaled $70 million at December 31, 1987, compared with $29 million at the end of 1986 and $16 million at year-end 1985.

BRAZIL In February 1987, spurred by a declining trade surplus, high inflation and a general destabilization of the economy, the Brazilian government unilaterally imposed a restriction on the payment of interest on public and private sector medium- and long-term obligations to foreign commercial creditor banks. Such interest is being paid to a new deposit facility with Brazil's central bank, which is to be remunerated under terms to be established in the ongoing debt negotiations. Principal payments on this debt continue to be deposited with the central bank in accordance with the existing agreement.

As a result of this action, certain payments of principal and interest on the affected debt are past due and the remainder of the payments may also become past due. Accordingly, the Company placed its accruing medium- and long-term debt of $423 million on nonaccrual status in March 1987. As a result, net income for 1987 was reduced by approximately $26 million.

Also in February 1987, the Brazilian government unilaterally imposed a restriction on the payment of outstanding principal balances on public and private sector trade, interbank and other short-term obligations, whereby principal payments would be made to Brazil's central bank rather than to the creditor banks, if the creditor banks do not renew these obligations. Interest on such debt continues to be paid. In December 1987, the Company agreed to renew until June 1988 the short-term trade, interbank and acceptance outstandings at approximately the same levels of the commitments specified in the 1986 Trade and Interbank facilities. As of December 31, 1987, the Company had short-term loans and acceptances of $176 million. These loans resulted in approximately $3 million of net income during 1987.



In November 1987, the Bank Advisory Committee and the Brazilian government reached an agreement on an accord related to the payment of Brazil's past due interest on medium- and long-term obligations to its foreign commercial creditor banks. The requisite percentage of Brazil's creditor banks have agreed to commit to lend $3 billion of new short-term financing (repayable by Brazil's central bank by June 30, 1988 at an interest rate of LIBOR + ⅞%), and Brazil's central bank has agreed to provide $1.5 billion from its reserves. These funds will be used to cover interest on medium- and long-term obligations due from February 20 through December 31, 1987. The Company's share of the short-term financing is $27 million. The creditor banks and Brazil's central bank disbursed $1 billion and $500 million, respectively, of these funds in December 1987 and January 1988 to cover interest payments that fell due during the fourth quarter of 1987. The Company disbursed $6 million in December 1987 and $3 million in January 1988. The Company then received interest payments of $10 million in December 1987 and $2 million in 1988. In February 1988, the Brazilian government paid $350 million to its creditor banks to cover a portion of interest payments due in January 1988, of which the Company received $3 million. All payments have been reflected as a reduction of Brazilian outstandings, but ultimately may be recorded as interest income, pending the negotiation of the refinancing agreement.

When a medium-term refinancing agreement for Brazil is negotiated and becomes effective, which is presently scheduled to occur by June 16, 1988, the creditor banks and Brazil's central bank would disburse the remaining $2 billion and $1 billion, respectively, to cover interest that was due February 20 through September 30, 1987. Such interest would then be paid to the creditor banks. The Brazilian government has requested that the creditor banks maintain their existing short-term trade and interbank lines, as well as the current deposit facility, during the negotiations.

In February 1988, the Brazilian government and the Bank Advisory Committee reached a preliminary agreement on certain elements of a medium-term refinancing agreement (Proposal). The Proposal has not yet been approved by the requisite percentage of Brazil's creditor banks. The Proposal requires Brazil's creditor banks to provide $5.8 billion of new loans to Brazil related to financing needs for 1987, 1988 and up to June 30, 1989. The interest rate on the new loans would be 13/16% over LIBOR or 13/16% over domestic rates. It was also announced that the Brazilian government would pay approximately $700 million in March 1988 to its creditor banks to cover the remaining interest due in January and February 1988. While the effects of the Proposal on the Company are not fully determinable at this time, the Company believes the effects of the consummation of the Proposal on it would not be material.

At December 31, 1987, Brazilian loans on nonaccrual status totaled $416 million, which included $335 million and $81 million to public and private sector borrowers, respectively. At December 31, 1986 and 1985, all Brazilian loans on nonaccrual status, which were $7 million and $15 million, respectively, were to private sector borrowers.

Deposits

Comparative detail of average deposit balances are presented in Table 4; year-end balances are presented in Table 14.

Table 14 Deposits

(in millions)	December 3	
	1987	198
Noninterest-bearing deposits	$ 6,330.0	$ 8,041.
Interest-bearing checking accounts	3,414.5	3,465.
Savings accounts	11,970.2	11,136.
Savings certificates	8,290.4	8,351.
Core deposits	30,005.1	30,995.
Certificates of deposit	690.2	1,121.
Other time deposits	159.2	226.
Interest-bearing deposits—foreign	1,465.3	649.
Total deposits	$32,319.8	$32,992.

Average core deposits and average total deposits increased 19% and 20%, respectively, in 1987 compared with 1986, primarily due to an increase in savings accounts. Average core deposits funded 66% and 67% of the Company's average total assets in 1987 and 1986, respectively. Average core deposits funded 74% and 77% of the Bank's average total assets in 1987 and 1986, respectively.

Core deposits and total deposits decreased 3% and 2%, respectively, at December 31, 1987 compared with year-end 1986. The $1.7 billion decrease in noninterest-bearing deposits was substantially offset by a $.8 billion increase in both the savings account and foreign interest-bearing deposit categories.

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. The Company's average core deposits, senior and subordinated debt and stockholders' equity funded 81% and 84% of its average total assets in 1987 and 1986, respectively. Most of the remaining funding was provided by short-term borrowings, which substantially consisted of commercial paper, federal funds borrowed and sales of securities under repurchase agreements, as well as Eurodollar deposits accepted. In 1987, other short-term borrowings averaged $5.2 billion, an 80% increase over 1986. These additional borrowings were used to fund an increase in long-term earning assets, thus reducing the one-year-and-over net liability position, which is discussed in the Asset/Liability Management section.

Other sources of liquidity include maturity extensions of short-term borrowings, sale or runoff of short-term interest-earning deposits and other assets and confirmed lines of credit from banks. The Company believes that liquidity is further provided by its ability to raise funds in a variety of domestic and international money and capital markets.

Commercial, real estate and foreign loans totaled $28.4 billion at December 31, 1987. Of these loans, $11.1 billion matures in one year or less, $9.0 billion matures in over one year through five years and $8.3 billion matures in over five years. Of the $17.3 billion that matures in over one year, $11.4 billion has floating or adjustable rates and $5.9 billion has predetermined rates.

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 registration statements filed with the Securities and Exchange Commission, the Company had registered but unissued debt securities of $806 million at December 31, 1987. Refer to Note 6 to the Financial Statements for a schedule of outstanding senior and subordinated debt as of December 31, 1987 and 1986.

To accommodate future growth and current business needs, the Company has a capital expenditure program. Capital expenditures for 1988 are estimated at $100 million for additional automation equipment for branches, relocation and remodeling of Company facilities and routine replacement of furniture and equipment. The Company will fund these expenditures from various sources, including retained earnings of the Company and borrowings of various maturities.

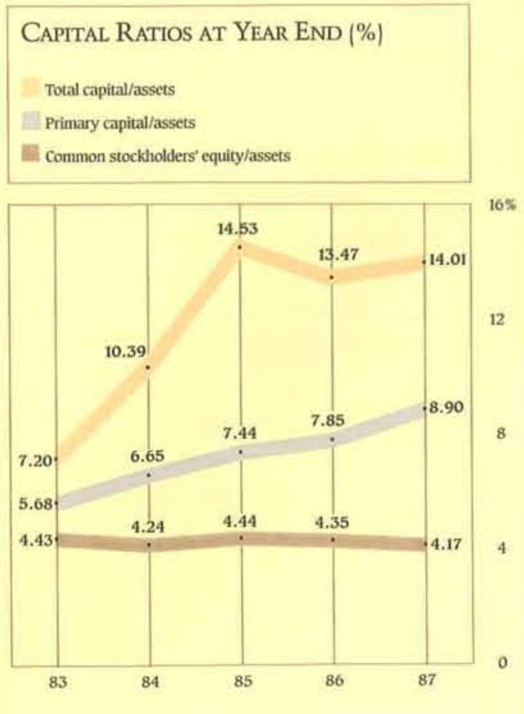
Capital Adequacy

The Company utilizes a variety of measures to evaluate capital adequacy. Primary capital was 8.90% of total assets at December 31, 1987, compared with 7.85% at the end of 1986. Total capital was 14.01% of total assets, compared with 13.47% at the end of 1986. Primary and total capital increased in 1987 compared with 1986, primarily due to the special additions to the allowance for loan losses. The increase in total capital was partially offset by a decrease in subordinated debt in 1987 compared with 1986. Reflecting the after-tax effect of the $589 million of special additions to the allowance for loan losses, common stockholders' equity was 4.17% of total assets at December 31, 1987, compared with 4.35% at year-end 1986.

Management reviews the various capital measures monthly and takes appropriate action to ensure that they are within established internal and external guidelines. Management believes that its current capital 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, 1987, standby letters of credit were $2.0 billion, or 49% of primary capital.

In January 1987, the U.S. bank regulatory authorities (the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, collectively Regulators) and the Bank of England, as the primary regulator of banks in the United Kingdom, announced a proposed United States/United Kingdom agreement for the purpose of establishing a new risk-based capital framework for banks and bank holding companies. In connection with this agree-

Capital Ratios at Year End (%)



ment, the Regulators published for comment risk-based capital proposals. In December 1987, the Regulators announced that they would seek public comment on a new risk-based capital framework that had been developed jointly by authorities from the 12 leading industrial countries for application to banks in those countries.

In early 1988, the Federal Reserve Board issued a draft proposal for new risk-based capital guidelines, which are intended to be generally consistent with the 12-country agreement and which are to be applied to U.S. banks and bank holding companies. A final joint proposal for comment is expected to be issued by the Regulators in March 1988 and is not expected to differ greatly from the draft proposal.The proposed guidelines, which include a transition period through year-end 1992, define new measures of capital that are to be the principal capital adequacy measures used by the Regulators. Current capital adequacy measures will be used for part of the transition period but may ultimately be replaced with new risk-based capital measures. The proposed guidelines indicate minimum risk-based capital ratios by December 31, 1990 and more restrictive ratios by year-end 1992. It is not possible at the present time to determine whether the draft proposal will be adopted in its current form or how it may ultimately be administered by the Regulators. However, management has determined that, as of December 31, 1987, the Company would have complied with the 1990 proposed minimum risk-based capital ratios under the transition rules. It is management's belief at this time that, based on current earnings and growth projections, the Company would comply with the proposed minimum risk-based capital ratios before the end of the transition period on December 31, 1992.

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 their funding sources through the use of interest rate futures. Gains and losses on these futures contracts are deferred and amortized over the expected loan or funding source holding period.

Approximately 60% of the Company's prime-based loan portfolio is funded by market rate savings. The remainder is funded by various short-term borrowings and other deposits. The Company uses interest rate futures to shorten the average effective maturity of these funding sources 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 their funding sources.

The use of interest rate futures resulted in an amortized loss on interest rate hedging of $4.8 million in 1987 and in an amortized gain of $23.3 million in 1986.

The following table shows the Company's interest rate sensitivity based on average balances for December 1987. Interest rate sensitivity measures the interval of time before earning assets and interest-bearing liabilities 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 15 Interest Rate Sensitivity

(in billions) — Averages for December 1987

Remaining interest rate maturity	Assets	Liabilities and equity	Net assets (liabilities) (column 1 minus column 2)		Net assets (liabilities) as a % of total assets	
1–29 days	$ 2.8	$ 9.9	$(7.1)		(15.3)%	
Prime-based	16.2	–	16.2		35.2	
Market rate savings	–	7.8	(7.8)	$1.0	(17.1)	2.2%
30–179 days	6.0	6.3	(.3)		(.6)	
180–364 days	1.5	1.4	.1		.2	
1–5 years	7.5	2.8	4.7		10.3	
Over 5 years	4.5	.7	3.8	(1.1)	8.2	(2.4)
Nonmarket	7.4	17.0	(9.6)		(20.9)	
Total	$45.9	$45.9				

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, credit card outstandings and nonaccrual and restructured loans; "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 $1.1 billion for December 1987 (2.4% of total assets), compared with $2.5 billion for December 1986 (5.7% of total assets). The majority of the decrease in 1987 was due to an increase in Government National Mortgage Association securities that mature in over one year, which were primarily funded by an increase in short-term borrowings, and a run-off of various long-term liabilities that were replaced by short-term borrowings.

Comparison of 1986 Versus 1985

In 1986, net income was $273.5 million, up 44% from $190.0 million in 1985. Net income per common share for 1986 was $5.03, up 21% from $4.15 in 1985. The percentage increase in net income per common share was lower than the percentage increase in net income primarily due to the issuance of 10.7 million 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 National Corporation (Crocker), a bank holding company whose principal subsidiary was Crocker National Bank. 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 1985.

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% to $1.7 billion in 1986 from $1.3 billion in 1985, mostly due to a substantial growth in earning assets. The net interest margin was 5.09% in 1986, compared with 4.93% in 1985. 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.

Loan volume averaged $30.5 billion during 1986, up 31% over 1985. Average consumer loans for 1986 increased 74% over 1985, the commercial and real estate construction-related portfolios each increased 29% and real estate mortgage loans increased 25%. Growth in real estate junior lien mortgage loans and credit card activity accounted for most of the increase in consumer loans. The increase in the commercial portfolio reflected growth in middle-market loans. The increase in real estate construction-related loans 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.

Average core deposits increased 40% to $24.9 billion in 1986, reflecting significant increases in noninterest-bearing deposits and savings accounts. A schedule of average loan and deposit balances for 1986 and 1985 is shown in Table 4.

Investment securities were $2.5 billion at December 31, 1986, a 50% increase over 1985. Substantially all of the increase was the result of purchases of Government National Mortgage Association securities, which were purchased to partially reduce the one-year-and-over net liability position.

Noninterest income was $459.6 million in 1986, compared with $395.7 million in 1985. Trust and investment services income increased 64% to $90.1 million in 1986. A significant portion of this growth was attributable to additional funds invested by new and existing customers and an improvement in the stock market. Income from cost method equity investments was $38.4 million in 1986, compared with $5.6 million in 1985. Noninterest income in 1985 included a pretax gain of $50.2 million ($32.1 million after taxes) 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 remaining deferred gain at December 31, 1987 was approximately $15 million.) Investment securities gains were $29.4 million in 1986, compared with $55.5 million in 1985. Investment securities gains in 1986 and 1985 primarily resulted from sales of U.S. Treasury securities. If it were not for the net-of-tax accounting related to Crocker, 1986 investment securities gains would have been $41.2 million; 1986 "all other" income would have been $19.5 million, compared with $1.1 million in 1985. The 1986 increase was mostly due to sales proceeds in excess of equipment lease residual values and the 1985 recognition of net closing costs associated with restructuring the Company's international activities. These increases in "all other" income were partially offset by higher 1986 losses on abandonment of furniture and equipment.

Noninterest expense was $1.3 billion in 1986, a 39% increase over 1985. Salaries expense increased 27% in 1986, reflecting the additional personnel resulting from the acquisition of Crocker. The Company's full-time equivalent staff increased to approximately 22,100 at December 31, 1986, compared with approximately 14,300 a year earlier. Employee benefits expense increased 49% in 1986 compared with 1985. A significant portion of the increase 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. Net costs related to other real estate increased to $36.0 million in 1986, from $12.6 million in 1985, primarily resulting from the reappraisal of real estate obtained in settlement of troubled agricultural-related loans.

If it were not for net-of-tax accounting, the Company's 1986 effective income tax rate of 30% would have been 42%. This rate is higher than the Company's 1985 effective income tax rate of 37%, primarily due to an increase in income subject to U.S. taxation.

The allowance for loan losses at the end of 1986 was 2.00% of total loans, compared with 1.70% at the end of 1985. The 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, compared with $211.6 million during 1985. As a percentage of average loans outstanding, net charge-offs were .91% in 1986 and .90% in 1985. Most of the 1986 increase in net charge-offs was attributable to credit card loans, in which there was significant growth as well as a higher ratio of charge-offs to average loans.

Domestic nonaccrual and restructured loans were $715.3 million, or 2.1% of total domestic loans, at December 31, 1986, compared with $595.0 million, or 2.6% of total domestic loans, at December 31, 1985. Commercial nonaccruals increased 8% 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%. Crocker nonaccruals accounted for substantially all of the increase in commercial agricultural nonaccruals and approximately 50% of the increase in real estate construction-related nonaccruals at year-end 1986 compared with a year earlier. ORE was $319.6 million at December 31, 1986, compared with $169.3 million a year earlier. The increase in ORE 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% of the increase in ORE was attributable to Crocker. Foreign nonaccruals increased to $255.4 million at year-end 1986, from $194.8 million at year-end 1985, 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.

At December 31, 1986, senior debt was $2.0 billion, a $.1 billion decrease from 1985, and subordinated debt was $2.4 billion, a $.3 billion increase over 1985. In 1986, the Company raised $784 million from issuances of unsecured debt, consisting of subordinated debt of $300 million and senior debt of $484 million. In addition, the Company assumed from Crocker approximately $140 million of unsecured senior debt. During 1986, senior debt of approximately $765 million matured or was redeemed.

The Company's ratio of primary capital to assets was 7.85% at December 31, 1986, compared with 7.44% at the end of 1985. Total capital was 13.47% of assets at December 31, 1986 and 14.53% a year earlier. 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. Common stockholders' equity was 4.35% of total assets at December 31, 1986, compared with 4.44% at year-end 1985. The decrease was due to a higher amount of total assets at year-end 1986, partially offset by an increase in common stockholders' equity.

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 graphs. The number of holders of record of the Company's common stock was 25,104 as of January 31, 1988.

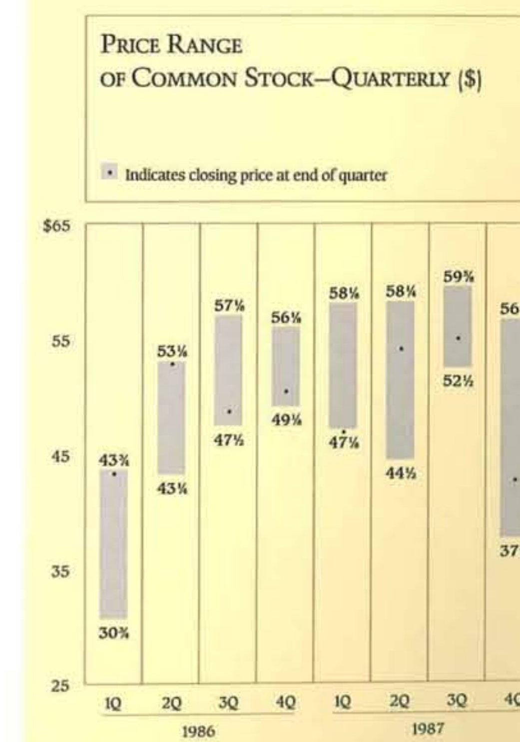
Common dividends declared per share totaled $1.67 in 1987, $1.41 in 1986 and $1.24 in 1985. In the fourth quarter of 1987, the common stock quarterly dividend was increased from $.39 per share to $.50 per share. The Company intends to continue its present policy of paying quarterly cash dividends to 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 1987, the Company repurchased 1.4 million shares of common stock. Additional repurchases may be made pursuant to a Board of Directors authorization, which allows a total of up to 2.2 million shares to be repurchased. This authorization is related to the number of shares issued under various employee benefit plans and the Company's dividend reinvestment plan.

In April 1987, the shareholders approved an increase in the authorized common stock from 75 million to 150 million shares and of preferred stock from 10 million to 25 million shares.

Effective June 30, 1987, the Company became a Delaware corporation, as approved by the shareholders. The reincorporation did not result in any change in the name, nature or place of business, management, assets, liabilities or net worth of the Company.

In February 1988, the Company entered into a definitive purchase agreement with Barclays Bank PLC for the acquisition by the Company of Barclays Bank of California (Barcal) for approximately $125 million in cash. At December 31, 1987, Barcal had assets of approximately $1.3 billion. The purchase is subject to approval by the appropriate regulatory agencies and is expected to be completed by the end of the second quarter of 1988.



Consolidated Statement of Income

Wells Fargo & Company and Subsidiaries

(in millions)		Year ended December 31,	
	1987	1986	1985
Interest Income			
Loans	$3,736.5	$3,306.9	$2,809.3
Interest-earning deposits	99.4	84.1	46.6
Investment securities:			
Taxable	246.7	84.3	113.9
Exempt from federal income taxes	4.1	4.5	7.4
Trading account securities	7.6	12.4	22.3
Federal funds sold	7.7	13.3	17.4
Total interest income	4,102.0	3,505.5	3,016.9
Interest Expense			
Deposits	1,463.5	1,358.8	1,245.3
Short-term borrowings	364.8	187.9	261.2
Senior and subordinated debt	337.6	373.2	327.4
Total interest expense	2,165.9	1,919.9	1,833.9
Amortized gain (loss) on interest rate hedging	(4.8)	23.3	37.2
Net Interest Income	1,931.3	1,608.9	1,220.2
Provision for loan losses	892.0	361.7	371.8
Net interest income after provision for loan losses	1,039.3	1,247.2	848.4
Noninterest Income			
Service charges on deposit accounts	180.6	153.0	109.0
Trust and investment services income	156.5	90.1	55.1
Domestic fees and commissions	141.1	116.9	88.2
Investment securities gains (losses)	(12.9)	29.4	55.5
Sale of a mortgage banking subsidiary	—	—	50.2
Other	5.0	70.2	37.7
Total noninterest income	470.3	459.6	395.7
Noninterest Expense			
Salaries	599.3	526.0	414.5
Employee benefits	151.5	148.1	99.5
Net occupancy	178.7	143.7	87.8
Equipment	132.9	108.0	75.9
Other	458.1	389.4	266.1
Total noninterest expense	1,520.5	1,315.2	943.8
Income (Loss) Before Income Tax Expense (Benefit)	(10.9)	391.6	300.3
Income tax expense (benefit)	(61.7)	118.1	110.3
Net Income	$ 50.8	$ 273.5	$ 190.0
Net Income Applicable to Common Stock	$ 28.0	$ 255.7	$ 177.2
Per Common Share			
Net income	$ .52	$ 5.03	$ 4.15
Dividends declared	$ 1.67	$ 1.41	$ 1.24
Average common shares outstanding (in thousands)	53,805	50,875	42,702

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheet

Wells Fargo & Company and Subsidiaries

(in millions)	December 31,	
	1987	1986
Assets		
Cash and due from banks	$ 1,954.4	$ 2,962.4
Interest-earning deposits	365.3	271.4
Investment securities (market value $3,414.4 and $2,550.3)	3,555.3	2,545.0
Trading account securities	46.3	118.1
Federal funds sold	.1	10.5
Loans	36,791.1	36,771.1
Allowance for loan losses	1,357.2	734.0
Net loans	35,433.9	36,037.1
Premises and equipment, net	706.0	668.3
Due from customers on acceptances	235.8	258.5
Goodwill	397.0	498.3
Accrued interest receivable	316.0	306.6
Other assets	1,173.2	900.9
Total assets	$44,183.3	$44,577.1
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing—domestic	$ 6,321.4	$ 8,028.6
Noninterest-bearing—foreign	8.6	12.8
Interest-bearing—domestic	24,524.5	24,301.9
Interest-bearing—foreign	1,465.3	649.5
Total deposits	32,319.8	32,992.8
Short-term borrowings:		
Federal funds borrowed and repurchase agreements	1,763.3	1,290.9
Commercial paper outstanding	2,915.5	2,206.4
Other	69.1	38.8
Total short-term borrowings	4,747.9	3,536.1
Acceptances outstanding	237.0	259.6
Accrued interest payable	132.7	117.8
Senior debt	1,574.0	2,019.1
Other liabilities	674.6	916.6
	39,686.0	39,842.0
Subordinated debt	2,249.7	2,392.4
Total liabilities	41,935.7	42,234.4
Stockholders' equity:		
Preferred stock	405.0	405.0
Common stock—$5 par value, authorized 150,000,000 shares; issued and outstanding 52,756,692 shares and 53,662,192 shares	263.8	268.3
Additional paid-in capital	415.0	443.8
Retained earnings	1,171.0	1,232.4
Equity adjustment from foreign currency translation	(7.2)	(6.8)
Total stockholders' equity	2,247.6	2,342.7
Total liabilities and stockholders' equity	$44,183.3	$44,577.1

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Stockholders' Equity

Wells Fargo & Company and Subsidiaries

(in millions)	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Foreign currency translation	Total stockholders' equity
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
Net income—1987				50.8		50.8
Common stock issued under employee benefit and dividend reinvestment plans		2.3	19.4			21.7
Exercise of warrants and conversion of convertible notes		.2	.4			.6
Common stock repurchased		(7.0)	(48.6)			(55.6)
Preferred stock dividends				(22.8)		(22.8)
Common stock dividends				(89.4)		(89.4)
Equity adjustment from foreign currency translation (net of income tax benefit of $.3)					(.4)	(.4)
Net change	—	(4.5)	(28.8)	(61.4)	(.4)	(95.1)
BALANCE DECEMBER 31, 1987	$405.0	$263.8	$415.0	$1,171.0	$(7.2)	$2,247.6

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Financial Position

Wells Fargo & Company and Subsidiaries

(in millions)	Year ended December 31, 1987	1986	1985
Financial resources provided by (applied to):			
Operations:			
Net income	$ 50.8	$ 273.5	$ 190.0
Noncash charges (credits):			
Provision for loan losses	892.0	361.7	371.8
Depreciation and amortization	113.2	84.9	64.8
Deferred income tax provision	(368.8)	17.8	29.0
Financial resources provided by operations	687.2	737.9	655.6
Cash dividends declared	(112.2)	(92.1)	(65.7)
Net financial resources provided by operations	575.0	645.8	589.9
Deposits and other financing activities:			
Noninterest-bearing deposits	(1,711.4)	4,339.3	(219.7)
Interest-bearing deposits	1,038.4	9,152.2	(480.3)
Short-term borrowings	1,211.8	190.9	547.1
Senior and subordinated debt	(587.8)	225.3	1,466.0
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	21.7	19.6	10.8
Exercise of warrants and conversion of convertible notes	.6	1.6	3.4
Common stock repurchased	(55.6)	—	(26.4)
Financial resources provided by (applied to) deposits and other financing activities	(82.3)	14,610.9	1,300.9
Other activities:			
Cash and due from banks	1,008.0	(1,560.2)	646.8
Net additions to premises and equipment	(128.5)	(295.8)	(51.3)
Net change in goodwill	78.9	(496.4)	—
Other assets	(272.3)	(424.0)	(98.3)
Other liabilities	126.8	343.7	(10.3)
Other, net	5.2	(93.7)	29.3
Financial resources provided by (applied to) other activities	818.1	(2,526.4)	516.2
Increase in financial resources invested in earning assets	$1,310.8	$12,730.3	$2,407.0
Increase (decrease) in earning assets:			
Interest-earning deposits	$ 93.9	$ (263.1)	$ 101.9
Investment securities	1,010.3	848.9	607.5
Trading account securities	(71.8)	(28.5)	(51.9)
Federal funds sold	(10.4)	(29.1)	(185.4)
Net loans	288.8	12,202.1	1,934.9
Increase in earning assets	$1,310.8	$12,730.3	$2,407.0

The accompanying notes are an integral part of these statements.

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% ownership are generally accounted for by the equity method and investments where there is less than 20% 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. Marketable equity securities held for investment purposes are carried at cost. Declines in value that are considered other than temporary are recorded as losses on investment securities.

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. 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.

Generally, 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, the Company generally recognizes a portion of unearned income equal to the approximate direct costs of acquiring leases plus an estimated provision for lease losses.

Nonaccrual Loans Unless both well secured and in the process of collection, loans, other than 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, when the full timely collection of interest or principal becomes uncertain or when a portion of the principal balance has been charged off. Real estate 1–4 family loans originated in the Company's consumer lending units are placed on nonaccrual status when they become 180 days past due as to interest or principal, regardless of security. 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 and real estate 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 writedowns, if any, and disposition gains and losses are included in noninterest expense.

Goodwill

Goodwill, representing the excess of purchase price over the fair value of net assets acquired, results from acquisitions made by the Company. Substantially all of the Company's goodwill is being amortized using the straight-line method over 20 years.

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.

Net deferred income taxes receivable (payable), included in other assets (liabilities), result from certain items being accounted for in different time periods for financial reporting purposes than for income tax purposes.

Investment tax credit on property purchased for lease to customers prior to 1986 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 a 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, as appropriate, over the life of the contract.

Interest Rate Futures

The Company hedges primarily to reduce mismatches in the rate maturity of certain loans and their funding sources through the use of interest rate futures. Gains and losses on these futures contracts are deferred and amortized over the expected loan or funding source 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.

2. 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 $1.1 billion and $870 million in 1987 and 1986, 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 Bank is prohibited from lending to the Parent and its nonbank subsidiaries 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% of the Bank's capital and surplus (as defined) and, in the aggregate to all such entities, to 20% of the Bank's capital and surplus. The Bank's capital and surplus at December 31, 1987 was $2.9 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 dividends in 1988 of approximately $390 million of its undistributed net profits at December 31, 1987 plus undistributed net profits for 1988 up to the date of any such dividend declaration. Dividends declared by the Bank to the Parent in 1987 were $115.9 million.

3. Investment Securities

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

(in millions)	1987 Book value	1987 Market value	1986 Book value	1986 Market value	1985 Book value	1985 Market value
						December 31,
U.S. Treasury securities	$ 861.0	$ 846.7	$ 673.4	$ 682.4	$1,134.8	$1,147.9
Securities of other U.S. government agencies and corporations	1,967.8	1,856.6	1,248.2	1,256.2	19.6	18.0
Obligations of states and political subdivisions	92.5	81.4	119.0	112.0	135.2	110.9
Other bonds, notes and debentures	132.9	132.6	32.5	33.9	6.1	5.9
Corporate and Federal Reserve Bank stock	501.1	497.1	471.9	465.8	400.4	392.4
Total investment securities	$3,555.3	$3,414.4	$2,545.0	$2,550.3	$1,696.1	$1,675.1

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 $29.2 million, $25.7 million and $21.2 million in 1987, 1986 and 1985, respectively, is included in taxable income on investment securities in the consolidated statement of income.

The book value of investment securities pledged to secure trust and public deposits and for other purposes as required or permitted by law was $1,603 million, $224 million and $268 million at December 31, 1987, 1986 and 1985, respectively.

4. Loans and Allowance for Loan Losses

The following is a summary of the major categories of the loan portfolio at the end of the last two years:

(in millions)	1987	1986
		December 31,
Domestic		
Commercial, financial and agricultural	$12,430.7	$13,222.2
Real estate construction-related	6,514.5	5,583.5
Real estate first mortgage loans secured by 1–4 family residential properties	4,647.4	4,506.2
Other real estate mortgage loans	2,644.0	2,440.8
Total real estate mortgage loans	7,291.4	6,947.0
Credit card	2,020.1	2,074.8
Other revolving credit	656.2	748.4
Monthly payment	1,371.8	1,743.7
Real estate junior lien mortgage loans secured by 1–4 family residential properties	3,048.2	3,190.6
Total consumer	7,096.3	7,757.5
Lease financing	1,335.3	1,199.9
Foreign		
Governments and official institutions	1,172.8	864.2
Banks and other financial institutions	230.9	418.8
Commercial and industrial (1)	719.2	778.0
Total foreign	2,122.9	2,061.0
Total loans (net of unearned income of $430.2 and $421.0)	$36,791.1	$36,771.1

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

The components of lease financing are as follows:

(in millions)	1987	1986
		December 31,
Direct lease financing minimum lease payments receivable	$ 972.0	$ 922.8
Direct lease financing unguaranteed residual value	432.4	393.0
Leveraged leases	204.3	148.8
Equipment pending lease placement	.9	.8
Investment in lease financing	1,609.6	1,465.4
Unearned income	(274.3)	(265.5)
Investment in lease financing, net of unearned income	$1,335.3	$1,199.9

The Company recognized $5.9 million, $5.1 million and $7.5 million of unearned income in 1987, 1986 and 1985, 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,	
1988	$271.6
1989	240.6
1990	191.9
1991	124.7
1992	55.7
Thereafter	87.5
Total	$972.0

For financial statement purposes, the Company had unamortized investment tax credits on property purchased for lease to customers of $15.6 million, $31.9 million and $40.5 million at December 31, 1987, 1986 and 1985, respectively.

Changes in the allowance for loan losses were as follows:

(in millions)	1987	1986	1985
			Year ended December 31,
Balance, beginning of year	$ 734.0	$417.5	$260.3
Crocker's allowance at acquisition date	–	241.7	–
Provision for loan losses	892.0	361.7	371.8
Net loan charge-offs:			
Commercial, financial and agricultural	104.9	115.6	116.3
Real estate construction-related	11.4	3.9	.3
Real estate 1–4 family first mortgage loans	1.2	1.1	.4
Other real estate mortgage loans	5.3	11.2	7.5
Total real estate mortgage loans	6.5	12.3	7.9
Credit card	90.1	88.9	42.0
Other revolving credit	10.6	8.1	3.5
Monthly payment	12.0	11.4	5.9
Real estate 1–4 family junior lien mortgage loans	4.0	1.2	1.6
Total consumer	116.7	109.6	53.0
Lease financing	7.5	11.7	9.3
Foreign	16.5	25.9	24.8
Total net loan charge-offs (1)	263.5	279.0	211.6
Other deductions	5.3	7.9	3.0
Balance, end of year	$1,357.2	$734.0	$417.5
Allowance as a percentage of total loans	3.69%	2.00%	1.70%

(1) Net of recoveries of $73.5 million, $56.4 million and $25.6 million in 1987, 1986 and 1985, 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,		
	1987	1986	1985
Balance, beginning of year	$55.4	$27.6	$ 6.0
Provision	10.5	27.8	22.1
Deductions	–	–	.5
Balance, end of year	$65.9	$55.4	$27.6

Domestic nonaccrual and restructured loans were $560.4 million and $715.3 million at December 31, 1987 and 1986, respectively. Foreign nonaccrual loans were $711.4 million and $255.4 million at year-end 1987 and 1986, respectively. Related commitments to lend additional funds at December 31, 1987 were approximately $141 million for domestic nonaccrual and restructured loans and approximately $76 million for foreign nonaccrual loans.

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,		
	1987	1986	1985
Interest that would have been recorded under original terms	$129.9	$102.2	$92.0
Gross interest recorded	25.1	21.9	35.9
Foregone interest	$104.8	$ 80.3	$56.1

5. Premises and Equipment

The following table presents comparative data for premises and equipment:

(in millions)	December 31,	
	1987	1986
Land	$ 39.9	$ 36.9
Premises	352.1	319.5
Furniture and equipment	515.1	496.7
Leasehold improvements	179.5	184.8
Premises leased under capital leases	121.7	123.4
Total	1,208.3	1,161.3
Less accumulated depreciation and amortization	502.3	493.0
Net book value	$ 706.0	$ 668.3

Included in accumulated depreciation and amortization was accumulated amortization related to capital leases of $54.4 million and $51.8 million at December 31, 1987 and 1986, respectively.

Depreciation and amortization expense was $90.8 million, $71.9 million and $60.3 million for the years ended December 31, 1987, 1986 and 1985, respectively.

6. 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). Notes to the summary are on the next page.

(in millions)	December 31,	
	1987	1986
Senior		
Intermediate-term (original maturities from 1–12 years)		
Parent:		
11.40% Notes due 1987	$ –	$ 50.0
12% Notes due 1987	–	100.0
16⅛% New Zealand Dollar Notes due 1989 (NZ $100.0 face amount) (1)	65.0	52.6
12.30% Notes due 1990 (2)(3)	100.0	100.0
14½% Notes due 1991 ($100.0 face amount) (3)	99.4	99.2
8% Notes due 1993 (3)	100.0	100.0
8% Notes due July 15, 1993 ($100.0 face amount) (2)	99.9	99.9
9½% Notes due 1993 ($100.0 face amount) (3)	99.4	99.3
Floating Rate Extendable Notes due 1988	67.0	80.0
Floating Rate Extendable Notes due 1992 (4)	64.2	64.2
6.00% to 12.60% Medium-Term Notes due 1987 through 1996	425.6	674.6
Subsidiaries:		
Zero Coupon Notes due 1988—effective rate of 14.75% ($164.2 face amount)—Parent guaranteed (5)	159.1	138.9
Other notes	6.6	27.8
Total intermediate-term senior debt	1,286.2	1,686.5
Long-term (original maturities of more than 12 years)		
Parent:		
8¾% Debentures due 1997 ($50.0 face amount) (6)	50.4	55.5
8.60% Debentures due 2002 ($54.4 face amount) (6)	53.8	78.3
Other notes	88.6	98.8
Notes payable by subsidiaries	5.5	6.8
Total long-term senior debt	198.3	239.4
Obligations of subsidiaries under capital leases (Note 14)	89.5	93.2
Total senior debt	1,574.0	2,019.1
Subordinated		
Intermediate-term (original maturities from 1–12 years)		
Parent:		
12⅝% Notes due 1991 ($101.0 face amount) (2)(7)	102.9	103.3
12⅞% Notes due 1991 ($100.0 face amount) (2)(3)	99.9	99.9
13⅜% Notes due 1991 ($100.0 face amount) (2)(7)	99.8	99.8
13.50% Notes due 1991 (2)(3)	150.0	150.0
8¾% Notes due 1996 (3)	100.0	100.0
Floating Rate Notes due 1992 (3)(7)	121.5	150.0
Floating Rate Notes due 1994 (U.K. pounds sterling denominated £60.0 face amount) (3)(7)(8)	113.2	89.0
Floating Rate Notes due 1994 (3)(7)	106.7	150.0
Deutsche Mark Floating Rate Notes due 1995 (DM 300.0) (7)(9)	191.1	156.1
Floating Rate Notes due 1996 ($100.0 face amount) (3)(10)	99.6	99.5
Floating Rate Capital Notes due 1996 ($150.0 face amount) (3)(11)	149.9	149.9
Floating Rate Notes due 1997 (3)(7)	192.0	250.0
Floating Rate Notes due June 1997 ($100.0 face amount) (3)(12)	99.9	99.9
Floating Rate Notes due July 1997 (3)(7)(12)	100.0	100.0
Floating Rate Capital Notes due 1997 (3)(7)(11)	100.0	100.0
Floating Rate Capital Notes due 1998 (3)(7)(11)	200.0	200.0
Subsidiaries:		
Floating Rate Notes due 1996—Parent guaranteed (3)(7)(10)	50.0	50.0
Total intermediate-term subordinated debt	2,076.5	2,147.4
Long-term (original maturities of more than 12 years)		
Parent:		
Floating Rate Notes due 2000 (3)(7)	128.1	200.0
Notes payable by subsidiaries	45.1	45.0
Total long-term subordinated debt	173.2	245.0
Total subordinated debt	2,249.7	2,392.4
Total senior and subordinated debt	$3,823.7	$4,411.5

(1) 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 differences of $6.7 million and $(5.7) million at December 31, 1987 and 1986, respectively, were substantially due to the foreign currency transaction adjustment.
(2) 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.
(3) Initially redeemable in whole or in part, at par, at various dates through March 1993.
(4) Repayable in whole or in part, at par, in 1989 at the option of the holder.
(5) 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.
(6) Assumed from Crocker National Corporation.
(7) May be redeemed in whole, at par, at any time in the event withholding taxes are imposed in the United States.
(8) 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 $39.2 million and $15.0 million at December 31, 1987 and 1986, respectively, were due to the foreign currency transaction adjustment.
(9) 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 $73.4 million and $38.4 million at December 31, 1987 and 1986, respectively, were due to the foreign currency transaction adjustment.
(10) Equity Commitment Notes.
(11) Mandatory Equity Notes.
(12) 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)	1988	1989	1990	1991	1992	Thereafter	Total
Parent	$284.0	$166.6	$190.2	$584.4	$192.3	$1,931.6	$3,349.1
Company	458.0	217.8	197.4	591.5	200.6	2,044.7	3,710.0

The interest rates on floating rate notes are determined periodically by formulas based on certain money market rates subject, in certain circumstances, to minimum or maximum interest rates.

The Company's mandatory convertible debt, which is identified by notes (10) and (11) 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, 1987, 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, 1987, $16 million had been deposited in a note fund and $77 million of stockholders' equity had been dedicated for future deposit to note funds. 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 sale or merger of the Bank. The Company was in compliance with the provisions of the borrowing agreements at December 31, 1987.

7. Preferred Stock

At December 31, 1987, 25,000,000 shares of 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, 1987 and 1986, there were 3,000,000 shares of Series A preferred stock with a liquidation preference 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% during 1987 and 1986 and 8.5% during 1985. Dividends of $9.4 million, $9.5 million and $12.8 million were declared in 1987, 1986 and 1985, respectively.

Adjustable Rate Cumulative Preferred Stock, Series B: In connection with the May 1986 acquisition of Crocker National Corporation (Crocker), the Company issued in an April 1986 public offering 1,500,000 shares of Series B preferred stock with a liquidation preference 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 6.4% and 5.7% during 1987 and 1986, respectively. Dividends of $4.8 million and $3.1 million were declared in 1987 and 1986, respectively.

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 of this preferred stock 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 4.8% and 4.3% during 1987 and 1986, respectively. Dividends of $8.6 million and $5.2 million were declared in 1987 and 1986, respectively.

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

8. 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% 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 1986 and prior years have been adjusted to reflect the stock split.

The following table summarizes common stock reserved and authorized as of December 31, 1987:

	Number of shares
Equity incentive plan	3,110,456
Tax advantage plan	2,919,351
Dividend reinvestment plan	1,863,582
Employee stock purchase plan	1,501,255
Warrants	84,272
Director option plan	75,000
Employee stock ownership plan	19,091
Stock option plan	14,894
Stock option and appreciation plan	14,150
Stock bonus plan	10,048
Total shares reserved	9,612,099
Shares not reserved	87,631,209
Shares issued and outstanding	52,756,692
Total shares authorized	150,000,000

Warrants to purchase a total of 67,536 shares of common stock of the Company at a price of $12.32 per share, which were originally attached to 6½% Deutsche Mark Debentures, are outstanding 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 6 to the Financial Statements.

Employee Stock Plans

Equity Incentive Plan The Equity Incentive Plan (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 in 1982, the Stock Option Plan, Stock Option and Appreciation Plan and the Restricted Share Rights Plan (Other Plans) were 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	
	1987	1986	1987	1986
Options outstanding, beginning of year	910,760	597,348	65,318	115,034
Granted	444,773	491,000	–	–
Cancelled	(195,283)	(60,800)	–	–
Surrendered (as defined below)	(12,850)	(36,620)	–	–
Exercised	(80,080)	(80,168)	(36,274)	(49,716)
Options outstanding, end of year	1,067,320	910,760	29,044	65,318
Options exercisable, end of year	418,524	268,218	29,044	65,318
Shares available for grant, end of year	1,181,855	1,755,706	–	–
Price range of options:				
Outstanding	$9.44–$55.38	$9.44–$55.38	$13.13–$14.06	$13.13–$14.06
Surrendered or exercised	$9.44–$33.50	$9.44–$29.56	$13.75–$14.06	$13.13–$14.06

The terms of options granted under the EIP and the Other Plans originally provided that, when the option became exercisable, the optionee was allowed to 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% of the appreciation payment be in shares of the Company's common stock based on the market price at date of surrender. Effective December 1987, the terms of the outstanding options granted under the EIP and the Other Plans were modified so that the optionee cannot surrender the option and receive an appreciation payment. As part of this change, certain incentive stock options issued in 1986 and all incentive stock options issued in 1987 were cancelled and new nonqualified options were issued under the EIP.

Loans may be made, at the discretion of the Company, to assist the participants of the EIP and Other Plans in the acquisition of shares under options.

Effective December 1987, any tentative share rights outstanding under the EIP were converted into final share rights. Previously, the tentative share rights generally converted into final share rights three years after the rights were granted. 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. As of December 31, 1987, the EIP had 841,913 final share rights outstanding to 473 employees.

The amount of expense accrued for the EIP and Other Plans was $13.0 million, $24.1 million and $8.3 million in 1987, 1986 and 1985, respectively.

Employee Stock Purchase Plan Under the Employee Stock Purchase Plan, employees of the Company with at least 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% to 100% (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 ending on July 31, 1988, the Board approved a closing option price of 85% 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	
	1987	1986
Options outstanding, beginning of year	130,146	129,126
Granted	123,077	137,074
Cancelled	(22,995)	(16,414)
Exercised ($47.24 in 1987 and $27.90 in 1986)	(114,111)	(119,640)
Options outstanding, end of year	116,117	130,146
Options available for grant, end of year	1,385,138	1,485,220

For information on other employee benefit stock ownership plans, see Note 9.

9. Employee Benefits

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

(in millions)	Year ended December 31,		
	1987	1986	1985
Retirement plan	$27.2	$25.2	$20.9
Investment plan	$12.5	$11.3	$ 9.0

Retirement Plan

The Company has a defined contribution retirement plan with basic Company contributions of 4% of employee base salary and special transition contributions, related to the termination of a prior defined benefit plan of the Company, ranging from .5% to 5% for eligible employees. The plan covers salaried employees with at least one year of service and contains a vesting schedule graduated from 3–10 years of service.

In addition, the Company makes retirement contributions to the Tax Advantage Plan (TAP) of 2% of employee base salary. All salaried employees with at least one year of service are eligible to receive these Company contributions, which are immediately vested.

The Company assumed an obligation for Crocker's defined benefit pension plan, which covered substantially all former Crocker employees, as a result of the acquisition. Benefits were frozen as of the acquisition date. Pending final approval from the Internal Revenue Service, the Company terminated Crocker's defined benefit pension plan effective as of December 24, 1987. The defined benefit pension obligation of approximately $205 million as of December 31, 1987 is being extinguished by the purchase of a group annuity contract. Any funding requirements in excess of the liability accrued for the annuity contract related to terminating the Crocker pension plan will be recorded as expense when paid.

Investment Plan

All salaried employees who have at least one year of service are eligible to contribute up to 10% of their pre-tax base salary 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 base salary for those who have at least 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% in the Company's common stock.

As a result of the Crocker acquisition, the Company 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

The Tax Reform Act of 1986 eliminated the Employee Stock Ownership Plan (ESOP) credit for compensation paid or accrued after December 31, 1986. The Company, therefore, intends to terminate the ESOP pending final approval from the Internal Revenue Service. Plan assets will be allocated to participants in accordance with plan provisions.

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 claims and HMO premiums totaling $37.8 million, $30.6 million and $20.7 million in 1987, 1986 and 1985, respectively. The life insurance and similar benefits for active and retired employees are provided through an insurance company. The Company recognizes the cost of these benefits by expensing the annual insurance premiums, which were $1.1 million, $1.2 million and $.9 million in 1987, 1986 and 1985, respectively. The cost of providing health and life insurance benefits for 4,714 retirees is not separable from the cost of providing benefits for approximately 20,700 active employees.

10. Income Taxes

Current and deferred income tax provisions were as follows:

(in millions)	Year ended December 31, 1987	1986	1985
Current:			
Federal	$ 218.8	$ 51.6	$ 27.5
State and local	73.9	32.0	25.5
Foreign	14.4	16.7	28.3
	307.1	100.3	81.3
Deferred:			
Federal	(294.9)	18.2	30.8
State and local	(73.9)	(1.0)	(1.7)
Foreign	–	.6	(.1)
	(368.8)	17.8	29.0
Total	$ (61.7)	$118.1	$110.3

The Company's income tax provisions for 1987, 1986 and 1985 included $(5.1) million, $8.9 million and $28.2 million, respectively, related to investment securities transactions.

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, 1987	1986	1985
Lower loan loss deduction for tax return purposes	$(384.5)	$(45.0)	$(88.2)
Deferred income on lease financing	71.5	48.5	99.4
Cash basis accounting for tax return purposes (1)	(50.8)	9.6	17.6
Other real estate writedowns	(13.1)	(12.7)	(5.9)
Undistributed earnings of foreign subsidiaries	–	9.8	4.8
Other	8.1	7.6	1.3
Total	$(368.8)	$ 17.8	$ 29.0

(1) Effective January 1, 1987, the Company changed from the use of the cash receipts and disbursements method of computing tax return income to the accrual method due to enactment of the Tax Reform Act of 1986. The cumulative difference between the cash basis and accrual basis of accounting will be included in tax return income over a four-year period.

The Company had deferred income taxes receivable of $223.2 million at December 31, 1987 and deferred income taxes payable of $150.1 million and $186.2 million at December 31, 1986 and 1985, respectively.

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 variances 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 provision and rate to the effective income tax provision and rate:

(in millions)	1987 Amount	%	1986 Amount	%	1985 Amount	%
Statutory federal income tax provision and rate	$ (4.3)	(40.0)%	$180.1	46.0%	$138.1	46.0%
Change in tax rate resulting from:						
Income and expense related to Crocker's assets and liabilities accounted for net of tax	(52.1)	(479.4)	(37.5)	(9.6)	–	–
Tax-exempt income	(19.5)	(179.9)	(21.2)	(5.4)	(16.6)	(5.5)
Tax benefit recognized on a portion of the provision for loan losses at 1988 tax rates	14.2	131.1	–	–	–	–
Capital gains rate difference	(3.7)	(34.0)	(9.4)	(2.4)	(7.0)	(2.4)
State and local taxes on income, net of federal income tax benefit	.1	.5	21.1	5.4	12.9	4.3
Other	3.6	34.0	(15.0)	(3.8)	(17.1)	(5.7)
Effective income tax provision and rate	$(61.7)	(567.7)%	$118.1	30.2%	$110.3	36.7%

Year ended December 31,

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 $31.2 million, $31.0 million and $60.8 million generated by its subsidiaries and branches located outside of the U.S. in 1987, 1986 and 1985, 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 pretax income (loss) and income tax expense (benefit) for 1987 and 1986 is not comparable with previous years or with other companies that are not affected by net-of-tax accounting.

11. 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 an International Banking Facility. As required by the Securities and Exchange Commission, the Company reports its foreign activities on the basis of the domicile of the customer.

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; and
(e) foreign exchange trading activities in domestic and foreign offices are included in foreign activities.

Selected financial data by geographic area at December 31, 1987, 1986 and 1985 and for the years then ended follows:

(in millions)		Total revenue	Income (loss) before income tax expense (benefit)	Net income (loss)	Assets at year end
Latin America (including Mexico)	**1987**	**$ 92.9**	**$(614.5)**	**$(330.5)**	**$ 1,210.4**
	1986	215.8	(9.1)	(6.3)	1,876.4
	1985	209.4	(4.0)	(2.3)	2,073.3
Asia and Pacific Basin	**1987**	**87.7**	**24.8**	**13.3**	**692.6**
	1986	49.9	(1.1)	(.8)	473.1
	1985	53.5	.3	.2	530.7
Europe	**1987**	**63.9**	**48.3**	**26.0**	**117.7**
	1986	20.7	.2	.2	143.6
	1985	71.2	1.9	1.1	702.8
Other	**1987**	**2.6**	**(2.3)**	**(1.2)**	**7.7**
	1986	2.7	.1	—	40.0
	1985	11.4	.1	—	112.4
Total foreign	**1987**	**247.1**	**(543.7)**	**(292.4)**	**2,028.4**
	1986	289.1	(9.9)	(6.9)	2,533.1
	1985	345.5	(1.7)	(1.0)	3,419.2
Domestic	**1987**	**4,320.4**	**532.8**	**343.2**	**42,154.9**
	1986	3,699.3	401.5	280.4	42,044.0
	1985	3,104.3	302.0	191.0	26,010.2
Total foreign and domestic	**1987**	**$4,567.5**	**$ (10.9)**	**$ 50.8**	**$44,183.3**
	1986	3,988.4	391.6	273.5	44,577.1
	1985	3,449.8	300.3	190.0	29,429.4

The allowance for loan losses related to foreign activities includes specific reserves for private sector loans outstanding, allocated transfer risk reserves and, at December 31, 1987, two special additions totaling $589 million that were substantially allocated to Latin America and were made in 1987 in connection with loans to developing countries. 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, 1987	1986	1985
Balance, beginning of year	**$ 80.1**	$45.2	$30.9
Provision for loan losses	**610.9**	60.6	42.2
Gross charge-offs	**21.8**	30.6	27.8
Recoveries	**(5.3)**	(4.7)	(3.0)
Net loan charge-offs	**16.5**	25.9	24.8
Other additions (deductions)	**—**	.2	(3.1)
Balance, end of year	**$674.5**	$80.1	$45.2

Net gains arising out of foreign currency transactions, which were included in noninterest income, were $11.7 million in 1987, $8.7 million in 1986 and $3.6 million in 1985.

12. Parent Company

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

Condensed Statement of Income

(in millions)	Year ended December 31, 1987	1986	1985
Income			
Dividends from subsidiaries:			
Wells Fargo Bank	**$115.9**	$ 87.7	$ 62.1
Nonbank subsidiaries	**21.4**	42.1	33.3
Interest income (primarily from subsidiaries)	**509.9**	467.5	466.1
Noninterest income	**6.7**	70.1	68.6
Total income	**653.9**	667.4	630.1
Expense			
Interest on:			
Short-term borrowings	**209.9**	116.2	166.6
Senior and subordinated debt	**299.2**	333.5	272.4
Indebtedness to nonbank subsidiaries	**29.2**	31.0	42.8
Provision for loan losses	**2.0**	—	3.9
Noninterest expense	**5.8**	7.1	9.1
Total expense	**546.1**	487.8	494.8
Income before income tax expense (benefit) and undistributed income of subsidiaries	**107.8**	179.6	135.3
Income tax expense (benefit)	**(24.2)**	11.9	4.4
Equity in undistributed income of subsidiaries:			
Wells Fargo Bank	**(51.0)**	102.1	75.4
Nonbank subsidiaries	**(30.2)**	3.7	(16.3)
Net income	**$ 50.8**	$273.5	$190.0

Condensed Balance Sheet

(in millions)	December 31, 1987	1986
Assets		
Cash and due from Wells Fargo Bank	**$ 5.4**	$ 16.8
Investment securities	**500.5**	430.1
Loans	**332.7**	69.5
Allowance for loan losses	**5.0**	3.0
Net loans	**327.7**	66.5
Loans and advances to subsidiaries:		
Wells Fargo Bank	**3,837.7**	1,548.7
Nonbank subsidiaries	**1,563.3**	4,014.7
Investment in subsidiaries:		
Wells Fargo Bank	**2,255.9**	2,125.6
Nonbank subsidiaries	**141.7**	365.0
Other assets	**439.8**	397.4
Total assets	**$9,072.0**	$8,964.8
Liabilities and Stockholders' Equity		
Commercial paper outstanding	**$2,915.5**	$2,206.4
Other short-term borrowings	**5.8**	4.1
Senior and subordinated debt	**3,467.9**	4,049.8
Indebtedness to nonbank subsidiaries	**268.1**	219.9
Other liabilities	**167.1**	141.9
Total liabilities	**6,824.4**	6,622.1
Stockholders' equity	**2,247.6**	2,342.7
Total liabilities and stockholders' equity	**$9,072.0**	$8,964.8

Condensed Statement of Changes in Financial Position

(in millions)		Year ended December 31,	
	1987	1986	1985
Financial resources provided by (applied to):			
Operations:			
Net income	$ 50.8	$ 273.5	$ 190.0
Noncash charges (credits):			
Provision for loan losses	2.0	–	3.9
Deferred income tax provision	(15.1)	39.7	22.6
Equity in undistributed income of subsidiaries	81.2	(105.8)	(59.1)
Financial resources provided by operations	118.9	207.4	157.4
Cash dividends declared	(112.2)	(92.1)	(65.7)
Net financial resources provided by operations	6.7	115.3	91.7
Other financing activities:			
Short-term borrowings	710.8	(40.9)	467.2
Senior and subordinated debt	(581.9)	263.2	1,535.7
Indebtedness to nonbank subsidiaries	48.2	(44.1)	(51.6)
Preferred stock issued, net of issuance costs	–	250.3	–
Common stock issued in public offerings	–	431.7	–
Other common stock issued	22.3	21.2	14.2
Common stock repurchased	(55.6)	–	(26.4)
Financial resources provided by other financing activities	143.8	881.4	1,939.1
Other activities:			
Cash and due from Wells Fargo Bank	11.4	(15.4)	1.1
Investment in subsidiaries	11.8	(761.9)	(14.1)
Other, net	(2.5)	(237.6)	20.9
Financial resources provided by (applied to) other activities	20.7	(1,014.9)	7.9
Increase (decrease) in financial resources invested in earning assets	$ 171.2	$ (18.2)	$2,038.7
Increase (decrease) in earning assets:			
Investment securities	$ 70.4	$ (812.7)	$1,090.9
Net loans	263.2	(3.5)	(93.5)
Loans and advances to subsidiaries	(162.4)	798.0	1,041.3
Increase (decrease) in earning assets	$ 171.2	$ (18.2)	$2,038.7

The Parent had available lines of credit supporting commercial paper borrowings with unaffiliated banks totaling $20 million and $470 million at December 31, 1987 and 1986, respectively. The lines of credit require commitment fees or compensating balances, which were not significant.

13. 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 1987 and 1986. 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 $203.3 million at December 31, 1987 and $161.9 million at December 31, 1986. During 1987, additional loans of $90.3 million were made and payments of $48.9 million were received.

14. 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, 1987.

Net rental expense for all operating leases was $119.2 million, $96.9 million and $46.4 million for the years ended December 31, 1987, 1986 and 1985, respectively.

(in millions)	Capital leases	Operating leases
Year ended December 31,		
1988	$ 16.3	$ 94.1
1989	16.2	86.2
1990	16.2	77.6
1991	16.1	68.1
1992	15.5	59.7
Thereafter	157.0	149.2
Total minimum lease payments	237.3	$534.9
Executory costs	(12.5)	
Amounts representing interest	(135.3)	
Present value of net minimum lease payments	$ 89.5	

15. 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 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, 1987
Standby letters of credit	$ 2,000
Commercial and similar letters of credit	300
Commitments to extend credit (1)	14,900
Commitments to purchase futures and forward contracts	4,000
Commitments to purchase foreign and U.S. currencies	6,000

(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, 1987, the Company had issued or purchased participations in financial guarantees of approximately $1,300 million for the following types of financial instruments:

(in millions)		Maturity ranges
Loans and investments	$ 600	1988–1995
Tax-exempt industrial revenue/ development bonds	500	1988–1997
Commercial paper	100	1988–1992
Tax-exempt mortgage revenue put option bonds	100	1988–2012
Total financial guarantees	$1,300	

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.

The Company enters into interest rate swap agreements primarily to reduce interest rate risk related to senior and subordinated debt. At December 31, 1987, the Company had interest rate swaps outstanding with a notional principal amount of approximately $2,200 million.

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.

16. 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 at the time of acquisition were revalued to fair value, 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 20 years. Prior to July 1, 1987, goodwill was amortized based on a life of 25 years. The amortization period was revised to 20 years because a portion of this goodwill could be viewed as representing a core deposit intangible with a life shorter than 25 years. Goodwill may be reduced as certain carryover tax benefits are utilized.

Accountants' Report

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, 1987 and 1986 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, 1987. 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, 1987 and 1986, 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, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat Marwick Main & Co.

Peat Marwick Main & Co.
Certified Public Accountants

San Francisco, California
January 18, 1988

Quarterly Financial Data

Condensed Consolidated Statement of Income—Quarterly (1)

(in millions)	1987 Quarter ended				1986 Quarter ended			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Interest Income	$958.3	$1,018.5	$1,033.9	$1,091.3	$733.6	$829.3	$982.7	$959.9
Interest Expense	497.3	540.2	550.9	577.5	430.0	459.8	531.0	499.1
Amortized gain (loss) on interest rate hedging	1.8	(4.9)	(1.9)	.2	4.3	4.9	8.3	5.7
Net Interest Income	462.8	473.4	481.1	514.0	307.9	374.4	460.0	466.5
Provision for loan losses (2)	80.0	623.0	75.0	114.0	92.5	77.5	76.5	115.1
Net interest income (loss) after provision for loan losses	382.8	(149.6)	406.1	400.0	215.4	296.9	383.5	351.4
Noninterest Income								
Service charges on deposit accounts	44.0	43.5	46.6	46.4	28.3	34.7	46.4	43.7
Trust and investment services income	29.7	41.5	41.4	43.9	15.8	19.0	28.1	27.2
Domestic fees and commissions	31.1	38.8	35.0	36.2	22.1	26.0	32.5	36.3
Investment securities gains (losses)	(.2)	2.1	.5	(15.2)	35.2	(10.8)	(.2)	5.2
Other (3)	(17.4)	(6.9)	21.1	8.2	6.7	11.6	24.9	26.8
Total noninterest income	87.2	119.0	144.6	119.5	108.1	80.5	131.7	139.2
Noninterest Expense								
Salaries	151.9	149.1	147.4	150.9	100.8	118.0	149.8	157.4
Employee benefits	42.1	39.9	41.1	28.4	28.9	37.8	45.0	36.4
Net occupancy	45.6	44.6	46.3	42.2	22.6	28.0	45.8	47.3
Equipment	32.3	34.0	33.8	32.8	19.5	23.9	32.4	32.2
Other	108.4	122.9	110.5	116.3	68.1	84.9	116.6	119.8
Total noninterest expense	380.3	390.5	379.1	370.6	239.9	292.6	389.6	393.1
Income (Loss) Before Income Tax Expense (Benefit)	89.7	(421.1)	171.6	148.9	83.6	84.8	125.6	97.5
Income tax expense (benefit)	11.4	(127.4)	16.6	37.7	32.0	18.7	48.2	19.1
Net Income (Loss) (4)	$ 78.3	$ (293.7)	$ 155.0	$ 111.2	$ 51.6	$ 66.1	$ 77.4	$ 78.4
Net Income (Loss) Applicable To Common Stock	$ 73.1	$ (299.2)	$ 149.4	$ 104.8	$ 48.9	$ 61.6	$ 72.1	$ 73.2
Per Common Share								
Net income (loss)	$ 1.36	$ (5.56)	$ 2.77	$ 1.95	$ 1.13	$ 1.17	$ 1.35	$ 1.36
Dividends declared	$ .39	$ .39	$ .39	$ .50	$ .34	$ .34	$ .34	$ .39
Average common shares outstanding (in thousands)	53,698	53,805	53,981	53,735	43,449	52,876	53,405	53,629

(1) Amounts include the earnings of the former Crocker National Corporation beginning June 1, 1986.
(2) The second and fourth quarters of 1987 include special provisions for loan losses of $550 million and $39 million, respectively, made in connection with loans to developing countries.
(3) The first quarter of 1987 includes $(20.1) million related to the termination of a lease obligation assumed with the purchase of Crocker.
(4) 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.

Average Balances, Yields and Rates Paid (Taxable-Equivalent Basis)—Quarterly

(in millions)	Quarter ended December 31, 1987			Quarter ended September 30, 1987			Quarter ended December 31, 1986		
	Average balance	Yields/ rates	Interest income/ expense	Average balance	Yields/ rates	Interest income/ expense	Average balance	Yields/ rates	Interest income/ expense
Earning Assets									
Interest-earning deposits	$ 1,300	10.56%	$ 34.6	$ 1,052	11.26%	$ 29.9	$ 1,597	6.31%	$ 25.4
Investment securities:									
U.S. Treasury securities	863	7.50	16.3	670	7.06	11.9	769	7.21	14.0
Securities of other U.S. government agencies and corporations	1,979	8.75	43.3	2,015	8.75	44.1	597	8.83	13.2
Obligations of states and political subdivisions	94	7.71	1.8	97	7.73	1.9	125	8.37	2.6
Other securities	733	10.17	18.6	353	10.32	9.1	367	10.61	9.7
Total investment securities	3,669	8.71	80.0	3,135	8.53	67.0	1,858	8.48	39.5
Trading account securities	140	6.48	2.3	104	6.38	1.6	206	6.57	3.4
Federal funds sold	87	6.85	1.5	138	6.24	2.2	104	5.98	1.6
Loans:									
Commercial, financial and agricultural	12,223	9.87	303.9	12,082	9.26	281.9	11,229	8.46	239.5
Real estate construction-related	6,440	10.01	162.5	6,172	9.63	149.8	5,331	9.10	122.3
Real estate mortgage	7,221	10.34	186.7	7,125	10.16	181.0	6,891	10.26	176.7
Consumer	7,043	13.26	234.2	7,131	13.03	233.2	7,741	12.85	249.4
Lease financing	1,298	10.80	35.0	1,278	10.45	33.4	1,122	11.45	32.1
Foreign	2,139	6.27	33.8	2,146	5.64	30.5	2,131	8.18	43.9
Fees and sundry interest	–	–	29.5	–	–	33.4	–	–	41.4
Total loans	36,364	10.79	985.6	35,934	10.45	943.2	34,445	10.47	905.3
Total earning assets	$41,560	10.57	1,104.0	$40,363	10.30	1,043.9	$38,210	10.16	975.2
Funding Sources									
Interest-bearing liabilities:									
Deposits:									
Savings deposits	$ 4,282	5.00	53.9	$ 4,277	5.00	53.9	$ 3,411	4.94	42.5
NOW accounts	2,951	3.92	29.1	2,901	3.94	28.8	2,764	4.37	30.4
Market rate checking	389	4.01	3.9	402	4.03	4.1	516	4.61	6.0
Market rate savings	7,822	5.39	106.3	7,793	5.09	100.1	7,673	4.79	92.7
Savings certificates	8,228	6.65	137.9	8,155	6.48	133.2	8,323	6.80	142.6
Certificates of deposit	752	8.63	16.4	855	8.70	18.7	1,104	8.50	23.6
Other time deposits	181	8.01	3.7	191	8.22	4.0	256	7.74	5.0
Deposits in foreign offices	2,005	7.36	37.2	1,119	6.63	18.7	640	7.13	11.5
Total interest-bearing deposits	26,610	5.79	388.4	25,693	5.58	361.5	24,687	5.69	354.3
Commercial paper	3,633	7.00	64.1	2,971	6.84	51.3	1,798	6.07	27.5
Other short-term borrowings	2,059	7.28	37.8	2,340	8.14	48.0	1,433	5.73	20.7
Senior and subordinated debt:									
Senior debt	1,651	9.65	39.9	1,815	9.72	44.2	2,185	9.11	49.9
Subordinated debt	2,235	7.64	43.0	2,258	7.18	40.8	2,384	6.36	38.2
Total senior and subordinated debt	3,886	8.50	82.9	4,073	8.31	85.0	4,569	7.68	88.1
Total interest-bearing liabilities	36,188	6.29	573.2	35,077	6.18	545.8	32,487	6.00	490.6
Portion of noninterest-bearing funding sources	5,372	–	–	5,286	–	–	5,723	–	–
Total funding sources	$41,560	5.47	573.2	$40,363	5.37	545.8	$38,210	5.10	490.6
Amortized gain (loss) on interest rate hedging		–	(.2)		(.03)	(2.3)		.06	5.1
Net interest margin and net interest income on a taxable-equivalent basis		5.10%	$ 530.6		4.90%	$ 495.8		5.12%	$489.7
Noninterest-Earning Assets									
Cash and due from banks	$ 2,468			$ 2,433			$ 2,937		
Other	1,735			1,614			2,141		
Total noninterest-earning assets	$ 4,203			$ 4,047			$ 5,078		
Noninterest-Bearing Funding Sources									
Deposits	$ 6,180			$ 6,065			$ 7,050		
Other liabilities	1,140			1,109			1,441		
Stockholders' equity	2,255			2,159			2,310		
Noninterest-bearing funding sources used to fund earning assets	(5,372)			(5,286)			(5,723)		
Net noninterest-bearing funding sources	$ 4,203			$ 4,047			$ 5,078		
Total Assets	$45,763			$44,410			$43,288		

The average prime rate of Wells Fargo Bank was 8.87%, 8.40% and 7.50% for the quarters ended December 31, 1987, September 30, 1987 and December 31, 1986, respectively.

Directory

Directors

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

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John Breuner Company

James F. Dickason
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The Newhall Land and Farming Company

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Bechtel Power Corporation

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The RAND Corporation

Wilson Riles
President
Wilson Riles & Associates, Inc.

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and Chief Executive Officer
Utah International Inc.

Arjay Miller
Dean Emeritus
Graduate School of Business
Stanford University

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Rice Growers Association of California

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President and Chief Operating Officer
Paul Hazen

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Robert L. Joss
David M. Petrone
William F. Zuendt

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Clyde W. Ostler

Chief Counsel and Secretary
Guy Rounsaville Jr.

Chief Credit Officer
Robert M. Walker

Chief Loan Examiner
Douglas P. Holloway

General Auditor
Dudley M. Nigg

Controller
Frank A. Moeslein

Treasurer
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Personnel Director
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Director of Investor Relations
Leslie L. Altick

Wells Fargo Bank, N.A.

Chairman and Chief Executive Officer
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President and Chief Operating Officer
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David M. Petrone
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James G. Jones
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Patricia Callahan
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Joseph A. Wahed
Raymond J. Walsh Jr.
G. Hardy Watford
Paul M. Watson
Edward G. Zaik
David J. Zuercher
Randall F. Zurbach

Subsidiaries

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Wells Fargo Leasing Corporation
Theodore J. Rogenski, President

Wells Fargo Realty Advisors
A. Larry Chapman, President

Wells Fargo Realty Finance
George A. Tillotson, President

Wells Fargo Securities, Inc.
William F. Aldinger III, President

Nonbank

Wells Fargo Ag Credit
Larry Lewton, President

Wells Fargo Capital Markets, Inc.
Charles A. Greenberg, President

Wells Fargo Credit Corporation
Larry S. Crawford, President

Wells Fargo Insurance Services
James G. Jones, President

Wells Fargo Investment Advisors
Frederick L.A. Grauer, Chairman

International Advisory Council

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

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

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

Edward Carlson
Chairman Emeritus
Allegis Corporation
Chicago, Illinois

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

Sir Campbell Fraser
Chairman
Scottish Television PLC
London, England

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

William R. Hewlett
Director Emeritus
Hewlett-Packard Company
Palo Alto, 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

Irving S. Shapiro
Retired Chairman
DuPont Company
Wilmington, Delaware

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

Geoffrey W. Taylor
Chairman
Daiwa Europe Bank PLC
Retired Group Chief Executive
Midland Bank PLC
London, England

WFC0388B

Shareholder Information

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

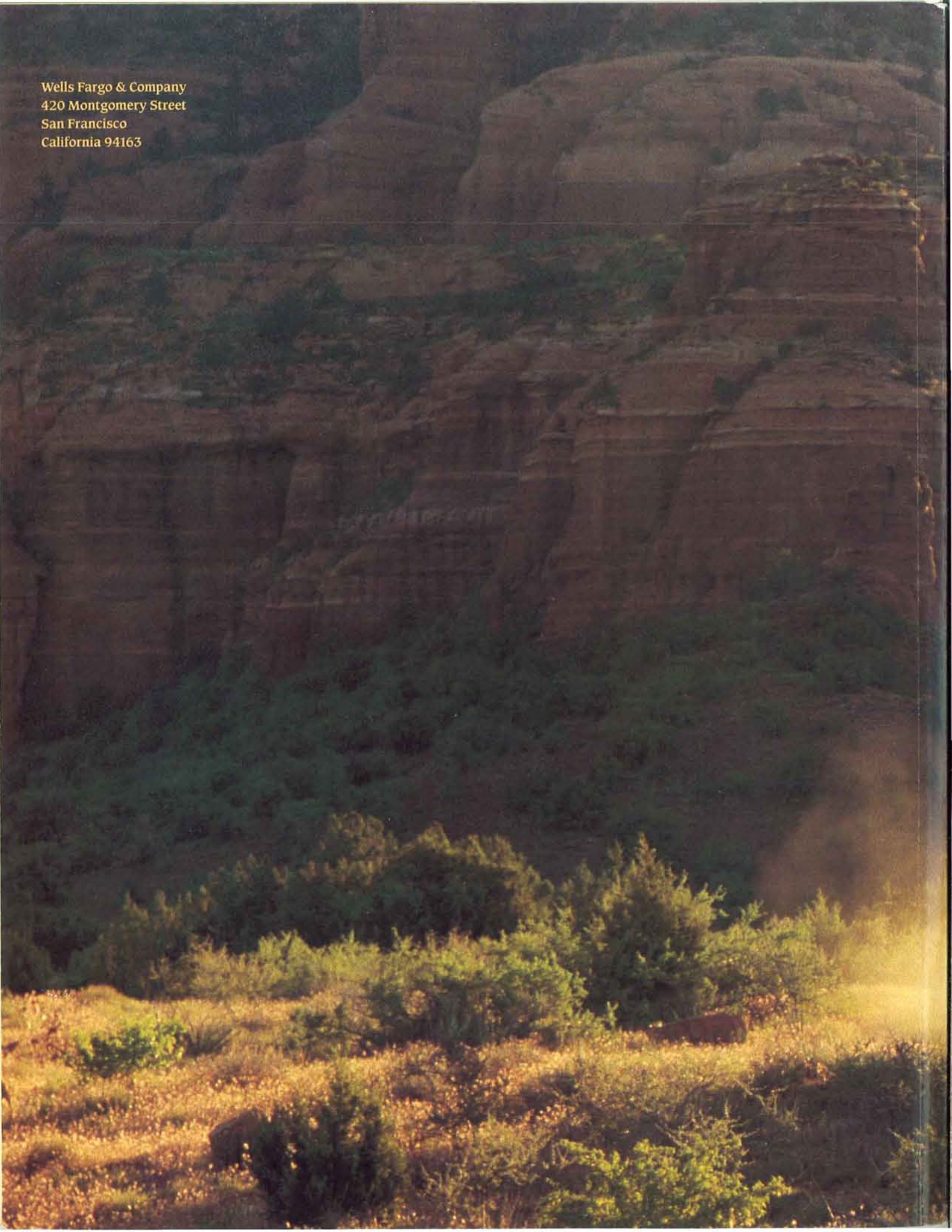
Transfer Agent and Registrar of Stock
Manufacturers Hanover Trust
Company of California
50 California Street
San Francisco, California 94111

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 19, 1988 at 420 Montgomery Street, San Francisco, California.

Form 10-K
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
Public Relations Department
#0120-101
420 Montgomery Street
San Francisco, California 94163
(415) 396-3606



Wells Fargo & Company
420 Montgomery Street
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