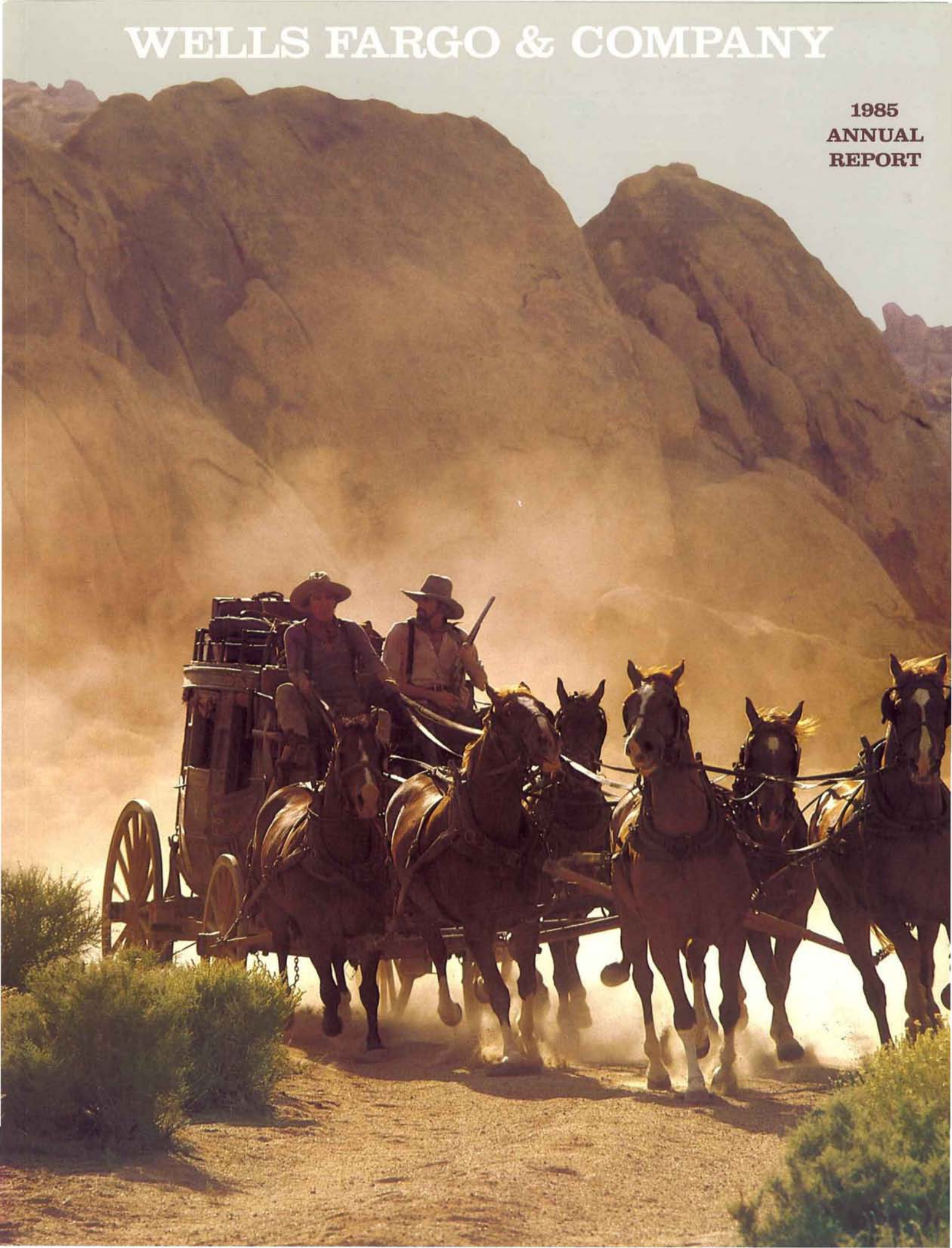
# WELLS FARGO & COMPANY

1985
ANNUAL
REPORT



## IN MEMORIAM

Wells Fargo & Company's staff, management and directors were deeply saddened by the deaths early in 1986 of two retired and highly esteemed chairmen of the Board of Directors: Ernest C. Arbuckle, 73, and Ransom M. Cook, 86.

**ERNEST C. ARBUCKLE**

Mr. Arbuckle and his devoted wife, Katherine, were killed in an automobile accident in Monterey, California, on January 17. He had joined Wells Fargo in 1968, the year the holding company was formed, after serving with distinction for 10 years as dean of the Stanford University Graduate School of Business. He served as chairman of Wells Fargo's board until 1978, when he retired from that post. Mr. Arbuckle remained a director until 1983, when he became a director emeritus. His wisdom, guidance and professional reputation were significant factors in leading Wells Fargo to the stature it enjoys today. All who knew and worked with Mr. Arbuckle share a great loss with his passing.

**RANSOM M. COOK**

Mr. Cook, who passed away at his ranch in Santa Rosa, California, on February 14, joined American Trust Company in 1921 and moved up through the organization steadily, becoming president in 1959. The following year, Mr. Cook was instrumental in the historic merger of American Trust with Wells Fargo Bank, and he became chairman and chief executive officer of the new bank in 1964. He retired from that position in 1966, but remained on the Board of Directors as director and then director emeritus for 10 years. Mr. Cook's tremendous ability and his wisdom were invaluable to our organization through our many years of association, and we will very much miss his counsel and guidance.

## TABLE OF CONTENTS





# HIGHLIGHTS

| (in millions) | 1985 | 1984 | Percentage increase |
|---|---|---|---|
| **FOR THE YEAR** | | | |
| Net income | $190.0 | $169.3 | 12% |
| Per common share | | | |
| Net income | 8.30 | 6.85 | 21 |
| Dividends declared | 2.48 | 2.16 | 15 |
| Net income to average total assets | .67% | .62% | 8 |
| Net income applicable to common stock to average common stockholders' equity | 14.05 | 12.88 | 9 |
| **AT YEAR END** | | | |
| Loans | $24,614 | $22,894 | 8% |
| Assets | 29,429 | 28,184 | 4 |
| Stockholders' equity | 1,458 | 1,344 | 9 |
| Primary capital | 2,217 | 1,892 | 17 |
| Total capital | 4,333 | 2,955 | 47 |
| Primary capital to assets | 7.44% | 6.65% | 12 |
| Total capital to assets | 14.53 | 10.39 | 40 |
| Common shares outstanding (in thousands) | 21,139 | 21,235 | — |
| Book value per common share | $61.87 | $56.21 | 10 |

# LETTER TO SHAREHOLDERS

Wells Fargo & Company in 1985 earned net income of $190 million, or $8.30 per share. The Company achieved this performance by pursuing its stated strategy of focusing on the financial services we know best, paring away lines of business that do not fit in with our California and western banking goals, and strengthening our organization to make it more competitive and more able to move quickly to take advantage of opportunities.

Early in 1986, we did move to capitalize on such an opportunity. In the early hours of February 7, a definitive agreement was signed providing for the purchase of Crocker National Corporation from Midland Bank plc for an amount equivalent to Crocker's net asset value at the end of 1985 as carried on Midland's books.

The purchase price, subject to certain adjustments, will be $1.08 billion. In connection with the acquisition, Wells Fargo expects to issue approximately $300 million of common stock, approximately $250–$350 million of preferred stock and up to approximately $500 million of debt securities. The amount of equity and debt securities to be issued may change depending on specific plans developed for integrating Crocker's assets as well as on market conditions.

Chairman Carl E. Reichardt (right) and President Paul Hazen

The acquisition is expected to be completed in 1986, subject to appropriate regulatory and shareholder approval. The combined organization will carry the name Wells Fargo & Company, and its principal subsidiary will carry the name Wells Fargo Bank.

This combination of two of the oldest and proudest banking organizations in California should create an even stronger new bank, one that can offer more convenient service to customers, more exciting opportunities for employees, and increased returns to shareholders. Further, this acquisition is consistent with our strategy of emphasizing domestic banking, since Crocker has very little foreign exposure. The Crocker branch system has wide representation throughout California, particularly in the southern part of the state where it is highly complementary to our own.

Crocker National Corporation, which had year-end 1985 assets of $19.2 billion, is the parent of Crocker National Bank. We believe that the combined organization, after certain asset sales and adjustments, will be the tenth largest bank holding company in the United States.

Crocker reported 1985 net income of $38 million. As of year end, its nonperforming assets amounted to $297 million, or 2.4 percent of loans and other real estate. The allowance for loan losses amounted to 2 percent of loans. This was the lowest ratio of nonperforming assets and the highest ratio of allowance to loans of any of the large California banking companies.

We believe this acquisition represents a continuation of Wells Fargo's policy of concentrating its resources on basic domestic banking activities, such as deposit gathering and lending, with emphasis on California. We expect to benefit from economies of scale and efficiencies in a number of our operations.

Studying the operations of Crocker and preparing to blend them with those of Wells Fargo will be a major challenge for 1986, but one that we expect to carry out smoothly and without disruption in service for customers of either institution.

Significant economies will be achieved by the elimination of duplicate management and support services. This will, of course, involve personnel dislocation, but we believe that we can minimize the effects of this by taking several actions. At Wells Fargo, we established an immediate selective freeze on all new hiring and will try to hold vacancies open so that upon completion of the acquisition we will have openings for Crocker personnel. In line with trends in the banking industry, we have an average staff turnover of approximately 20 percent. Crocker's turnover rate is higher. Thus, we will attempt to preserve opportunities for employees of Crocker to move into vacant Wells Fargo positions. This should mitigate the impact on individuals.

We plan to consolidate the two banks' structures by combining certain branches and operations where there is overlap, and by closing those in areas in which their continued operation does not make sense. To accomplish this, we will follow the same guidelines that we have used over the past three or four years as we made our own system more efficient.

We will combine the products and services now offered by Crocker with our own and will select those that offer the greatest potential, and discontinue those that make less economic or marketing sense.

For their advice and guidance in this undertaking, as in all others, Wells Fargo owes a debt of gratitude to its Board of Directors. Their considered review of this acquisition plan was beneficial to management, and their sound counsel will provide us with strong support in coming months.

In 1985, J. W. Mailliard III retired as a director after 31 years of dedicated service and was named director emeritus. Robert L. Bridges retired from his position as director emeritus after 20 years of wise counsel to our organization. We warmly thank both these gentlemen for their years of valued assistance.

Few of our Company's achievements in adapting to the new world of deregulation would have been possible without the help and strong support of our staff. They have tightened their belts and found imaginative new ways to get the job done while working to maintain the quality of our service. For this we thank them. As tangible evidence of our gratitude, in 1985 we gave approximately 10,000 full-time and some 1,500 part-time employees a gift of cash and time off to enjoy it.

Working together, the management, staff and directors of Wells Fargo have successfully brought the Company through uncharted waters during the recent years of deregulation. In 1986 we will welcome into this group the management and staff of Crocker National Corporation, who have worked hard and effectively over the past two years to restore health to that fine organization. Working together, we hope to create a new and dynamic team that will achieve solid returns for our shareholders while providing first-rate service for our customers.

Carl E. Reichardt

Carl E. Reichardt
Chairman

Paul Hazen

Paul Hazen
President

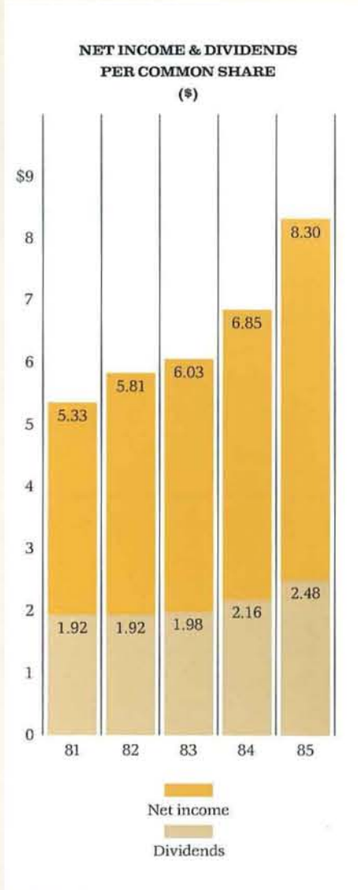
February 20, 1986

# 1985 WAS A YEAR OF PROGRESS

The year 1985 was one of progress for Wells Fargo. The Company produced record earnings, strengthened its balance sheet and continued to build its reputation and market presence.

These achievements reflected a solid performance in the Company's basic businesses, as well as a greater concentration of resources in these selected core activities.

Wells Fargo's business and investment decisions during the year were directed toward increasing the profitability of existing operations, providing a higher return for shareholders and positioning the Company to meet the challenges of deregulation.




## EPS AND DIVIDENDS

Two aspects of the Company's performance of particular interest to shareholders are earnings per share (EPS) and dividends on common stock.

Wells Fargo earned $8.30 per common share in 1985, an increase of 21 percent from 1984. EPS grew at a higher rate than the 12 percent increase in net income chiefly because of the Company's stock repurchase plan. It repurchased 3 million common shares in 1984 and 500,000 shares in 1985, all of which were bought back at below book value.

Two other decisions in 1985 had a direct effect on shareholders. Based on the Company's earnings trend and capital position, the Board of Directors increased the quarterly dividend on common stock in the first quarter of 1985 from 54 cents a share to 60 cents, and in the fourth quarter to 68 cents a share. The combined effect of these two actions was a 26 percent increase in the dividend.

Increased net interest income was a major factor behind Wells Fargo's earnings performance in 1985. Higher volumes of loans and core deposits contributed to this increase, as did the generally favorable funding conditions of 1985.

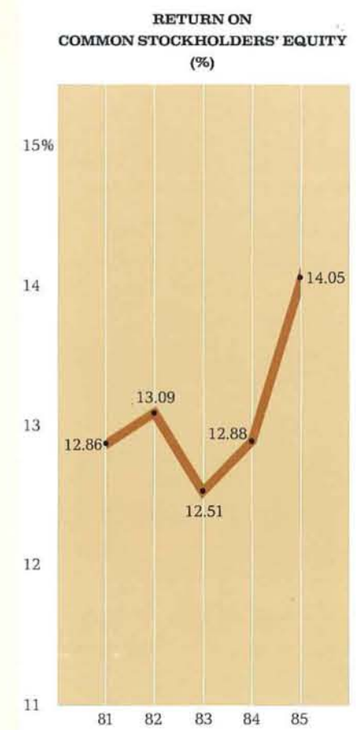
During the past three years, the Company has reorganized its operations and shifted a greater portion of assets into its four targeted lending areas: consumers, commercial real estate and construction firms, small and middle-market commercial businesses, and West Coast-based corporations.

In 1985, the Company actively marketed its consumer loan products. The Real Estate Industries Group and the Company's two real estate subsidiaries, Wells Fargo Realty Finance and Wells Fargo Realty Advisors, also increased their loans outstanding to top-tier developers around the country. Another area of solid growth in 1985 was the Corporate Banking Group's increasing role as agent bank for large syndicated loans involving West Coast corporations. Loans to middle-market companies grew less rapidly than planned in 1985 as the Company continued to emphasize strict credit quality standards.

A range of service fees and charges also contributed to earnings growth and overall profitability in 1985. The Company continued to rationalize pricing for a variety of noninterest services and products to ensure a satisfactory return. These changes combined with higher core deposits led to a solid gain in service income on deposit accounts. Service income from Wells Fargo Investment Advisors, a nonbank subsidiary, rose sharply as it increased the amount of pension and endowment funds under management from $14 billon at the end of 1984 to more than $29 billion at the end of 1985. WFIA is now the largest manager of index funds in the nation.

Leveraging income growth with management of noninterest expense continues to be an important element of the Company's business strategy. Noninterest expense was held to a 6 percent increase in 1985.

Higher loan losses partially offset income gains in 1985. In addition, there were increases in nonaccrual and restructured loans and other real estate obtained in settlement of troubled loans.




Ratio of net income applicable to common stock to average common stockholders' equity

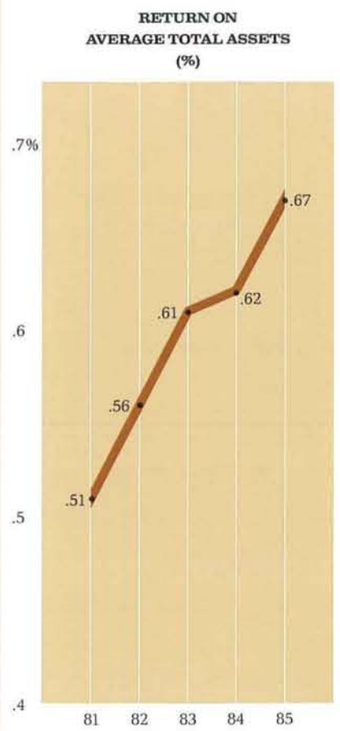
Uneven economic growth, disinflation and the strong U.S. dollar continued to have harsh effects on portions of the domestic portfolio, particularly in the agricultural sector. The international loan situation will continue to present problems for the foreseeable future.

The Company's provision for loan losses significantly exceeded the level of actual loan charge-offs in 1985. The allowance for loan losses was increased to 1.70 percent of total loans at the end of 1985, from 1.14 percent at the end of 1984. The larger allowance strengthens the Company's balance sheet at a time of general financial uncertainties about both domestic and international credit.

## PROFITABILITY AND STRATEGY

Building on the progress of 1984, Wells Fargo continued to improve its key profitability measures in 1985. The return on average common equity increased to 14.05 percent, from 12.88 percent in 1984. Return on assets increased to .67 percent, from .62 percent in 1984.

To a large degree, these ratios reflect Wells Fargo's strategy of building profitability by simplifying its operations and sharpening its focus on basic domestic banking activities in California and the West. During the past three years, the Company has reordered priorities and reorganized activities in order to control costs and concentrate its resources in the business lines it knows best. As part of that process, the Company sold Wells




Fargo Mortgage Company in 1985.

The Company also restructured and further consolidated its international operations, focusing its attention on trade-related finance between the West Coast and the growing economies of the Pacific Rim. The International Banking Group continued to develop new specialized services for selected segments of this trade.

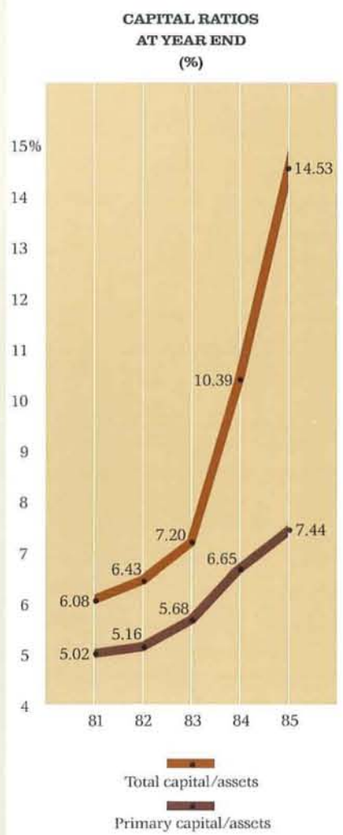
Consistent with Wells Fargo's focus on domestic banking activities, the Company entered into an agreement in February 1986 to purchase Crocker National Corporation.

## FINANCIAL STABILITY

Wells Fargo also worked to further strengthen its capital position in 1985. The Company's ratio of primary capital to total assets was the second highest among the 15 largest U.S. bank holding companies at the end of the year. Its ratio of total capital to assets was first among those companies. These ratios are considered key measures of financial stability by federal regulators. The Company remains committed to maintaining a strong capital position.

Capital increased in 1985 as a result of the issuance of senior and subordinated debt, and increases in the allowance for loan losses and retained earnings. The issuance of long-term debt, in conjunction with Wells Fargo's large base of core deposits, provides liquidity and financial stability for the Company.

Besides adding to liquidity, core deposits are an important element in Wells Fargo's earnings stream




because they provide funding at favorable rates. The average volume of core deposits increased 6 percent over 1984.

Steadily increased earnings, a stronger balance sheet and progress in organizing the Company for competition in a deregulated environment have put Wells Fargo in a solid position to meet the challenges ahead.





# MANAGEMENT'S ANALYSIS OF FINANCIAL OPERATIONS

## OVERVIEW

Net income in 1985 was $190.0 million, an increase of 12 percent over $169.3 million in 1984. Net income per share was $8.30, up 21 percent from $6.85 in 1984. The percentage increase in net income per share exceeded that of net income primarily due to a reduction in common shares outstanding. The repurchase of 3 million shares of common stock during 1984 was fully reflected in net income per share in 1985. In addition, 500 thousand shares of common stock were repurchased during 1985, all in the second half.

Improved spreads between lending and deposit rates on increased volumes of loans and core deposits, as well as management of noninterest expense, contributed to the earnings performance. Net interest income on a taxable-equivalent basis (interest differential) increased 13 percent to $1.3 billion in 1985. The interest rate spread was 4.93 percent in 1985, an increase of 27 basis points over 1984.

The average volume of loans in 1985 was $23.4 billion, up 8 percent from 1984, primarily because of increases of 38 percent in both the real estate construction-related and consumer loan portfolios.

The average volume of core deposits in 1985 was $17.7 billion, a 6 percent increase over 1984. Core deposits, which consist of noninterest-bearing deposits, interest-bearing checking accounts, savings accounts and savings certificates, funded 62 percent and 61 percent of the Company's average total assets in 1985 and 1984, respectively.

Noninterest income was $395.7 million in 1985, compared with $270.6 million in 1984. Noninterest income in 1985 included a gain on the sale of a mortgage banking subsidiary of $50.2 million and investment securities gains of $55.5 million. Investment securities gains were $3.0 million in 1984. Noninterest expense of $943.8 million in 1985 was up 6 percent compared with 1984.

The Company's provision for loan losses was $371.8 million in 1985, compared with $194.6 million in 1984. During 1985, net charge-offs were $211.6 million, or .90 percent of average loans, compared with $133.3 million, or .62 percent of average loans, during 1984. The allowance for loan losses increased to 1.70 percent of total loans at the end of 1985, compared with 1.14 percent at the end of 1984.

**TABLE 1**
**SIX-YEAR SUMMARY OF SELECTED FINANCIAL DATA**

| (in millions) | 1985 | 1984 | 1983 | 1982 | 1981 | 1980 | Change 1985/1984 | Five-year compound growth rate |
|---|---|---|---|---|---|---|---|---|
| **INCOME STATEMENT** | | | | | | | | |
| Net interest income | **$ 1,220.2** | $ 1,069.5 | $ 915.0 | $ 821.9 | $ 731.0 | $ 677.6 | 14% | 12% |
| Provision for loan losses | **371.8** | 194.6 | 121.1 | 115.4 | 63.4 | 77.0 | 91 | 37 |
| Noninterest income | **395.7** | 270.6 | 279.5 | 293.9 | 231.3 | 163.3 | 46 | 19 |
| Noninterest expense | **943.8** | 886.6 | 843.7 | 836.6 | 743.5 | 590.8 | 6 | 10 |
| Net income | **190.0** | 169.3 | 154.9 | 138.6 | 124.0 | 121.9 | 12 | 9 |
| **Per common share** | | | | | | | | |
| Net income | **8.30** | 6.85 | 6.03 | 5.81 | 5.33 | 5.33 | 21 | 9 |
| Dividends declared | **2.48** | 2.16 | 1.98 | 1.92 | 1.92 | 1.92 | 15 | 5 |
| **BALANCE SHEET** | | | | | | | | |
| Loans | **$ 24,614.2** | $ 22,893.9 | $ 20,267.6 | $ 19,768.5 | $ 17,977.7 | $ 16,834.2 | 8% | 8% |
| Allowance for loan losses | **417.5** | 260.3 | 199.6 | 190.5 | 153.1 | 141.8 | 60 | 24 |
| Total assets | **29,429.4** | 28,184.1 | 27,017.6 | 24,814.0 | 23,219.2 | 23,638.1 | 4 | 4 |
| Senior debt | **2,129.7** | 1,708.6 | 1,493.7 | 1,335.2 | 968.4 | 765.8 | 25 | 23 |
| Subordinated debt | **2,056.5** | 1,011.7 | 38.8 | 38.8 | 38.8 | 38.8 | 103 | 121 |
| Stockholders' equity | **1,458.0** | 1,343.7 | 1,347.8 | 1,100.4 | 1,020.9 | 913.6 | 9 | 10 |

The ratios of primary capital and total capital to assets also increased over 1984. Primary capital was 7.44 percent of total assets at December 31, 1985, compared with 6.65 percent at the end of 1984. Total capital was 14.53 percent of total assets, compared with 10.39 percent at the end of 1984. The increase in total capital was primarily due to the issuance of $1.0 billion of subordinated debt during 1985.

On February 7, 1986, the Company entered into a definitive stock purchase agreement (Purchase Agreement) with Midland Bank plc (Midland) and certain Midland affiliates providing for the acquisition by the Company of all the issued and outstanding common stock of Crocker National Corporation (Crocker). On the basis of assets of $19.2 billion as of December 31, 1985, Crocker was the 25th largest bank holding company in the United States. It is anticipated that Crocker's wholly-owned subsidiary, Crocker National Bank, will be combined with Wells Fargo Bank, N.A. and operated under the Wells Fargo Bank name.

The base purchase price is $1,080 million and is subject to certain adjustments. Subject to receipt of appropriate regulatory and shareholder approvals, and the fulfillment of certain conditions, the acquisition is expected to close in 1986. There is no assurance as to when or whether such approvals will be obtained and, if obtained, as to what, if any, conditions or restrictions might be imposed. The Purchase Agreement may be terminated by either party if the transaction has not closed on or before December 31, 1987 and in certain other circumstances.

The purchase price is payable in cash and, at the Company's election, common stock of the Company, provided that the number of shares issued to Midland may not exceed the greater of (1) 4.9% of the total number of shares of common stock outstanding at closing of the proposed acquisition (giving effect to the issuance of common stock to Midland) or (2) that number of shares of common stock which has an aggregate value of $75 million.

To meet the requirements for additional primary capital in connection with the proposed acquisition, the Company expects to issue approximately $300 million of common stock, including the stock that may be issued to Midland, approximately $250–$350 million of preferred stock and up to approximately $500 million of debt securities. The amount of equity and debt securities to be issued may change depending on specific plans developed for integrating Crocker's assets as well as on market conditions.

The acquisition will be accounted for as a purchase transaction. Accordingly, the results of operations of Crocker will be included with that of the Company for periods subsequent to the date of acquisition.

An unaudited pro forma condensed combined income statement for 1985 for the Company and Crocker is presented in note 16 to the financial statements on page 42.

The Company's key performance ratios and other selected data are shown in the following table.

**TABLE 2**
**RATIOS AND STATISTICS**

| | Year ended December 31, | | |
|---|---|---|---|
| | 1985 | 1984 | 1983 |
| PROFITABILITY RATIOS | | | |
| Net income to: | | | |
| Average total assets | .67% | .62% | .61% |
| Average stockholders' equity | 13.50 | 12.60 | 12.29 |
| Net income applicable to common stock to average common stockholders' equity | 14.05 | 12.88 | 12.51 |
| CAPITAL RATIOS | | | |
| Year-end balances: | | | |
| Equity to assets | 4.95% | 4.77% | 4.99% |
| Primary capital to assets (1) | 7.44 | 6.65 | 5.68 |
| Total capital to assets (2) | 14.53 | 10.39 | 7.20 |
| Average balances: | | | |
| Equity to assets | 4.93 | 4.93 | 4.95 |
| Primary capital to assets | 7.06 | 6.36 | 5.68 |
| Total capital to assets | 12.57 | 8.44 | 6.97 |
| STATISTICAL SUMMARY | | | |
| Per common share: | | | |
| Dividend payout (3) | 29.88% | 31.53% | 32.84% |
| Book value | $61.87 | $56.21 | $50.15 |
| Market prices (4): | | | |
| High | 64⅝ | 49⅛ | 41¾ |
| Low | 45½ | 31⅜ | 26¼ |
| Year end | 63⅜ | 47⅛ | 39⅝ |
| Other year-end data: | | | |
| Common stockholders (5) | 22,281 | 23,100 | 23,100 |
| Common shares outstanding (in thousands) | 21,139 | 21,235 | 23,882 |
| Company staff (6) | 14,000 | 15,400 | 16,200 |
| Domestic and foreign banking offices | 314 | 337 | 380 |

(1) Based on regulatory concepts, primary capital ($2,217 million at December 31, 1985) is defined as stockholders' equity ($1,458 million), qualifying mandatory convertible debt ($369 million, net of Note Fund discussed on page 33) and allowance for loan losses ($390 million, exclusive of allocated transfer risk reserves discussed on page 16). Assets include unamortized goodwill of $15 million.

(2) Based on regulatory concepts, total capital ($4,333 million at December 31, 1985) is defined as primary capital, certain senior and subordinated debt of the Parent and its nonbank subsidiaries ($2,077 million) and subordinated notes of the Bank ($39 million).

(3) Dividends declared per common share as a percentage of net income per common share.

(4) Based on daily closing prices listed on the New York Stock Exchange Composite Transaction Reporting System.

(5) Based on actual number of holders of record at year end.

(6) Full-time equivalent, excluding hourly employees and unpaid leaves.





## EARNINGS PERFORMANCE

Wells Fargo & Company (Parent) is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Its principal subsidiary is Wells Fargo Bank, N.A. (Bank). In addition, the Parent, through its nonbank subsidiaries, provides equipment lease, real estate and agricultural financing; originates and services real estate loans for investors; advises a real estate investment trust; provides consumer, accounts receivable and inventory financing; and provides credit insurance to borrowers from certain of the Parent's subsidiaries. In the 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. Net income of the Parent increased 12 percent in 1985 to $190.0 million. This increase reflects an after-tax gain of $32.1 million on the sale of a mortgage banking subsidiary in 1985, partially offset by a decline of $18.3 million in equity in earnings of subsidiaries. Net income of the Bank increased 6 percent in 1985 to $162.5 million, including a $25.0 million gain from the sale of a subsidiary to the Parent. This gain was eliminated in consolidation.

Net income of the nonbank subsidiaries, all of which are wholly owned by the Parent, was $17.1 million, down 14 percent from 1984. This decrease was primarily the result of a $10.1 million net loss reported by Wells Fargo Business Credit (WFBC) in 1985, compared with net income of $5.6 million in 1984. The results of operations of WFBC reflected net charge-offs of $26.6 million in 1985 and $.3 million in 1984; contributing to this increase were higher charge-offs of energy-related loans. Partially offsetting the decline in WFBC's earnings was a lower net loss incurred by Wells Fargo Ag Credit of $12.1 million in 1985, compared with a net loss of $23.3 million in 1984. These losses reflected net charge-offs of $11.8 million in 1985 and $28.1 million in 1984.

### INTEREST DIFFERENTIAL AND SPREAD

Net interest income is the difference between interest income (which includes certain loan-related fees) and interest expense. Net interest income was $1,220 million in 1985 and $1,069 million in 1984. The interest differential is interest income on a "taxable-equivalent" basis reduced by interest expense. Interest differential was $1,269 million in 1985, an increase of 13 percent over $1,124 million in 1984. The interest differential expressed as a percentage of average total earning assets is referred to as the "spread," which represents the average net effective rate on earning assets. For 1985, the spread was 4.93%, 27 basis points higher than 1984.

Individual components of interest differential and spread are presented in the rate/yield table on page 10.

Interest income shown in the rate/yield table exceeds that in the consolidated statement of income by the amount of the taxable-equivalent adjustment ($48 million for 1985 and $43 million for 1984). The taxable-equivalent adjustment is based on the 46% federal tax rate and reflects the state tax applicable to income from securities and loans that are exempt from federal taxes. Therefore, such income included in the rate/yield table is comparable with revenue that is fully taxable.

**TABLE 3**
**CONDENSED CONSOLIDATING STATEMENT OF INCOME**

| (in thousands) | Year ended December 31, 1985 | | | | |
|---|---|---|---|---|---|
| | Wells Fargo & Company (Parent) | Wells Fargo Bank, N.A. | Nonbank subsidiaries | Eliminations and reclassifications | Consolidated Wells Fargo & Company |
| Interest income | $ 466,067 | $ 2,492,271 | $ 515,069 | $ (456,460) | $ 3,016,947 |
| Interest expense | 481,851 | 1,426,238 | 382,284 | (456,460) | 1,833,913 |
| Amortized gain on interest rate hedging | — | 37,225 | — | — | 37,225 |
| Net interest income | (15,784) | 1,103,258 | 132,785 | — | 1,220,259 |
| Provision for loan losses | 3,864 | 307,110 | 60,862 | — | 371,836 |
| Net interest income after provision for loan losses | (19,648) | 796,148 | 71,923 | — | 848,423 |
| Equity in earnings of subsidiaries | 154,584 | — | — | (154,584) | — |
| Noninterest income | 68,574 | 334,083 | 53,234 | (60,227) | 395,664 |
| Noninterest expense | 9,045 | 873,433 | 96,504 | (35,227) | 943,755 |
| Income before income tax expense | 194,465 | 256,798 | 28,653 | (179,584) | 300,332 |
| Income tax expense | 4,431 | 94,325 | 11,542 | — | 110,298 |
| Net income | $ 190,034 | $ 162,473 | $ 17,111 | $ (179,584) | $ 190,034 |

WELLS FARGO & COMPANY AND SUBSIDIARIES

## TABLE 4 AVERAGE BALANCES, YIELDS (TAXABLE-EQUIVALENT BASIS) AND RATES PAID

| (in millions) | 1985 | | | 1984 | | | 1983 | | | 1982 | | | 1981 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Average balance | Yields/ rates | Interest income/ expense | Average balance | Yields/ rates | Interest income/ expense | 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 | $ 509 | 9.17% | $ 46.7 | $ 926 | 11.48% | $ 106.3 | $ 1,342 | 10.74% | $ 144.1 | $ 1,756 | 13.80% | $ 242.4 | $ 1,403 | 16.55% | $ 232.2 |
| Investment securities: | | | | | | | | | | | | | | | |
| U.S. Treasury securities | 882 | 9.71 | 85.6 | 641 | 10.85 | 69.5 | 233 | 10.19 | 23.7 | 204 | 10.04 | 20.4 | 440 | 10.40 | 45.7 |
| Securities of other U.S. government agencies and corporations | 20 | 7.70 | 1.6 | 65 | 8.57 | 5.6 | 133 | 8.81 | 11.7 | 215 | 8.96 | 19.2 | 276 | 9.01 | 24.9 |
| Obligations of states and political subdivisions | 162 | 8.78 | 14.2 | 218 | 8.83 | 19.3 | 282 | 8.96 | 25.3 | 476 | 9.15 | 43.6 | 694 | 9.19 | 63.8 |
| Other securities | 289 | 15.12 | 43.6 | 202 | 17.60 | 35.6 | 67 | 16.35 | 11.0 | 35 | 7.56 | 2.7 | 59 | 10.98 | 6.5 |
| Total investment securities | 1,353 | 10.72 | 145.0 | 1,126 | 11.54 | 130.0 | 715 | 10.03 | 71.7 | 930 | 9.24 | 85.9 | 1,469 | 9.59 | 140.9 |
| Trading account securities | 266 | 8.56 | 22.8 | 137 | 10.88 | 14.9 | 111 | 9.39 | 10.4 | 85 | 14.41 | 12.3 | 62 | 16.02 | 9.9 |
| Federal funds sold | 210 | 8.30 | 17.4 | 374 | 10.75 | 40.2 | 233 | 9.53 | 22.2 | 187 | 11.89 | 22.2 | 226 | 16.61 | 37.6 |
| Loans: | | | | | | | | | | | | | | | |
| Commercial, financial, and agricultural | 7,840 | 10.71 | 839.4 | 7,504 | 12.50 | 937.9 | 6,803 | 11.58 | 787.7 | 5,822 | 14.90 | 867.2 | 4,950 | 17.98 | 889.8 |
| Real estate construction-related | 3,746 | 11.38 | 426.2 | 2,721 | 13.60 | 370.0 | 2,194 | 12.68 | 278.2 | 2,166 | 15.30 | 331.4 | 1,890 | 18.98 | 358.7 |
| Real estate mortgage (1) | 4,760 | 11.10 | 528.3 | 4,980 | 11.17 | 556.3 | 4,962 | 11.14 | 552.9 | 5,634 | 11.16 | 628.5 | 5,669 | 10.92 | 618.9 |
| Consumer (1) | 3,690 | 14.74 | 544.0 | 2,671 | 15.16 | 404.9 | 2,190 | 14.63 | 320.3 | 1,761 | 15.01 | 264.4 | 2,026 | 14.52 | 294.1 |
| Lease financing | 915 | 14.20 | 130.0 | 872 | 13.88 | 121.1 | 914 | 14.27 | 130.5 | 902 | 14.82 | 133.7 | 770 | 13.14 | 101.2 |
| Foreign | 2,427 | 11.28 | 273.7 | 2,834 | 13.09 | 371.0 | 2,839 | 11.90 | 337.8 | 2,302 | 15.63 | 359.7 | 2,074 | 18.08 | 375.0 |
| Fees and sundry interest | — | — | 91.8 | — | — | 92.1 | — | — | 96.4 | — | — | 85.1 | — | — | 68.5 |
| Total loans (2) | 23,378 | 12.12 | 2,833.4 | 21,582 | 13.22 | 2,853.3 | 19,902 | 12.58 | 2,503.8 | 18,587 | 14.36 | 2,670.0 | 17,379 | 15.57 | 2,706.2 |
| Total earning assets | $ 25,716 | 11.92 | 3,065.3 | $ 24,145 | 13.02 | 3,144.7 | $ 22,303 | 12.34 | 2,752.2 | $ 21,545 | 14.08 | 3,032.8 | $ 20,539 | 15.22 | 3,126.8 |
| **FUNDING SOURCES** | | | | | | | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | | | | | | | |
| Deposits: | | | | | | | | | | | | | | | |
| Savings deposits | $ 1,381 | 5.50 | 75.9 | $ 1,507 | 5.51 | 83.1 | $ 1,768 | 5.29 | 93.6 | $ 2,428 | 5.33 | 129.5 | $ 2,898 | 5.31 | 154.0 |
| NOW accounts | 1,429 | 5.12 | 73.1 | 1,376 | 5.10 | 70.2 | 1,270 | 5.18 | 65.7 | 1,272 | 5.17 | 65.8 | 566 | 5.00 | 28.3 |
| Market rate checking | 326 | 5.75 | 18.7 | 287 | 6.89 | 19.8 | 225 | 6.98 | 15.7 | — | — | — | — | — | — |
| Market rate savings | 5,327 | 6.63 | 353.0 | 4,742 | 8.51 | 403.4 | 4,577 | 8.35 | 382.3 | 330 | 9.43 | 31.2 | — | — | — |
| Savings certificates | 5,920 | 9.24 | 547.2 | 5,343 | 10.73 | 573.3 | 4,295 | 10.46 | 449.3 | 5,787 | 12.86 | 744.1 | 5,105 | 13.95 | 712.0 |
| Certificates of deposit | 278 | 13.94 | 38.8 | 414 | 14.06 | 58.2 | 640 | 13.94 | 89.3 | 1,012 | 14.15 | 143.3 | 1,382 | 15.03 | 207.8 |
| Other time deposits | 265 | 9.98 | 26.4 | 697 | 11.00 | 76.6 | 679 | 9.96 | 67.6 | 1,125 | 12.82 | 144.1 | 1,093 | 15.23 | 166.4 |
| Deposits in foreign offices | 1,135 | 9.88 | 112.2 | 1,820 | 11.46 | 208.7 | 1,966 | 11.16 | 219.3 | 2,140 | 14.13 | 302.4 | 2,652 | 16.16 | 428.6 |
| Total interest-bearing deposits | 16,061 | 7.75 | 1,245.3 | 16,186 | 9.23 | 1,493.3 | 15,420 | 8.97 | 1,382.8 | 14,094 | 11.07 | 1,560.4 | 13,696 | 12.39 | 1,697.1 |
| Funds borrowed | 1,321 | 7.62 | 100.7 | 1,070 | 10.01 | 107.2 | 1,171 | 8.78 | 102.9 | 1,315 | 12.84 | 168.8 | 1,313 | 17.40 | 228.4 |
| Commercial paper | 1,951 | 8.23 | 160.5 | 2,139 | 10.56 | 225.8 | 1,720 | 9.15 | 157.3 | 2,421 | 12.48 | 302.1 | 1,952 | 16.54 | 323.1 |
| Senior and subordinated debt: | | | | | | | | | | | | | | | |
| Senior debt | 1,797 | 10.64 | 191.1 | 1,441 | 12.08 | 174.1 | 1,141 | 12.78 | 145.8 | 1,051 | 12.48 | 131.2 | 787 | 11.08 | 87.2 |
| Subordinated debt | 1,562 | 8.73 | 136.3 | 385 | 10.28 | 39.5 | 39 | 4.54 | 1.8 | 39 | 4.54 | 1.8 | 39 | 4.54 | 1.8 |
| Total senior and subordinated debt | 3,359 | 9.75 | 327.4 | 1,826 | 11.70 | 213.6 | 1,180 | 12.52 | 147.6 | 1,090 | 12.20 | 133.0 | 826 | 10.78 | 89.0 |
| Total interest-bearing liabilities | 22,692 | 8.08 | 1,833.9 | 21,221 | 9.61 | 2,039.9 | 19,491 | 9.19 | 1,790.6 | 18,920 | 11.44 | 2,164.3 | 17,787 | 13.14 | 2,337.6 |
| Portion of noninterest-bearing funding sources | 3,024 | — | — | 2,924 | — | — | 2,812 | — | — | 2,625 | — | — | 2,752 | — | — |
| Total funding sources | $ 25,716 | 7.13 | 1,833.9 | $ 24,145 | 8.45 | 2,039.9 | $ 22,303 | 8.03 | 1,790.6 | $ 21,545 | 10.05 | 2,164.3 | $ 20,539 | 11.38 | 2,337.6 |
| Amortized gain on interest rate hedging | | | 37.2 | | | 19.4 | | | 3.2 | | | 6.7 | | | .4 |
| **Spread and interest differential** | | 4.93% | $ 1,268.6 | | 4.66% | $ 1,124.2 | | 4.33% | $ 964.8 | | 4.06% | $ 875.2 | | 3.85% | $ 789.6 |
| **NONINTEREST-EARNING ASSETS** | | | | | | | | | | | | | | | |
| Cash and due from banks | $ 1,639 | | | $ 1,712 | | | $ 1,713 | | | $ 1,712 | | | $ 1,853 | | |
| Other (3) | 1,214 | | | 1,376 | | | 1,422 | | | 1,561 | | | 1,814 | | |
| Total noninterest-earning assets | $ 2,853 | | | $ 3,088 | | | $ 3,135 | | | $ 3,273 | | | $ 3,667 | | |
| **NONINTEREST-BEARING FUNDING SOURCES** | | | | | | | | | | | | | | | |
| Deposits | $ 3,366 | | | $ 3,422 | | | $ 3,420 | | | $ 3,380 | | | $ 3,644 | | |
| Other liabilities | 1,103 | | | 1,247 | | | 1,267 | | | 1,459 | | | 1,811 | | |
| Stockholders' equity | 1,408 | | | 1,343 | | | 1,260 | | | 1,059 | | | 964 | | |
| Noninterest-bearing funding sources used to fund earning assets | (3,024) | | | (2,924) | | | (2,812) | | | (2,625) | | | (2,752) | | |
| Total net noninterest-bearing funding sources | $ 2,853 | | | $ 3,088 | | | $ 3,135 | | | $ 3,273 | | | $ 3,667 | | |
| **TOTAL ASSETS** | $ 28,569 | | | $ 27,233 | | | $ 25,438 | | | $ 24,818 | | | $ 24,206 | | |

(1) Effective January 1, 1983, second mortgages and other junior lien loans to individuals that are secured by 1–4 family residential properties have been classified as consumer loans. In prior periods, portions of these balances were included in both the real estate mortgage loan and consumer loan categories. The 1983 average consumer loan balance included approximately $501 million that was previously classified as real estate mortgage loans. Periods prior to 1983 have not been reclassified for this change as complete information is not available.

(2) Nonaccrual and restructured loans and related income are included in their respective loan categories.

(3) Includes the average allowance for loan losses of $336 million, $222 million, $197 million, $162 million and $152 million in 1985, 1984, 1983, 1982 and 1981, respectively.

Growth in earning assets, especially in relatively high-yielding loan categories, contributed to the improvement in interest differential in 1985. Loan volume averaged $23.4 billion during 1985, up 8 percent over 1984, primarily because of 38 percent increases in both real estate construction-related and consumer loans. Additional discussion of changes in the loan portfolio appears on page 15.

The change in the mix of earning assets, as well as more favorable relationships between lending and deposit rates, contributed to the 27 basis point improvement in spread. The yield on both average total loans and average total earning assets decreased 110 basis points in 1985, while the rate paid on average total funding sources decreased 132 basis points. The rate paid on interest-bearing deposits, the largest funding source, declined 148 basis points. Deposit balances are discussed beginning on page 19. In addition, the 1985 increase in amortized gain on interest rate hedging contributed 5 basis points to the improvement in spread. The use of interest rate futures, which is discussed more fully on page 21, resulted in an amortized gain on interest rate hedging of $37.2 million in 1985 and $19.4 million in 1984.

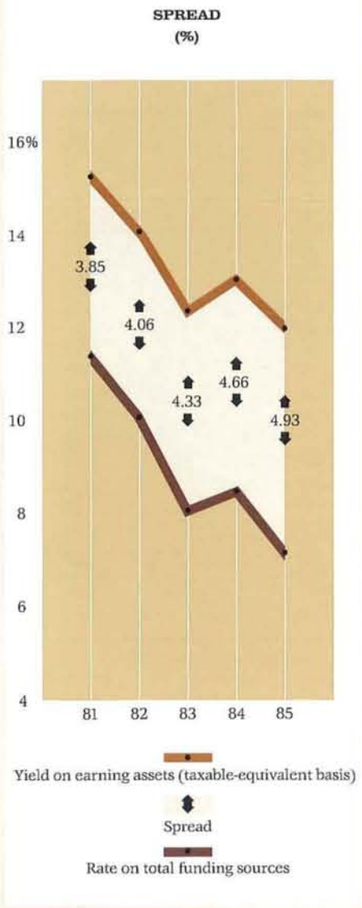
A schedule of loan fees and sundry interest is presented below.

**TABLE 5**

**LOAN FEES AND SUNDRY INTEREST**

| (in millions) | Year ended December 31, | | |
|---|---|---|---|
| | 1985 | 1984 | 1983 |
| LOAN FEES | | | |
| Commercial, financial, and agricultural | $ 28.1 | $30.2 | $30.5 |
| Real estate construction-related | 4.9 | 10.7 | 6.6 |
| Real estate mortgage | 4.5 | 7.6 | 18.5 |
| Monthly payment | 10.3 | 8.4 | 9.3 |
| Credit card | 31.6 | 23.1 | 15.7 |
| Other revolving credit | 2.5 | 2.1 | .9 |
| Lease financing | 1.9 | 1.4 | 2.8 |
| Foreign | 1.1 | 1.7 | 3.6 |
| Sundry interest | 6.9 | 6.9 | 8.5 |
| Total | $ 91.8 | $ 92.1 | $96.4 |

While total loan fees and sundry interest were essentially unchanged in 1985 compared with 1984, there were significant changes in the composition of the total from year to year. Most of the 54 percent decrease in real estate construction-related loan fees in 1985 was due to lower fees earned on income participation loans. Real estate mortgage loan fees decreased 41 percent in 1985, primarily as a result of the sale of Wells Fargo Mortgage Company, discussed on page 13. Credit card fees increased 37 percent over 1984, primarily due to increases in the number of cardholder accounts in 1985 and late 1984. Sundry interest principally consists of interest recovered on charged off loans.








## NONINTEREST INCOME

The table below shows the major components of noninterest income.

**TABLE 6**

**NONINTEREST INCOME**

| (in millions) | Year ended December 31, | | | Percentage change | |
|---|---|---|---|---|---|
| | 1985 | 1984 | 1983 | 1985/ 1984 | 1984/ 1983 |
| Service charges on deposit accounts | $ 109.0 | $ 95.2 | $ 85.5 | 14% | 11% |
| Domestic fees and commissions | 88.2 | 75.4 | 58.0 | 17 | 30 |
| Investment securities gains | 55.5 | 3.0 | .5 | — | 463 |
| Trust and investment services income | 55.1 | 51.2 | 56.4 | 8 | (9) |
| International fees, commissions and foreign exchange | 17.7 | 20.7 | 30.1 | (14) | (31) |
| Trading account profits (losses) and commissions | 13.3 | 3.8 | (.7) | 251 | — |
| Sale of a mortgage banking subsidiary | 50.2 | — | — | — | — |
| Sale of major real estate holding | — | — | 10.0 | — | — |
| All other | 6.7 | 21.3 | 39.7 | (69) | (46) |
| Total | $ 395.7 | $ 270.6 | $ 279.5 | 46 | (3) |

The Company recognized a pretax gain of $50.2 million ($32.1 million after tax) on the sale of Wells Fargo Mortgage Company (WFMC) in the first quarter of 1985. 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. In addition to the Bank's residential mortgages, WFMC serviced mortgages held by other investors. WFMC's residential mortgage banking business had assets of approximately $125 million and serviced approximately $6 billion of residential mortgages. The Company continues to conduct its commercial mortgage banking business.

The improvement in 1985 compared with 1984 in service charges on deposit accounts reflected fee increases implemented during 1985.

The increase in domestic fees and commissions in 1985 compared with 1984 was primarily due to higher domestic loan syndication fees, letter of credit fees, credit card merchant fees and real estate brokerage commissions. These increases were partially offset by lower mortgage servicing fees due to the sale of WFMC. The largest component of domestic fees and commissions was credit card merchant fees, which were $19.2 million and $15.0 million in 1985 and 1984, respectively.

Investment securities gains in 1985 primarily resulted from sales of U.S. Treasury securities. The decrease in international fees, commissions and foreign exchange in 1985 was primarily due to a decrease in letter of credit fees, partially offset by an increase in foreign exchange trading income. Most of the 1985 over 1984 increase in trading account profits and commissions was due to gains from an arbitrage program.

Most of the decrease in "all other" income in 1985 compared with 1984 resulted from the recognition in 1985 of $11.6 million in net closing costs associated with restructuring the Company's international activities. In addition, the decrease reflected a $5.8 million decline in income from investments accounted for using the equity method, partially offset by a $5.5 million increase in gains on sales of various branches and premises.

In connection with the restructuring of international activities, the Company closed in 1985 its London branch, the New York office of its Edge Act subsidiary (Wells Fargo Bank International) and representative offices in Madrid, Manila, Taipei, Bangkok, Jakarta and Kuala Lumpur. Also, the Company sold its branch in Milan. Four Asian offices have been retained: the Hong Kong, Tokyo and Seoul branches and the Singapore representative office. The San Francisco headquarters and the Asian branches will continue to engage in foreign exchange activities. In addition, the Company has retained its four Latin American representative offices and its merchant banking subsidiary in the Cayman Islands. The restructuring focuses the Company's international resources on providing domestic and international trade services to customers in the West.

## NONINTEREST EXPENSE

The table below shows the major components of noninterest expense.

**TABLE 7**

**NONINTEREST EXPENSE**

| (in millions) | Year ended December 31, | | | Percentage change | |
|---|---|---|---|---|---|
| | 1985 | 1984 | 1983 | 1985/ 1984 | 1984/ 1983 |
| Salaries | $ 414.5 | $ 405.8 | $ 395.0 | 2% | 3% |
| Employee benefits | 99.5 | 83.5 | 88.7 | 19 | (6) |
| Net occupancy | 87.8 | 81.7 | 78.8 | 8 | 4 |
| Equipment | 75.9 | 74.2 | 68.3 | 2 | 9 |
| Postage, stationery and supplies | 39.9 | 39.6 | 40.2 | 1 | (2) |
| Telephone and telegraph | 31.8 | 27.7 | 26.8 | 15 | 4 |
| Professional services | 22.3 | 19.8 | 17.6 | 12 | 12 |
| Contract services | 18.9 | 21.3 | 17.1 | (11) | 25 |
| Advertising | 18.3 | 17.1 | 16.8 | 7 | 2 |
| Travel and entertainment | 17.4 | 19.0 | 18.1 | (8) | 5 |
| Operating losses | 14.9 | 9.5 | 7.4 | 57 | 28 |
| Outside data processing | 14.5 | 13.1 | 13.2 | 11 | (1) |
| Federal deposit insurance | 13.8 | 12.3 | 11.7 | 12 | 5 |
| Other real estate | 12.6 | 3.7 | (.4) | 246 | — |
| Protection | 9.3 | 9.1 | 9.5 | 2 | (4) |
| All other | 52.4 | 49.2 | 34.9 | 6 | 41 |
| Total | $ 943.8 | $ 886.6 | $ 843.7 | 6 | 5 |

Salary expense, which includes wages of hourly employees, was up 2 percent compared with the prior year. Growth in salary expense was restrained by the sale of WFMC and

closing of offices. Domestic and foreign banking offices declined to 314 at year-end 1985, from 337 at year-end 1984.

Employee benefits expense increased in 1985 compared with 1984, primarily due to an increase in retirement plan expense. Effective January 1, 1985, the Company changed its retirement plan from a defined benefit plan to a defined contribution plan. The former plan was overfunded at mid-1984; therefore, no retirement plan expense accrual or contribution was necessary for the last half of 1984. Additional discussion of the Company's retirement plans is presented in note 9 to the financial statements beginning on page 35.

Most of the increase in operating losses in 1985 compared with 1984 resulted from credit card operating losses.

The 1985 over 1984 increase in net costs related to other real estate primarily resulted from the operation and reappraisal of real estate obtained in settlement of troubled agricultural- and energy-related loans.

## INCOME TAXES

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

In management's opinion, the effective income tax rate is not indicative of the Company's true economic tax burden, because the rate computation does not include all the relevant financial characteristics of tax-sensitive transactions.

For a more complete discussion of income taxation, refer to note 10 to the financial statements beginning on page 36.

## BALANCE SHEET ANALYSIS

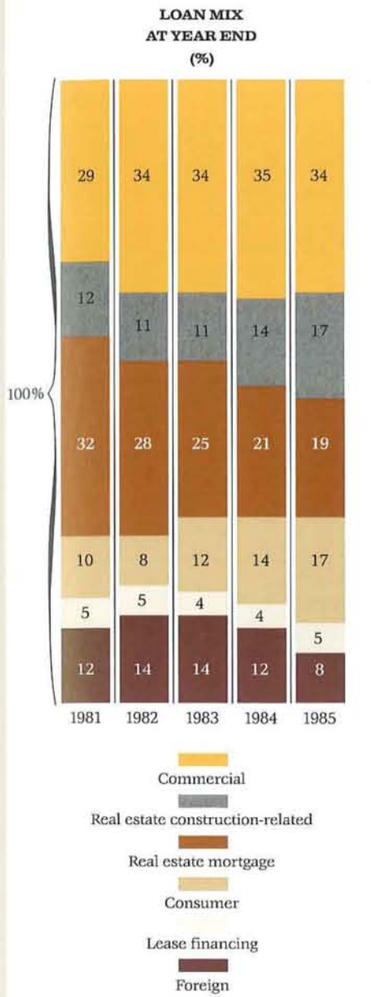
A condensed consolidating balance sheet of the Parent and its subsidiaries is shown in Table 8. Total assets of the Parent were up 36 percent at December 31, 1985 compared with year-end 1984, reflecting increases in investment securities and intercompany loans and advances, which were primarily funded by the issuance of senior and subordinated debt. The Bank's total assets declined 2 percent. Combined total assets of the nonbank subsidiaries increased 15 percent, primarily due to growth in consumer and commercial loans of Wells Fargo Credit Corporation and in real estate construction-related loans of Wells Fargo Realty Advisors.

**TABLE 8** **CONDENSED CONSOLIDATING BALANCE SHEET**

| (in thousands) | | | | | December 31, 1985 |
|---|---|---|---|---|---|
| | Wells Fargo & Company (Parent) | Wells Fargo Bank, N.A. | Nonbank subsidiaries | Eliminations and reclassifications | Consolidated Wells Fargo & Company |
| ASSETS | | | | | |
| Cash and due from banks | $ 1,455 | $ 1,393,138 | $ 63,912 | $ (56,343) | $ 1,402,162 |
| Interest-earning deposits | 200,000 | 534,511 | 216 | (200,216) | 534,511 |
| Investment securities | 1,242,793 | 435,697 | 17,580 | — | 1,696,070 |
| Trading account securities | — | 146,658 | — | — | 146,658 |
| Federal funds sold | — | 39,650 | — | — | 39,650 |
| Net loans | 70,043 | 19,792,124 | 4,334,486 | — | 24,196,653 |
| Investment in subsidiaries | 1,622,848 | — | — | (1,622,848) | — |
| Intercompany loans and advances | 4,565,406 | 14,000 | 252,500 | (4,831,906) | — |
| Other assets | 206,196 | 1,165,182 | 165,269 | (122,957) | 1,413,690 |
| Total assets | $ 7,908,741 | $ 23,520,960 | $ 4,833,963 | $ (6,834,270) | $ 29,429,394 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Deposits | $ — | $ 19,757,859 | $ — | $ (256,559) | $ 19,501,300 |
| Borrowings | 6,038,100 | 1,214,039 | 279,293 | — | 7,531,432 |
| Intercompany borrowings | 264,000 | 600,775 | 3,967,131 | (4,831,906) | — |
| Other liabilities | 148,681 | 579,932 | 333,046 | (122,957) | 938,702 |
| Total liabilities | 6,450,781 | 22,152,605 | 4,579,470 | (5,211,422) | 27,971,434 |
| Paid-in capital and retained earnings | 1,464,880 | 1,375,275 | 254,493 | (1,629,768) | 1,464,880 |
| Equity adjustment from foreign currency translation | (6,920) | (6,920) | — | 6,920 | (6,920) |
| Total stockholders' equity | 1,457,960 | 1,368,355 | 254,493 | (1,622,848) | 1,457,960 |
| Total liabilities and stockholders' equity | $ 7,908,741 | $ 23,520,960 | $ 4,833,963 | $ (6,834,270) | $ 29,429,394 |








## INVESTMENT SECURITIES

Investment securities were $1.7 billion at December 31, 1985, a 56 percent increase over 1984. The increase was primarily the result of a net increase of $497 million in U.S. Treasury securities. Note 3 to the financial statements on page 30 shows the composition of the investment portfolio by type of issuer.

## LOAN PORTFOLIO

A comparative schedule of year-end loans is presented in note 4 to the financial statements on page 30. A comparative schedule of average loan balances is presented in the rate/yield table on page 10. The average balances of both the real estate construction-related and consumer loan categories increased 38 percent in 1985 compared with 1984. Average foreign loans decreased 14 percent.

The increase in real estate construction-related loans, which generally have maturities of five years or less, was broadly based and resulted primarily from loans made to finance commercial properties. Growth in credit card activity and real estate junior lien mortgage loans accounted for most of the increase in consumer loans. Credit card loans averaged $1.1 billion during 1985, an increase of 67 percent over 1984; real estate junior lien mortgage loans averaged $1.4 billion, an increase of 27 percent. Credit card loan growth was due to origination of new cardholder accounts and line increases to existing accounts. There were 1.2 million cardholder accounts at year-end 1985, an increase of 14 percent over year-end 1984. The decrease in foreign loans reflected a general reduction and realignment of the Company's international activities. Average commercial, financial, and agricultural (commercial) loans were 4 percent higher in 1985 compared with 1984, reflecting an increase in corporate commercial lending, partially offset by a reduction in loans to financial institutions.

Included in the commercial portfolio were agricultural loans of approximately $700 million at December 31, 1985 and 1984. Agricultural loans include loans to finance agricultural production, fisheries and forestries and other loans to farmers. Agricultural loans that are secured by real estate are included in real estate mortgage loans; such loans were $125 million and $102 million at December 31, 1985 and 1984, respectively.

## NONACCRUAL LOANS, RESTRUCTURED LOANS AND OTHER REAL ESTATE

Table 9 presents comparative data for nonaccrual loans, restructured loans and other real estate (ORE). In 1985, the most significant increase in nonaccruals occurred in agricultural loans included in the commercial portfolio. Foreign nonaccruals decreased at December 31, 1985 compared with 1984, reflecting the return to accrual status of loans to certain borrowers in Argentina and charge-offs of Mexican private sector loans, partially offset by increases in nonaccrual loans to borrowers in Brazil and Peru.

The increase in ORE at December 31, 1985 compared with 1984 was primarily due to properties acquired in settlement of agricultural-related loans.

Note 1 to the financial statements on page 28 describes the Company's policies relating to nonaccrual loans and other real estate. 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. 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.

Loans contractually past due 90 days or more as to interest or principal, but not included in the nonaccrual or restructured categories, were $147.6 million at December 31, 1985, compared with $93.7 million at December 31, 1984. The 1985 increase was primarily due to increases in past due credit card and agricultural loans. All loans in this category are both well secured and in the process of collection or are 1–4 family residential real estate loans or consumer loans that are exempt under regulatory rules from being classified as nonaccrual.

**TABLE 9**

**NONACCRUAL LOANS, RESTRUCTURED LOANS AND OTHER REAL ESTATE**

| (in millions) | December 31, | | | | |
|---|---|---|---|---|---|
| | 1985 | 1984 | 1983 | 1982 | 1981 |
| Commercial, financial, and agricultural (1) | $463.0 | $382.4 | $379.1 | $249.8 | $130.3 |
| Real estate construction-related | 51.0 | 26.2 | 57.9 | 146.6 | 155.7 |
| Real estate mortgage (2) | 49.5 | 43.7 | 15.6 | 17.5 | 6.1 |
| Consumer | 3.6 | .6 | 8.3 | 1.6 | 5.6 |
| Lease financing | 9.5 | 14.4 | 11.1 | 17.0 | 1.7 |
| Foreign (3) | 194.8 | 249.9 | 236.4 | 107.9 | 44.7 |
| Total | $771.4 | $717.2 | $708.4 | $540.4 | $344.1 |
| Restructured loans | $ 18.4 | $ 17.4 | $ 40.2 | $ 20.7 | $ 93.9 |
| Nonaccrual and restructured loans as a percentage of total loans | 3.2% | 3.2% | 3.7% | 2.8% | 2.4% |
| Other real estate (ORE) (4) | $ 169.3 | $ 87.6 | $ 77.7 | $ 58.4 | $ 27.1 |
| Nonaccrual and restructured loans and ORE as a percentage of total loans and ORE | 3.9% | 3.6% | 4.1% | 3.1% | 2.6% |

(1) Includes agricultural loans of $180 million and $64 million at December 31, 1985 and 1984, respectively.

(2) Includes agricultural loans secured by real estate of $24 million and $22 million at December 31, 1985 and 1984, respectively.

(3) Includes loans (all private sector) of $16 million, $39 million and $61 million in Mexico and $13 million, $19 million and $68 million in Venezuela at December 31, 1985, 1984 and 1983, respectively. Also includes $15 million of loans (all private sector) in Brazil at December 31, 1985.

(4) Includes agricultural-related properties of $94 million and $46 million at December 31, 1985 and 1984, respectively.

## 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 on page 31. At December 31, 1985, the allowance for loan losses as a percentage of total loans was 1.70 percent, compared with 1.14 percent at December 31, 1984.

The Company considers the allowance for loan losses of $417.5 million adequate to cover losses inherent in the loans outstanding at December 31, 1985. It must be emphasized, however, that the determination of the adequacy of the allowance rests upon various judgments and assumptions about future economic conditions and other factors affecting loans. No assurance can be given that the Company will not in any particular period sustain loan losses 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.

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." Included in the allowance at December 31, 1985 and 1984 are allocated transfer risk reserves of $27.6 million and $6.0 million, respectively.

The provision for loan losses in 1985 was $371.8 million, compared with $194.6 million in 1984. The amount of the provision is dependent upon the amount that management believes is required to maintain the allowance at an appropriate level after net charge-offs. During 1985, net charge-offs were $211.6 million, compared with $133.3 million in 1984. As a percentage of average loans outstanding, net charge-offs were .90 percent in 1985 and .62 percent in 1984. The increase in net charge-offs in the commercial loan portfolio reflected higher charge-offs of energy-related loans, partially offset by a decline in charge-offs of agricultural loans. The increase in net charge-offs for credit card and related plans reflected significant growth in credit card loans as well as a higher ratio of charge-offs to average credit card loans.

Net charge-offs of agricultural-related loans (included in both the commercial and real estate mortgage loan portfolios) were $36.7 million in 1985 and $45.9 million in 1984.

Management has established Company-wide charge-off policies. Loans are charged off when classified as a loss by either internal loan examiners or regulatory examiners. Additionally, any loan that is past due as to principal or interest and that is not both well secured and in the process of collection is charged off after a predetermined period of time that is based on loan category.





## CROSS-BORDER OUTSTANDINGS

The following table shows the Company's cross-border outstandings to borrowers in individual countries that accounted for .75 percent or more of total assets at December 31, 1985, 1984 or 1983. Outstandings are defined as loans, interest-earning time deposits with other banks, other interest-earning investments, accrued interest receivable, acceptances and other monetary assets that are denominated in dollars or other nonlocal currency. Country distributions are based on the location of the obligor or investment, except (1) for cross-border outstandings guaranteed by a third party, in which case the country is that of the guarantor, and (2) when tangible liquid collateral is held outside the foreign country, in which case the country is that in which the collateral is located. Loans made or deposits placed with the branch of a bank outside the bank's home country are considered outstandings of the home country.

**TABLE 10**

**CROSS-BORDER OUTSTANDINGS AT YEAR END**

| (in millions) | Governments and official institutions (1) | Banks and other financial institutions | Commercial and industrial | Total |
|---|---|---|---|---|
| Mexico (2) | | | | |
| 1985 | $352 | $ 45 | $209 | $606 |
| 1984 | 343 | 52 | 268 | 663 |
| 1983 | 312 | 56 | 287 | 655 |
| Brazil | | | | |
| 1985 | 356 | 235 | 12 | 603 |
| 1984 | 269 | 335 | 13 | 617 |
| 1983 | 209 | 347 | 12 | 568 |
| Venezuela | | | | |
| 1985 | 117 | 43 | 99 | 259 |
| 1984 | 121 | 44 | 111 | 276 |
| 1983 | 125 | 44 | 110 | 279 |
| Japan | | | | |
| 1985 | — | 292 | 65 | 357 |
| 1984 | — | 360 | 60 | 420 |
| 1983 | — | 242 | 65 | 307 |
| Italy | | | | |
| 1985 | 37 | 41 | 3 | 81 |
| 1984 | 106 | 135 | 24 | 265 |
| 1983 | 105 | 103 | 34 | 242 |
| United Kingdom | | | | |
| 1985 | 5 | 11 | 22 | 38 |
| 1984 | 6 | 17 | 20 | 43 |
| 1983 | 12 | 394 | 47 | 453 |

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

(2) The Company also had approximately $39 million, $28 million and $32 million in 1985, 1984 and 1983, respectively, of standby letters of credit in support of Mexican entities, all of which were in the private sector. Standby letters of credit in support of entities in other Latin American countries were not significant.

The remainder of the Company's foreign outstandings was spread among 45, 55 and 68 countries at December 31, 1985, 1984 and 1983, respectively. At December 31, 1985, the Company did not have outstandings equaling or exceeding .25 percent of total assets in any of these countries, except for Argentina ($133 million), Chile ($104 million), Korea ($98 million) and Peru ($75 million).

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

As has been widely reported, various foreign countries have experienced serious economic and/or political difficulties in meeting scheduled payments of interest and principal on their debt. In the event of further deterioration in these countries, additional loans may be placed on nonaccrual status, reserved for or charged off under Company policies and bank regulatory requirements. In late 1985 and early 1986, there was a significant decline in the worldwide price of oil. It is possible that declining oil revenue of oil-exporting countries, such as Mexico and Venezuela, may result in new borrowing requirements from commercial banks and concessionary interest rates on existing and new debt.

**MEXICO** Cross-border outstandings to the Mexican government and official institutions (public sector) increased by $9 million during 1985. This increase was the result of the following activity: a public entity's assumption of $10 million of existing private sector Mexican loans, the Company's disbursement of the final $9 million of its $36 million participation in the 1984 $3.8 billion term loan facility to the Mexican government, principal payments received of $4 million and a $6 million decrease in accrued interest receivable. Accrued interest receivable decreased from $9 million at December 31, 1984 to $3 million at December 31, 1985. During 1985, the Company received $39 million of interest payments and accrued $33 million of interest income. There was no other significant revenue from Mexican public sector borrowers reported as income during the year. At December 31, 1985, there were no loans to public sector borrowers on nonaccrual status.

In September 1984, a proposal to reschedule certain Mexican public sector debt falling due between 1985 and 1991 was announced. The proposal included extension of some maturities, changes in loan pricing and prepayments of other existing debt.

Under the terms of the proposal, certain Mexican public sector debt existing before 1983 and originally due between 1982 and 1991 would be rescheduled through 1998 and, effective January 1, 1985, interest rates applicable to the Company's portion of this debt would be as follows: ⅞% over the London Interbank Offered Rate (LIBOR) for dollar deposits for the period 1985–1986, 1⅛% over LIBOR for the period 1987-1991 and 1¼% over LIBOR for the period 1992-1998. In

March 1985, documents were signed by the Company and other banks to amend the existing rescheduling agreements for some pre-1983 public sector debt in order to bring them into conformity with the terms of this proposal. These existing agreements had extended the principal of public sector debt (originally falling due between August 1982 and December 1984) to mature between 1987 and 1990. Of the Company's approximately $161 million of public sector loans that originally were due between 1982 and 1984, approximately $122 million was amended as described above. In August 1985, the Company and other creditor banks signed an agreement to reschedule most of the remaining pre-1983 public sector debt that falls due between 1985 and 1991 in accordance with these terms. The Company's share of these 1985-1991 maturities is approximately $130 million.

Another portion of the September 1984 proposal was instituted when the Company and other banks signed agreements in March 1985 to amend a March 1983 $5 billion new money facility. Under the terms of this amendment, the Mexican government was to prepay $1 billion of this loan in October and November 1985, and the remaining principal (scheduled to mature between 1986 and 1990) was extended to a new final maturity of 1994. The $1 billion overall prepayment would reduce the Company's $43 million current balance of this loan by approximately $9 million; the Company's remaining balance of this facility will carry an interest rate of 1⅛% over prime. (The Company's $36 million participation in the above-mentioned 1984 term loan was not amended, because it already carries a final maturity of 1994 and interest of 1⅛ over prime.)

Before the adoption of the September 1984 proposal, the weighted average contractual interest rate for the Company's public sector prime-based loans in Mexico was approximately 1.6% over prime and the weighted average contractual interest rate for its LIBOR-based public sector loans in Mexico was approximately 1.1% over LIBOR. When the terms of the proposal are fully instituted, the contractual rate will be 1⅛% over prime for prime-based loans and the contractual rate will be initially ⅞% over LIBOR (and, thereafter, increasing) for LIBOR-based loans. On the basis of the current interest rate environment, it is estimated that the immediate overall effect of implementing this proposal would be a decline of approximately 150 basis points in the pretax yield of the Company's Mexican public sector portfolio, reflecting the changes in contractual interest rate and the mix of prime- and LIBOR-based loans. The Company believes that the effect of this rescheduling on it will not be material.

In October 1985, the Mexican government requested that its creditor banks defer the above-mentioned $1 billion prepayment of the 1983 facility in light of the recent earthquakes, declining oil revenue and other factors. A six-month extension of these payments was granted. Also in the October communication, the Mexican government estimated that its net new 1986 borrowing requirements from commercial banks would be approximately $2.5 billion. The government and the Mexican Bank Advisory Group have decided to defer further debt discussions pending a clarification of the country's financing requirements and the various financing resources available to meet those requirements.

At December 31, 1985, the Company had $16 million of private sector loans in Mexico on nonaccrual status, and approximately $200 million of loans to private sector Mexican borrowers had been rescheduled under a program administered by the Trust for the Coverage of Exchange Risks ("FICORCA"). This $200 million represents substantially all of the Company's loans to the private sector in Mexico that are expected to be renegotiated under this program.

**BRAZIL** During 1985, the Company had a net decrease in cross-border outstandings to borrowers in Brazil of $14 million, primarily due to a net decrease in loans and acceptances of $11 million. Accrued interest receivable decreased from $13 million at December 31, 1984 to $10 million at December 31, 1985, as the Company received $63 million of interest payments and accrued $60 million of interest income. At December 31, 1985, total Brazilian loans on nonaccrual status were $15 million, all to private sector borrowers.

During 1985, bank creditors of Brazil continued to provide trade and interbank facilities under interim measures recommended by the Bank Advisory Committee for Brazil. In addition, all the 1985 maturities were deferred on an interim basis. Both of these measures were adopted pending finalization of a refinancing package.

The Brazilian government is in the process of completing a draft of its economic program for 1986, which it intends to submit to the International Monetary Fund. It is widely anticipated that submission will be merely on an advisory, and not on an approval, basis. Negotiations with the Bank Advisory Committee on the refinancing of 1985 and subsequent maturities, and on the trade and interbank facilities have resumed. The Brazilian government has asked its foreign creditors to extend the interim measures to March 1986.

**VENEZUELA** In May 1985, an agreement in principle was reached between the Bank Advisory Committee and the Venezuelan government on the terms of a rescheduling of the public sector debt. If such rescheduling is agreed to by all of Venezuela's commercial bank creditors, including the Company, it will provide for the refinancing of all public sector debts falling due between March 22, 1983 and December 31, 1988. The Company's share of such debts is expected to be approximately $150 million. The rescheduling proposal calls for repayment over 11 years through 1997. The Company believes the effect of this rescheduling on it will not be material.





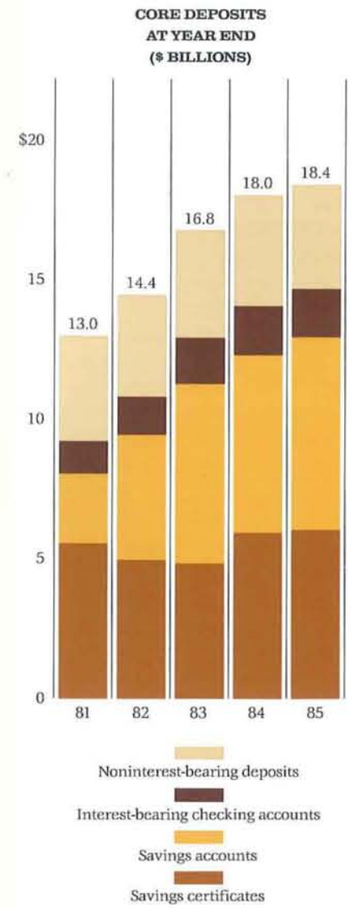
Progress toward a public sector refinancing continues to depend on successful implementation by the Venezuelan government of mechanisms that permit private sector debtors to repay foreign obligations. Successful completion of this process should reduce creditors' private sector loan problems. At December 31, 1985, total Venezuelan loans on nonaccrual status were $13 million, all to private sector borrowers.

**ARGENTINA** At December 31, 1985, the Company had total cross-border outstandings in Argentina of $133 million (.45 percent of total assets), including $32 million of nonaccrual loans, substantially all of which were to private sector borrowers.

In January 1985, the Company converted its Buenos Aires branch into a representative office and transferred certain branch assets and liabilities to a local Argentine bank in which the Company acquired a minority interest.

In June 1985, the Government of Argentina announced a major, new program designed to counter inflation and provide the basis for an improved economy. The program includes a substantial reduction in the public sector deficit, a major reform of the monetary system and a plan to control the escalation of prices and the resulting escalation in wages. In addition, Argentina reached agreement with the management of the International Monetary Fund (IMF) on the performance requirements for the country's financial program. This agreement has enabled Argentina to resume drawings under an IMF 1.4 billion Special Drawings Rights standby facility.

In August 1985, Argentina and its creditor banks signed agreements for the new money and debt rescheduling components of the 1984/85 Financing Plan. This signing was made possible, in part, by Argentina's above-mentioned agreement with the IMF. The Financing Plan calls for each creditor bank to participate in a $4.2 billion long term and trade finance new money facility. The Company's share under this facility is $20 million. During September and November 1985, $3 billion was disbursed under the new money component, of which the Company's net share was $14 million. Of its share, the Company has not yet disbursed $6 million. Under the terms of the debt rescheduling component of the Plan, the public sector loans due for repayment during the period 1982 through 1985 are to be extended to mature during 1992 through 1997; the Company has $18 million outstanding in this category. The Plan also contains a provision for extending 1982 through 1985 private sector maturities to 1992 through 1995. Approximately $25 million of the Company's private sector loans would be included in this rescheduling under the guarantee of the Republic of Argentina. The Company believes that the effect of this rescheduling on it will not be material.




## DEPOSITS

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

**TABLE 11**
**DEPOSITS**

| (in millions) | December 31, 1985 | 1984 |
|---|---|---|
| Noninterest-bearing deposits | $ 3,702.1 | $ 3,921.8 |
| Interest-bearing checking accounts | 1,718.1 | 1,756.3 |
| Savings accounts | 6,876.5 | 6,411.9 |
| Savings certificates | 6,060.8 | 5,913.5 |
| Core deposits | 18,357.5 | 18,003.5 |
| Certificates of deposit | 232.3 | 287.6 |
| Other time deposits | 223.9 | 386.3 |
| Interest-bearing deposits – foreign | 687.6 | 1,523.8 |
| Total deposits | $ 19,501.3 | $ 20,201.2 |

Total deposits were down 3 percent at December 31, 1985 compared with year-end 1984. Declines occurred primarily in interest-bearing foreign deposits, reflecting the Bank's restructuring of international activities. Core deposits increased 2 percent, largely because of growth in market rate savings accounts. The savings accounts category consists of savings deposits as well as market rate savings accounts.

A comparative schedule of average deposit balances is presented in the rate/yield table on page 10. Average total deposits were essentially unchanged in 1985 compared with 1984, despite some change in composition. Significant declines occurred in interest-bearing foreign deposits and other time deposits. Average core deposits increased 6 percent, substantially due to growth in both market rate savings accounts and savings certificates.

Core deposits funded 62 percent and 61 percent of the Company's average total assets in 1985 and 1984, respectively. Core deposits funded 75 percent and 71 percent of the Bank's average total assets in 1985 and 1984, respectively.

## 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, listed on page 19, have provided the Company with a sizable source of relatively stable and low-cost funds. In 1985, the Parent raised $1,777 million from issuances of unsecured debt, composed of subordinated debt of $1,018 million and senior debt of $759 million. During 1985, senior debt of $341 million matured or was redeemed. In 1984, the Parent and a subsidiary issued subordinated debt of $974 million and senior debt of $287 million.

The Company's core deposits, senior and subordinated debt and stockholders' equity, funded 79 percent and 73 percent of its average total assets in 1985 and 1984, respectively. Most of the remaining funding was provided by short-term borrowings, which primarily consisted of commercial paper issued by the Parent, federal funds borrowed by the Bank and sales of securities under repurchase agreements by both the Parent and the Bank. The Parent, in addition to raising funds for its own use, acts as a funding source for the nonbank subsidiaries, borrowing funds in a variety of markets and lending them to the nonbank subsidiaries.

Other sources of liquidity include maturity extensions of short-term borrowings, confirmed lines of credit from banks, sale or runoff of assets and short-term interest-earning deposits. The Company's policy is to extend maturities of short-term borrowings when it is cost-effective to do so and to maintain confirmed lines of credit from a variety of money center, regional and international banks. At December 31, 1985, the Company had $480 million in bank line coverage from unaffiliated banks.

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

Pursuant to shelf registrations filed with the Securities and Exchange Commission, the Parent had registered but unissued debt securities of $352 million at February 20, 1986, of which $150 million was for subordinated debt.

Refer to note 6 to the financial statements beginning on page 32 for a schedule of senior and subordinated debt as of December 31, 1985 and 1984. Information regarding restrictions on subsidiaries transferring funds to the Parent in the form of cash dividends, loans or advances is provided in note 2 to the financial statements on page 29.

To accommodate future growth and current business needs, the Company has a capital expenditure program. Included in 1986 projections for capital expenditures is $66 million for the relocation and remodeling of Company facilities, routine replacement of furniture and equipment and additional automation equipment for branches. The Company will fund these expenditures from various sources, including net income of the Company and borrowings of various maturities.

## CAPITAL ADEQUACY

The Bank and the Parent utilize a variety of leverage measures to evaluate capital adequacy. The capital ratios for 1985, 1984 and 1983, which are shown on page 8, reflect continued strengthening of the Company's capital position. The increase in capital at year-end 1985 compared with 1984 was primarily due to issuance of unsecured subordinated and senior debt and to increases in retained earnings and the allowance for loan losses. The subordinated debt of $1,018 million issued in 1985 included $100 million of mandatory equity notes, which were partially included under regulatory guidelines in primary capital. All of the subordinated debt and $100 million of unsecured senior debt issued in 1985 were included in total capital.

Management reviews the various leverage measures monthly and takes appropriate action to ensure that they are within established internal and external guidelines. Management believes that its current leverage and liquidity positions are strong and exceed guidelines established by industry regulators, and that its capital position is adequate to support its various businesses. Management also monitors the extent and term of standby letters of credit relative to its capital position. At December 31, 1985, standby letters of credit were $1.3 billion, or 58 percent of primary capital.





## ASSET/LIABILITY MANAGEMENT

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 tradeoff between average spreads and the variability of spreads.

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

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

Approximately 80 percent of the Bank's prime loan portfolio is funded by market rate savings and six-month consumer deposits. The Bank uses interest rate futures to shorten the effective maturity of a portion of these deposits to the overnight to three-month range, which management believes will provide more stable and more profitable spreads between prime loans and the rates on those funding sources.

The use of interest rate futures resulted in an amortized gain on interest rate hedging of $37.2 million and $19.4 million in 1985 and 1984, respectively. The 1985 increase in gain offset a decrease in spread between the Bank's prime loan yields and the rates paid on liabilities that fund prime loans.

**TABLE 12**

**INTEREST RATE SENSITIVITY**

| (in billions) Remaining interest rate maturity | Averages for December 1985: Assets | Liabilities and equity | Net assets (liabilities) (column 1 minus column 2) | | Net assets (liabilities) as a percent of total assets | |
|---|---|---|---|---|---|---|
| 1–29 days | $ 2.5 | $ 7.6 | $ (5.1) | | (17.2)% | |
| Prime-based | 9.5 | — | 9.5 | (.9) | 32.1 | (3.0) |
| Market rate savings | — | 5.5 | (5.5) | | (18.6) | |
| 30–179 days | 3.5 | 3.3 | .2 | | .7 | |
| 180–364 days | 1.1 | 1.0 | .1 | | .3 | |
| 1–5 years | 4.5 | 2.1 | 2.4 | | 8.1 | |
| Over 5 years | 3.7 | .5 | 3.2 | .8 | 10.8 | 2.7 |
| Nonmarket | 4.8 | 9.6 | (4.8) | | (16.2) | |
| Total | $ 29.6 | $ 29.6 | | | | |

The preceding table shows the Company's interest-rate sensitivity based on average balances in December 1985. Interest rate sensitivity measures the interval of time before earning assets and interest-bearing liabilities are responsive to changes in market rates of interest. Assets and liabilities are categorized by remaining interest-rate maturities rather than by final 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.

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

The one-year-and-over position has increased to a net asset position of $800 million as of December 1985 (2.7 percent of total assets) from $700 million a year ago (2.5 percent of total assets).

## COMPARISON OF 1984 VERSUS 1983

In 1984, net income was $169.3 million, up 9 percent from $154.9 million in 1983. Net income per share for 1984 was $6.85, compared with $6.03 in 1983.

Interest differential increased 17 percent, from $965 million in 1983 to $1,124 million in 1984, due to an 8 percent growth in average earning assets and a 33 basis point improvement in spread. The improvements in spread and in interest differential were primarily attributable to increases in targeted loan categories and core deposits, favorable funding conditions and management of interest rate risk.

Average loan volume in 1984 was $21.6 billion, an increase of 8 percent over 1983. Contributing to the 10 percent increase in average commercial loans was growth in middle-market loans. The 24 percent increase in real estate construction-related loans was broadly based and resulted primarily from loans made to finance commercial properties. Consumer loans rose 22 percent, reflecting origination of new credit card accounts and line increases to existing accounts.

Average core deposits increased 7 percent to $16.7 billion in 1984, largely because of growth in savings certificates. A schedule of average loan and deposit balances for 1984 and 1983 is shown in the rate/yield table on page 10.

Noninterest income was $270.6 million in 1984, a decrease of 3 percent from $279.5 million in 1983. The 1984 decrease reflected higher gains in 1983 from sales of property in San Francisco, equity securities received in troubled debt restructurings, bank premises and loans, partially offset by a 30 percent increase in domestic fees and commissions.

Noninterest expense increased 5 percent in 1984 to $886.6 million. Salaries increased by less than 3 percent in 1984 while employee benefits expense decreased 6 percent, primarily due to a decrease in retirement plan expense. "All other" expense was up 41 percent in 1984. In 1983, the Company reversed a $9.4 million reserve it had established for possible payments associated with settlement of outstanding tax issues, which had the effect of reducing "all other" expense in 1983.

The allowance for loan losses at the end of 1984 was 1.14 percent of total loans, compared with .98 percent at the end of 1983. The provision for loan losses was $194.6 million in 1984, compared with $121.1 million in 1983. During 1984, net charge-offs were $133.3 million, compared with $111.9 million during 1983. As a percentage of average loans outstanding, net charge-offs were .62 percent in 1984 and .56 percent in 1983. A significant portion of the 1984 increase was attributable to private sector foreign loans, agricultural-related loans and loans to small and mid-size borrowers in a variety of industries.

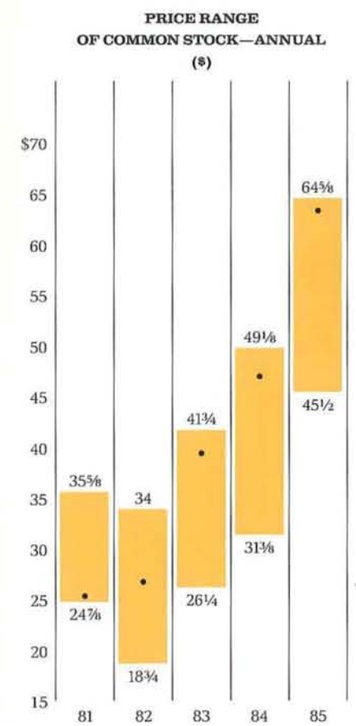
Nonaccrual and restructured loans were $734.6 million, or 3.2 percent of total loans, at December 31, 1984, compared with $748.6 million, or 3.7 percent of total loans, at December 31, 1983. The most significant increase in nonaccruals occurred in agricultural-related loans secured by real estate, which are included in the real estate mortgage portfolio.

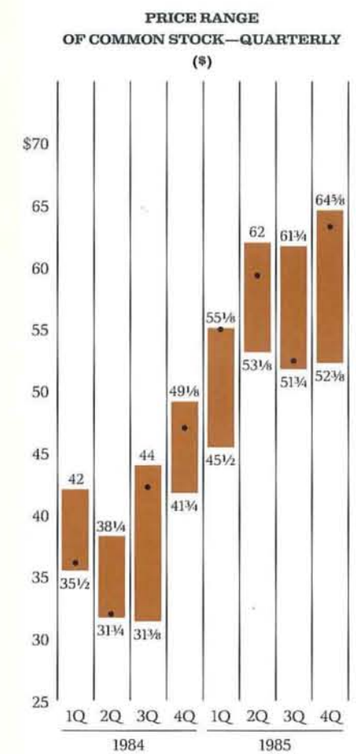
The Company's effective tax rate increased to 35% in 1984, compared with 33% in 1983. The higher 1984 rate primarily resulted from a greater amount of earnings subject to U.S. taxation and a decline in investment tax credits.

The Company's ratio of primary capital to assets was 6.65 percent at December 31, 1984, compared with 5.68 percent at the end of 1983. Total capital was 10.39 percent of assets at December 31, 1984 and 7.20 percent a year earlier. The increases were primarily due to the issuance of unsecured subordinated debt of $974 million during 1984. Of this amount, $300 million was mandatory convertible debt, which qualified as primary capital. The remaining $674 million was included in total capital.








Indicates price at end of year

Indicates price at end of quarter

## GENERAL INFORMATION

Common stock of the Parent is traded on the New York Stock Exchange, the Pacific Stock Exchange, the London Stock Exchange and the Frankfurter Börse. The high, low and closing annual and quarterly prices of the Parent's stock as reported on the New York Stock Exchange Composite Transaction Reporting System are presented in the above graphs. The approximate number of holders of record of the Parent's common stock was 22,100 as of January 31, 1986.

Common dividends declared per share totaled $2.48 in 1985, $2.16 in 1984 and $1.98 in 1983. The Company intends to continue its present policy of paying quarterly cash dividends to stockholders. Future dividends will be determined by the Company's Board of Directors in light of the earnings and financial condition of the Company. In the first quarter of 1985, the common stock quarterly dividend was increased to $.60 per share from $.54 per share and, in the fourth quarter, it was increased to $.68 per share. Information regarding restrictions on the payment of dividends is presented in note 2 to the financial statements on page 29.

In February 1986, the Board of Directors approved an increase in the number of authorized common shares from 50 million to 75 million, subject to stockholder approval.

Information on financial reporting and changing prices is presented on page 45.

# CONSOLIDATED STATEMENT OF INCOME

| (in thousands) | Year ended December 31, 1985 | 1984 | 1983 |
|---|---|---|---|
| **INTEREST INCOME** | | | |
| Loans | $ 2,809,273 | $ 2,830,880 | $ 2,481,086 |
| Interest-earning deposits | 46,664 | 106,309 | 144,094 |
| Investment securities: | | | |
| Taxable | 113,870 | 99,380 | 43,476 |
| Exempt from federal income taxes | 7,389 | 9,937 | 13,075 |
| Trading account securities | 22,308 | 14,841 | 10,365 |
| Federal funds sold | 17,443 | 40,200 | 22,231 |
| Total interest income | 3,016,947 | 3,101,547 | 2,714,327 |
| **INTEREST EXPENSE** | | | |
| Deposits | 1,245,323 | 1,493,267 | 1,382,839 |
| Short-term borrowings | 261,209 | 332,738 | 259,631 |
| Senior and subordinated debt | 327,381 | 225,500 | 160,099 |
| Total interest expense | 1,833,913 | 2,051,505 | 1,802,569 |
| Amortized gain on interest rate hedging | 37,225 | 19,437 | 3,236 |
| **NET INTEREST INCOME** | 1,220,259 | 1,069,479 | 914,994 |
| Provision for loan losses | 371,836 | 194,593 | 121,109 |
| Net interest income after provision for loan losses | 848,423 | 874,886 | 793,885 |
| **NONINTEREST INCOME** | | | |
| Service charges on deposit accounts | 108,994 | 95,236 | 85,503 |
| Domestic fees and commissions | 88,176 | 75,396 | 57,986 |
| Investment securities gains | 55,471 | 3,022 | 537 |
| Trust and investment services income | 55,132 | 51,159 | 56,379 |
| International fees, commissions and foreign exchange | 17,766 | 20,728 | 30,076 |
| Sale of a mortgage banking subsidiary | 50,152 | — | — |
| Other | 19,973 | 25,088 | 48,976 |
| Total noninterest income | 395,664 | 270,629 | 279,457 |
| **NONINTEREST EXPENSE** | | | |
| Salaries | 414,445 | 405,849 | 394,968 |
| Employee benefits | 99,468 | 83,499 | 88,756 |
| Net occupancy | 87,788 | 81,654 | 78,764 |
| Equipment | 75,940 | 74,189 | 68,267 |
| Other | 266,114 | 241,396 | 212,894 |
| Total noninterest expense | 943,755 | 886,587 | 843,649 |
| **INCOME BEFORE INCOME TAX EXPENSE** | 300,332 | 258,928 | 229,693 |
| Income tax expense | 110,298 | 89,663 | 74,793 |
| **NET INCOME** | $ 190,034 | $ 169,265 | $ 154,900 |
| **NET INCOME APPLICABLE TO COMMON STOCK** | $ 177,246 | $ 154,171 | $ 143,067 |
| **PER COMMON SHARE** | | | |
| Net income | $ 8.30 | $ 6.85 | $ 6.03 |
| Dividends declared | $ 2.48 | $ 2.16 | $ 1.98 |
| Average common shares outstanding (in thousands) | 21,351 | 22,514 | 23,737 |

The accompanying notes are an integral part of these statements.





# CONSOLIDATED BALANCE SHEET

| (in thousands) | December 31, 1985 | 1984 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 1,402,162 | $ 2,048,981 |
| Interest-earning deposits | 534,511 | 432,628 |
| Investment securities (market value $1,675,112 and $1,048,986) | 1,696,070 | 1,088,543 |
| Trading account securities | 146,658 | 198,614 |
| Federal funds sold | 39,650 | 225,024 |
| Loans | 24,614,173 | 22,893,870 |
| Allowance for loan losses | 417,520 | 260,314 |
| Net loans | 24,196,653 | 22,633,556 |
| Premises and equipment, net | 444,408 | 453,467 |
| Due from customers on acceptances | 254,871 | 426,538 |
| Accrued interest receivable | 222,549 | 283,214 |
| Other assets | 491,862 | 393,559 |
| Total assets | $ 29,429,394 | $ 28,184,124 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Deposits: | | |
| Noninterest-bearing—domestic | $ 3,693,697 | $ 3,799,746 |
| Noninterest-bearing—foreign | 8,411 | 122,038 |
| Interest-bearing—domestic | 15,111,602 | 14,755,660 |
| Interest-bearing—foreign | 687,590 | 1,523,793 |
| Total deposits | 19,501,300 | 20,201,237 |
| Short-term borrowings: | | |
| Federal funds borrowed and repurchase agreements | 1,800,058 | 963,333 |
| Commercial paper outstanding | 1,436,227 | 1,783,885 |
| Other | 108,898 | 50,880 |
| Total short-term borrowings | 3,345,183 | 2,798,098 |
| Acceptances outstanding | 255,225 | 426,661 |
| Accrued taxes and other expenses | 373,187 | 460,493 |
| Senior debt | 2,129,689 | 1,708,568 |
| Other liabilities | 310,290 | 233,694 |
| | 25,914,874 | 25,828,751 |
| Subordinated debt | 2,056,560 | 1,011,703 |
| Total liabilities | 27,971,434 | 26,840,454 |
| Stockholders' equity: | | |
| Preferred stock—no par value, authorized 10,000,000 shares; issued and outstanding 3,000,000 shares (nonconvertible, cumulative, stated value—$50) | 150,000 | 150,000 |
| Common stock—$5 par value, authorized 50,000,000 shares; issued and outstanding 21,139,311 shares and 21,234,597 shares | 105,697 | 106,173 |
| Additional paid-in capital | 158,190 | 169,904 |
| Retained earnings | 1,050,993 | 926,738 |
| Equity adjustment from foreign currency translation | (6,920) | (9,145) |
| Total stockholders' equity | 1,457,960 | 1,343,670 |
| Total liabilities and stockholders' equity | $ 29,429,394 | $ 28,184,124 |

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

| (in thousands) | Preferred stock | Common stock | Additional paid-in capital | Retained earnings | Foreign currency translation | Total stockholders' equity |
|---|---|---|---|---|---|---|
| **Balance December 31, 1982** | $ — | $ 118,034 | $ 262,556 | $ 724,589 | $ (4,744) | $ 1,100,435 |
| Net income—1983 | | | | 154,900 | | 154,900 |
| Preferred stock issued, net of issuance costs | 150,000 | | (3,800) | | | 146,200 |
| Conversion of convertible notes | | 25 | 123 | | | 148 |
| Common stock issued under employee benefit and dividend reinvestment plans | | 1,525 | 6,803 | | | 8,328 |
| Common stock repurchased | | (175) | (773) | | | (948) |
| Preferred stock dividends | | | | (11,833) | | (11,833) |
| Common stock dividends | | | | (47,045) | | (47,045) |
| Equity adjustment from foreign currency translation (net of income tax expense of $2,145) | | | | | (2,414) | (2,414) |
| Net change | 150,000 | 1,375 | 2,353 | 96,022 | (2,414) | 247,336 |
| **Balance December 31, 1983** | 150,000 | 119,409 | 264,909 | 820,611 | (7,158) | 1,347,771 |
| Net income—1984 | | | | 169,265 | | 169,265 |
| Exercise of warrants and conversion of convertible notes | | 776 | 3,045 | | | 3,821 |
| Common stock issued under employee benefit and dividend reinvestment plans | | 1,029 | 5,750 | | | 6,779 |
| Common stock repurchased | | (15,041) | (103,800) | | | (118,841) |
| Preferred stock dividends | | | | (15,094) | | (15,094) |
| Common stock dividends | | | | (48,044) | | (48,044) |
| Equity adjustment from foreign currency translation (net of income tax benefit of $860) | | | | | (1,987) | (1,987) |
| Net change | — | (13,236) | (95,005) | 106,127 | (1,987) | (4,101) |
| **Balance December 31, 1984** | 150,000 | 106,173 | 169,904 | 926,738 | (9,145) | 1,343,670 |
| Net income—1985 | | | | 190,034 | | 190,034 |
| Exercise of warrants and conversion of convertible notes | | 676 | 2,660 | | | 3,336 |
| Common stock issued under employee benefit and dividend reinvestment plans | | 1,340 | 9,483 | | | 10,823 |
| Equity adjustment from foreign currency translation (net of income tax expense of $1,303) | | | | | 2,225 | 2,225 |
| Common stock repurchased | | (2,492) | (23,857) | | | (26,349) |
| Preferred stock dividends | | | | (12,788) | | (12,788) |
| Common stock dividends | | | | (52,991) | | (52,991) |
| Net change | — | (476) | (11,714) | 124,255 | 2,225 | 114,290 |
| **Balance December 31, 1985** | $ 150,000 | $ 105,697 | $ 158,190 | $ 1,050,993 | $ (6,920) | $ 1,457,960 |

The accompanying notes are an integral part of these statements.





# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

| (in thousands) | Year ended December 31, 1985 | 1984 | 1983 |
|---|---|---|---|
| Financial resources provided by (applied to): | | | |
| Operations: | | | |
| Net income | $ 190,034 | $ 169,265 | $ 154,900 |
| Noncash charges: | | | |
| Provision for loan losses | 371,836 | 194,593 | 121,109 |
| Depreciation and amortization | 64,759 | 58,220 | 50,422 |
| Deferred income tax expense | 29,407 | 44,135 | 49,953 |
| Financial resources provided by operations | 656,036 | 466,213 | 376,384 |
| Cash dividends declared | (65,779) | (63,138) | (58,878) |
| Net financial resources provided by operations | 590,257 | 403,075 | 317,506 |
| Deposits and other financing activities: | | | |
| Noninterest-bearing deposits | (219,676) | 77,082 | 198,375 |
| Interest-bearing deposits | (480,261) | (236,841) | 1,982,831 |
| Short-term borrowings | 547,085 | 146,573 | (46,241) |
| Senior and subordinated debt | 1,465,978 | 1,187,745 | 158,520 |
| Exercise of warrants and conversion of convertible notes | 3,336 | 3,821 | 148 |
| Common stock issued under employee benefit and dividend reinvestment plans | 10,823 | 6,779 | 8,328 |
| Common stock repurchased | (26,349) | (118,841) | (948) |
| Preferred stock issued, net of issuance costs | — | — | 146,200 |
| Financial resources provided by deposits and other financing activities | 1,300,936 | 1,066,318 | 2,447,213 |
| Other activities—(increase) decrease in net nonearning assets: | | | |
| Cash and due from banks | 646,819 | 143,558 | (507,167) |
| Net additions to premises and equipment | (51,287) | (48,934) | (62,983) |
| Other, net | (79,712) | (65,604) | (126,914) |
| Financial resources provided by (applied to) net nonearning assets | 515,820 | 29,020 | (697,064) |
| Increase in financial resources invested in earning assets | $ 2,407,013 | $ 1,498,413 | $ 2,067,655 |
| Increase (decrease) in earning assets: | | | |
| Interest-earning deposits | $ 101,883 | $ (1,132,773) | $ 574,865 |
| Investment securities | 607,527 | 120,239 | 364,447 |
| Trading account securities | (51,956) | 136,293 | (51,580) |
| Federal funds sold | (185,374) | (385,476) | 568,800 |
| Net loans | 1,934,933 | 2,760,130 | 611,123 |
| Increase in earning assets | $ 2,407,013 | $ 1,498,413 | $ 2,067,655 |

The accompanying notes are an integral part of these statements.

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1
## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The following is a description of the more significant policies.

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

Foreign branches and significant, majority-owned subsidiaries are consolidated on a line-by-line basis. Significant intercompany accounts and transactions are eliminated in consolidation. Other subsidiaries and affiliates in which there is at least 20 percent ownership are generally accounted for by the equity method and less than 20 percent owned investments are carried at cost. These investments are reported in other assets; 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 or losses on the sale of investment securities are reported using the "identified certificate" method.

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

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

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

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

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

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

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

**Allowance for loan losses** The allowance for loan losses is supported by a review and evaluation of various factors which affect the collectibility of the loan portfolio. In the evaluation, numerous factors are considered, including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loan loss experience and management's estimate of losses inherent in the loan portfolio.

**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 market and is included in other assets. When the property is acquired, any excess of the loan balance over market value of the property is charged to the allowance for loan losses. Subsequent write-downs, if any, and disposition gains and losses are recorded in noninterest expense.





**INCOME TAXES** The Company files a consolidated federal income tax return and a combined California franchise tax return. Generally, the tax liabilities are settled between subsidiaries as if each had filed a separate return. Payments are made to the Parent by those subsidiaries with net tax liabilities on a separate basis. Subsidiaries with net tax losses and excess tax credits receive payment for these benefits from the Parent. Taxable income is computed primarily using the cash receipts and disbursements method of accounting as permitted by the tax statutes.

Deferred income taxes, included in accrued taxes and other expenses, result from timing differences between income as reported in the financial statements and as reported for income tax return purposes.

Federal income taxes are not provided on earnings of foreign subsidiaries or affiliates that are intended to be indefinitely reinvested abroad. Federal income taxes are provided on the earnings of foreign consolidated subsidiaries and foreign equity investments that may be repatriated to the U.S. under the assumption that all such earnings will be distributed in the future as dividends.

Tax reductions arising from the investment tax credit on property purchased and used by the Company are recognized as a reduction of tax expense in the current period. Investment tax credit on property purchased for lease to customers is deferred and amortized as lease financing income over the term of the related lease.

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

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

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

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

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

## NOTE 2
## 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 $530 million and $500 million in 1985 and 1984, respectively.

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

Dividends payable by the Bank to the Parent without the express approval of the Office of the Comptroller of the Currency are limited to the Bank's net profits (as defined) for the preceding two years plus net profits up to the date of any dividend declaration. Under this formula, the Bank can declare additional dividends in 1986 of approximately $290 million of its undistributed earnings at December 31, 1985 plus net profits for 1986 up to the date of any such dividend declaration.

At December 31, 1985, net assets of the Bank that were restricted as described in the preceding two paragraphs were approximately $1.0 billion.

## NOTE 3
## INVESTMENT SECURITIES

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

| (in thousands) | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 1985 | | 1984 | | 1983 | |
| | Book value | Market value | Book value | Market value | Book value | Market value |
| U.S. Treasury securities | $ 1,134,768 | $ 1,147,873 | $ 637,659 | $ 645,704 | $ 478,540 | $ 475,073 |
| Securities of other U.S. government agencies and corporations | 19,588 | 18,065 | 20,993 | 23,456 | 100,291 | 94,140 |
| Obligations of states and political subdivisions | 135,194 | 110,873 | 190,955 | 157,683 | 247,185 | 205,785 |
| Other securities | 406,520 | 398,301 | 238,936 | 222,143 | 142,288 | 143,404 |
| Total investment securities | $ 1,696,070 | $ 1,675,112 | $ 1,088,543 | $ 1,048,986 | $ 968,304 | $ 918,402 |

The market value of U.S. Treasury, other U.S. government securities 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 $21.2 million, $14.4 million and $4.6 million in 1985, 1984 and 1983, respectively, is included in taxable income on investment securities in the consolidated statement of income.

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

The income tax expense for 1985, 1984 and 1983 included $28.2 million, $1.6 million and $.3 million, respectively, related to investment securities gains.

## NOTE 4
## LOANS AND ALLOWANCE FOR LOAN LOSSES

| (in thousands) | December 31, | |
|---|---|---|
| | 1985 | 1984 |
| **Domestic** | | |
| Commercial, financial, and agricultural | $ 8,474,897 | $ 8,054,968 |
| Real estate construction-related | 4,186,230 | 3,303,543 |
| Real estate first mortgage loans secured by 1–4 family residential properties | 3,109,595 | 3,400,041 |
| Other real estate mortgage loans | 1,509,796 | 1,462,288 |
| Total real estate mortgage loans | 4,619,391 | 4,862,329 |
| Monthly payment | 1,074,730 | 795,392 |
| Credit card | 1,298,063 | 908,647 |
| Other revolving credit | 310,275 | 225,206 |
| Real estate junior lien mortgage loans secured by 1–4 family residential properties | 1,523,760 | 1,152,787 |
| Total consumer | 4,206,828 | 3,082,032 |
| Lease financing | 1,114,695 | 855,649 |
| **Foreign** | | |
| Governments and official institutions | 673,374 | 803,742 |
| Banks and other financial institutions | 457,111 | 687,433 |
| Commercial and industrial(1) | 881,647 | 1,244,174 |
| Total foreign | 2,012,132 | 2,735,349 |
| Total loans (net of unearned income of $416,350 and $386,454) | $ 24,614,173 | $ 22,893,870 |

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

The table at left shows comparative year-end detail of the loan portfolio.

The components of lease financing at December 31, 1985 and 1984 are as follows:

| (in thousands) | December 31, | |
|---|---|---|
| | 1985 | 1984 |
| Direct lease financing minimum lease payments receivable | $ 924,507 | $ 711,837 |
| Direct lease financing unguaranteed residual value | 370,746 | 287,884 |
| Leveraged leases | 83,206 | 76,316 |
| Equipment pending lease placement | 14,348 | 131 |
| Investment in lease financing | 1,392,807 | 1,076,168 |
| Unearned income | (278,112) | (220,519) |
| Investment in lease financing, net of unearned income | 1,114,695 | 855,649 |
| Allowance for losses | (15,166) | (8,480) |
| Net investment in lease financing | $ 1,099,529 | $ 847,169 |

Wells Fargo Leasing Corporation recognized $7.5 million, $2.0 million and $1.0 million of unearned income in 1985, 1984 and 1983, respectively, to offset initial direct costs of acquiring leases.





Direct lease receivable installments mature as follows:

| (in thousands) | |
|---|---|
| **Year ended December 31,** | |
| 1986 | $ 240,226 |
| 1987 | 204,824 |
| 1988 | 168,683 |
| 1989 | 127,681 |
| 1990 | 61,454 |
| 1991–2000 | 121,639 |
| Total | $ 924,507 |

For financial statement purposes, the Company had unamortized investment tax credits on property purchased for lease to customers of $40.5 million, $25.7 million and $28.2 million at December 31, 1985, 1984 and 1983, respectively.

Changes in the allowance for loan losses were as follows:

| (in thousands) | Year ended December 31, | | |
|---|---|---|---|
| | 1985 | 1984 | 1983 |
| Balance, beginning of year | $ 260,314 | $ 199,556 | $ 190,538 |
| Provision for loan losses | 371,836 | 194,593 | 121,109 |
| Net loan charge-offs: | | | |
| Commercial, financial, and agricultural | 116,291 | 88,071 | 84,954 |
| Real estate construction-related | 306 | 3,571 | 342 |
| Real estate 1–4 family | 1,308 | 1,487 | 1,383 |
| Other real estate mortgage loans | 7,442 | 4,498 | (145) |
| Monthly payment | 6,624 | 1,949 | 4,158 |
| Credit card and related plans | 45,453 | 9,717 | 6,148 |
| Lease financing | 9,352 | 4,922 | 6,267 |
| Foreign | 24,811 | 19,050 | 8,834 |
| Total net loan charge-offs(1) | 211,587 | 133,265 | 111,941 |
| Other deductions | 3,043 | 570 | 150 |
| Balance, end of year | $ 417,520 | $ 260,314 | $ 199,556 |
| Allowance as a percentage of total loans | 1.70% | 1.14% | .98% |

(1) Includes recoveries of $25,641 thousand, $27,805 thousand and $23,724 thousand in 1985, 1984 and 1983, respectively.

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

| (in thousands) | Year ended December 31, | | |
|---|---|---|---|
| | 1985 | 1984 | 1983 |
| Balance, beginning of year | $ 5,981 | $ 822 | $ — |
| Provision | 22,137 | 5,159 | 822 |
| Deductions | 533 | — | — |
| Balance, end of year | $ 27,585 | $ 5,981 | $ 822 |

Nonaccrual and restructured loans were $789.8 million and $734.6 million at December 31, 1985 and 1984, respectively. Related commitments to lend additional funds totaled approximately $30 million and $36 million at December 31, 1985 and 1984, respectively.

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

| (in thousands) | Year ended December 31, | | |
|---|---|---|---|
| | 1985 | 1984 | 1983 |
| Interest that would have been recorded under original terms | $ 91,948 | $ 94,881 | $ 83,478 |
| Gross interest recorded | 35,879 | 37,112 | 50,064 |
| Foregone interest | $ 56,069 | $ 57,769 | $ 33,414 |

## NOTE 5
## PREMISES AND EQUIPMENT

The following table presents comparative data for premises and equipment:

| (in thousands) | December 31, | |
|---|---|---|
| | 1985 | 1984 |
| Land | $ 26,496 | $ 31,354 |
| Premises | 140,889 | 143,961 |
| Furniture and equipment | 359,258 | 326,889 |
| Leasehold improvements | 103,275 | 99,967 |
| Premises leased under capital leases | 124,726 | 126,901 |
| Total | 754,644 | 729,072 |
| Less accumulated depreciation and amortization | 310,236 | 275,605 |
| Net book value | $ 444,408 | $ 453,467 |

Included in accumulated depreciation and amortization was accumulated amortization related to capital leases of $47.5 million and $43.9 million at December 31, 1985 and 1984, respectively.

Depreciation and amortization expense was $60.3 million, $55.3 million and $49.9 million for the years ended December 31, 1985, 1984 and 1983, respectively.

# NOTE 6
# SENIOR AND SUBORDINATED DEBT

The following is a summary of the major categories of senior and subordinated debt (less unamortized debt discount where applicable) at December 31, 1985 and 1984:

| (in thousands) | December 31, 1985 | December 31, 1984 |
|---|---|---|
| **SENIOR** | | |
| **Intermediate-term** (original maturities from 1-12 years) | | |
| Parent: | | |
| 9.55% Notes due 1985 | $ — | $ 150,000 |
| 10⅝% Notes due 1985 ($100,000 face amount) | — | 99,934 |
| 11.40% Notes due 1987 (1) | 50,000 | 50,000 |
| 12% Notes due 1987 ($100,000 face amount) (1) | 99,924 | 99,882 |
| 13¼% Notes due 1987 (2) | 100,000 | 100,000 |
| 12¼% Notes due 1989 ($75,000 face amount) (2) | 74,819 | 74,784 |
| 12.30% Notes due 1990 (1)(2) | 100,000 | 100,000 |
| 14½% Notes due 1991 ($100,000 face amount) (2) | 99,079 | 98,974 |
| 9½% Notes due 1993 ($100,000 face amount) (2) | 99,200 | — |
| Floating Rate Extendable Notes due 1988 (3) | 100,000 | — |
| Floating Rate Extendable Notes due 1992 ($300,000 face amount) (4) | 299,705 | 299,672 |
| 7.90% to 12.60% Medium-Term Notes due 1986 through 1990 | 695,695 | 137,200 |
| Other notes | — | 15,433 |
| Subsidiaries: | | |
| 15% Guaranteed Notes due 1985 ($75,000 face amount) | — | 74,843 |
| 15% Guaranteed Notes due 1987 (5) | 75,000 | 75,000 |
| Zero Coupon Notes due 1988 — effective rate of 14.75% ($164,249 face amount) — Parent guaranteed (6) | 121,277 | 105,870 |
| Other notes | 2,447 | 2,477 |
| Total intermediate-term senior debt | 1,917,146 | 1,484,069 |
| **Long-term** (original maturities of more than 12 years) | | |
| Notes payable by the Parent | 100,412 | 102,101 |
| Notes payable by subsidiaries | 14,776 | 20,955 |
| Total long-term senior debt | 115,188 | 123,056 |
| Obligations under capital leases | 97,355 | 101,443 |
| Total senior debt | 2,129,689 | 1,708,568 |
| **SUBORDINATED** | | |
| **Intermediate-term** (original maturities from 1–12 years) | | |
| Parent: | | |
| 12⅝% Notes due 1991, Series A ($21,248 face amount at December 31, 1985) (1)(7) | 25,098 | 104,493 |
| 12⅝% Notes due 1991, Series B ($85,055 face amount) (1)(8) | 84,308 | — |
| 12⅞% Notes due 1991 ($100,000 face amount) (1)(2) | 99,897 | 99,879 |
| 13⅜% Notes due 1991 ($100,000 face amount) (1)(8) | 99,780 | 99,756 |
| 13.50% Notes due 1991 (1)(2) | 150,000 | 150,000 |
| Floating Rate Notes due 1992 (2)(8) | 150,000 | — |
| Floating Rate Notes due 1994 (U.K. pounds sterling denominated £60,000 face amount) (2)(8)(9) | 86,712 | 69,450 |
| Floating Rate Notes due 1994 (2)(8) | 150,000 | 150,000 |
| Deutsche Mark Floating Rate Notes due 1995 (DM 300,000) (8)(10) | 122,700 | — |
| Floating Rate Notes due 1996 ($100,000 face amount) (2)(11) | 99,473 | 99,421 |
| Floating Rate Capital Notes due 1996 ($150,000 face amount) (2)(12) | 149,934 | 149,927 |
| Floating Rate Notes due 1997 (2)(8) | 250,000 | — |
| Floating Rate Notes due June 1997 ($100,000 face amount) (2)(13) | 99,881 | — |
| Floating Rate Notes due July 1997 (2)(8)(13) | 100,000 | — |
| Floating Rate Capital Notes due 1997 (2)(8)(12) | 100,000 | — |
| Subsidiaries: | | |
| 4½% Capital Notes due 1989 (2) | 38,777 | 38,777 |
| Floating Rate Notes due 1996 — Parent guaranteed (5)(11) | 50,000 | 50,000 |
| Total intermediate-term subordinated debt | 1,856,560 | 1,011,703 |
| **Long-term** (original maturities of more than 12 years) | | |
| Parent: | | |
| Floating Rate Notes due 2000 (2)(8) | 200,000 | — |
| Total long-term subordinated debt | 200,000 | — |
| Total subordinated debt | 2,056,560 | 1,011,703 |
| Total senior and subordinated debt | $ 4,186,249 | $ 2,720,271 |





(1) The Company has entered into an interest rate swap agreement, whereby the Company receives fixed rate interest payments approximately equal to interest on the Notes and makes interest payments based on a floating rate.

(2) May be redeemed in whole or in part, at par, beginning at various dates through January 1, 1990.

(3) Repayable in whole or in part, at par, in 1986 and 1987 at the option of the holder.

(4) Repayable in whole or in part, at par, in 1986 and 1989 at the option of the holder.

(5) May be redeemed in whole or in part, at par, beginning 1986 or if the event described in note (6) below occurs.

(6) May be redeemed in whole, at par, at any time in the event withholding taxes are imposed in the United States or the Netherlands Antilles.

(7) Issued with 100,000 warrants to purchase $100 million 12⅝% Subordinated Notes due 1991, Series B. These warrants may be exercised prior to 1990. When warrants are exercised, Series A Notes in an identical principal amount are redeemable at 101%. At December 31, 1985, $78,752 thousand of Series A Notes had been redeemed. The Series A Notes are also redeemable at 101% beginning 1989 and at par beginning 1990 or if the event described in note (8) below occurs.

(8) May be redeemed in whole, at par, at any time in the event withholding taxes are imposed in the United States.

(9) The Company has entered into a swap agreement, whereby the Company receives pounds sterling sufficient to cover floating rate interest and principal on the Notes and makes payments in U.S. dollars covering interest and principal. The transaction amount at the date of issue and swap was $74,010 thousand. The differences of $12,702 thousand and $4,560 thousand at December 31, 1985 and 1984, respectively, were due to the foreign currency transaction adjustment in accordance with FASB Statement No. 52.

(10) These notes are subject to a maximum interest rate of 8%. The Company has sold this interest rate cap under an agreement whereby it receives fixed payments in deutsche marks and makes payments based on the amount by which a floating rate exceeds 8%. The Company has also entered into a swap agreement whereby the Company receives deutsche marks approximately equal to interest and principal on the Notes and makes payments in U.S. dollars. The transaction amount at the date of issue and swap was $117,702 thousand. The difference of $4,998 thousand at December 31, 1985 was due to the foreign currency transaction adjustment in accordance with FASB Statement No. 52.

(11) Equity Commitment Notes.

(12) Mandatory Equity Notes.

(13) Subject to a maximum interest rate of 13%.

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

| (in thousands) | 1986 | 1987 | 1988 | 1989 | 1990 | After 1990 | Total |
|---|---|---|---|---|---|---|---|
| Parent Company | $240,594 | $415,444 | $262,244 | $ 150,201 | $160,644 | $2,539,995 | $ 3,769,122 |
| | 248,602 | 499,640 | 436,554 | 194,910 | 166,723 | 2,665,297 | 4,211,726 |

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

The Company's mandatory convertible debt, which is identified by notes (11) and (12) to the table on the preceding page, qualifies as primary capital, subject to certain regulatory limitations. The terms of the Mandatory Equity Notes require the Company to sell or exchange with the note holder the Company's common stock, perpetual preferred stock or other capital securities at maturity or earlier redemption of the notes. Mandatory Equity Notes at December 31, 1985 totaled $250 million (face amount), of which $150 million is due in 1996 and $100 million in 1997. The terms of the Equity Commitment Notes, which totaled $150 million (face amount) at December 31, 1985, require the Company to deposit proceeds from the issuance of capital securities into a Note Fund according to the following schedule: $50 million by 1988, 1992 and 1996. As of December 31, 1985, $24 million had been dedicated to or deposited in a Note Fund.

Certain of the agreements under which the notes, debentures and mortgages were issued contain provisions that restrict the payment of dividends, the disposition of assets, the creation of property liens and the issuance of capital stock of the Company. The Company was in compliance with the provisions of the borrowing agreements at December 31, 1985.

## NOTE 7
## PREFERRED STOCK

In 1983, the Company issued 3,000,000 shares of Adjustable Rate Cumulative Preferred Stock, Series A, with a stated value of $50.00 per share. These shares are redeemable between April 1, 1988 and March 31, 1993, at the option of the Company 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.

The dividend rate through the dividend period ending March 31, 1984 was 10% per annum. For each quarterly period thereafter, the dividend rate is 2.75% less than the highest of the three-month Treasury bill discount rate, 10-year constant maturity bond yield or 20-year constant maturity bond yield, but limited to a minimum of 6% and a maximum of 12% per annum. The average dividend rate was 8.5% during 1985 and 10.1% during 1984.

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

## NOTE 8
## EMPLOYEE STOCK PLANS AND COMMON STOCK

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

**Equity Incentive Plan** The EIP provides for the granting to key employees incentive stock options, 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. The total number of shares of common stock issuable under the EIP cannot exceed 750,000 in the aggregate and 250,000 in any one calendar year. The Board of Directors has approved, subject to stockholder approval, an amendment to the EIP which would increase such limits to 1,750,000 and 350,000, respectively.

**Other Plans** In conjunction with the adoption of the EIP, the Other Plans have been amended such that no additional awards or grants will be issued. In addition, existing shares in the Other Plans may be converted to incentive stock option status in accordance with current tax laws.

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

| | Number of shares | | | |
|---|---|---|---|---|
| | Equity Incentive Plan | | Other Plans | |
| | 1985 | 1984 | 1985 | 1984 |
| Options outstanding, beginning of year | 232,860 | 141,360 | 125,717 | 188,100 |
| Granted | 137,500 | 146,000 | – | – |
| Cancelled | (6,900) | (24,900) | – | – |
| Forfeited (as defined below) | (10,918) | (6,428) | (50,822) | (50,712) |
| Exercised | (53,868) | (23,172) | (17,378) | (11,671) |
| Options outstanding, end of year | 298,674 | 232,860 | 57,517 | 125,717 |
| Options exercisable, end of year | 77,074 | 54,010 | 57,517 | 125,717 |
| Shares available for grant, end of year | 145,131 | 316,968 | – | – |
| Price range of options: | | | | |
| Outstanding | $18.88–$59.13 | $18.88–$36.75 | $26.25–$28.13 | $24.88–$28.13 |
| Forfeited (as defined below) or exercised | $18.88–$36.75 | $18.88–$18.88 | $24.88–$28.13 | $20.25–$28.13 |

The terms of the EIP and the Other Plans provide that, when the option becomes exercisable, the optionee may surrender or forfeit the option and receive the appreciation between the option price and the fair market value of the stock at date of surrender in the form of cash and common stock, provided that at least 50 percent of the appreciation be in shares of the Company's common stock based on the market price at date of surrender.

As of December 31, 1985, the EIP had 176,205 tentative share rights and 34,050 final share rights outstanding to 278 employees and the Other Plans had 53,315 final share rights outstanding to 47 employees under the restricted share rights provisions of these plans. The tentative share rights convert into final share rights during the second quarter of the third year after the rights are granted. The number of final shares is based on the Company's performance in the three years following the date of grant. The holders of the share rights are entitled to the number of shares of common stock represented by the final share rights held by each person five years after the tentative share rights were granted.





Loans, at the discretion of the Company, may be made to assist the participants of the EIP and Other Plans in the acquisition of shares under options and share rights. The amount of expense accrued for the EIP and Other Plans was $8.3 million, $4.9 million and $8.2 million in 1985, 1984 and 1983, respectively.

**Employee Stock Purchase Plan** At the 1984 annual meeting, the stockholders approved the current stock purchase plan, effective August 1, 1984, to replace the former plan which expired on July 31, 1984. The current plan is essentially the same as the former plan and options may be granted for up to 950,000 shares. Under the plan, employees of the Company with over one year of service, except certain key employees, are eligible to participate. The plan provides for an option price of the lower of market value at grant date or 85–100 percent (as determined by the Board of Directors for each option period) of fair market value at the end of the option period, 12 months after the date of grant. For the current option period, the Board approved a closing option price of 85 percent of fair market value. The plan is noncompensatory and results in no expense to the Company.

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

| | Number of options | | |
|---|---|---|---|
| | 1985 | 1984 | |
| | (Current plan) | (Current plan) | (Former plan) |
| Options outstanding, beginning of year | 91,852 | – | 92,136 |
| Granted | 68,580 | 95,401 | – |
| Cancelled | (13,372) | (3,549) | (13,943) |
| Exercised ($34.18 in 1985 and $30.56 in 1984) | (82,497) | – | (78,193) |
| Options outstanding, end of year | 64,563 | 91,852 | – |
| Options available for grant, end of year | 802,940 | 858,148 | – |

**COMMON STOCK** The following table summarizes common stock reserved and authorized as of December 31, 1985:

| | Number of shares |
|---|---|
| Tax advantage plan | 1,835,083 |
| Dividend reinvestment plan | 1,013,846 |
| Employee stock purchase plan | 867,503 |
| Equity incentive plan | 640,621 |
| Stock option and appreciation plan | 400,000 |
| Restricted share rights plan | 392,317 |
| Stock option plan | 215,058 |
| Warrants | 114,792 |
| Employee stock ownership plan | 39,227 |
| 3¼% convertible capital notes | 15,947 |
| Stock bonus plan | 8,209 |
| Total shares reserved | 5,542,603 |
| Shares not reserved | 23,318,086 |
| Shares issued and outstanding | 21,139,311 |
| Total shares authorized | 50,000,000 |

Warrants to purchase a total of 114,792 shares of common stock of the Company at a price of $24.63 per share, attached to Euro Deutsche Mark Debentures, are currently detachable and expire on October 31, 1988.

Under the terms of mandatory convertible debt, the Company must exchange with the note holder or sell various capital securities of the Company as described in note 6 to the financial statements on page 33.

## NOTE 9
## EMPLOYEE BENEFITS

The provisions for the retirement and profit sharing plans were as follows:

| (in thousands) | Year ended December 31, | | |
|---|---|---|---|
| | 1985 | 1984 | 1983 |
| Retirement plans | $ 20,897 | $ 9,742 | $ 16,542 |
| Profit sharing plan | $ 9,013 | $ 7,930 | $ 6,886 |

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

Effective January 1, 1985, the Company adopted a defined contribution retirement plan with Company contributions based on a percentage of employee compensation. The plan covers employees with one year of service and contains a vesting schedule graduated from 3-10 years of service.

Also effective January 1, 1985, the Company amended the Tax Advantage Plan (TAP) to allow the Company to make retirement contributions without a requirement for employee contributions. All salaried employees with one year of service are eligible to receive these Company contributions, which are immediately vested. The Company also makes matching contributions to TAP that are included in profit sharing plan expense.

**PROFIT SHARING PLAN** All salaried employees who have one year of service are eligible to contribute to TAP through salary reduction under Section 401(k) of the Internal Revenue Code. The Company makes matching contributions for those who have three years of service and who elect salary reduction contributions under the plan. The contributions are immediately vested. Company contributions are tax deductible by the Company.

**EMPLOYEE STOCK OWNERSHIP PLAN** Under the Employee Stock Ownership Plan (ESOP), the Company is allowed to make certain reductions in its federal income tax payments if the savings are passed to the plan. All salaried employees of participating Wells Fargo companies who have worked for three continuous years are eligible to participate.

Effective with the 1984 contribution, the ESOP was amended by the Company to remove the requirement that the Company must receive a tax benefit for the contribution. For 1985, approximately $1.5 million of employee benefit expense was accrued for the ESOP. If the Company decides not to fund the contribution for 1985, this accrual will be reversed with an offsetting increase to income tax expense. The decision will be made by the time the Company files its 1985 tax return. For 1984, $1.3 million of employee benefit expense was accrued. The credit was not fully utilized in 1984 and is part of a credit carryforward for subsequent years. The 1983 plan year's tax credit was not utilized as a reduction of the Company's federal tax liability. Therefore, the $1.4 million of employee benefit expense accrued in 1983 was subsequently reversed in 1984.

**RETIREE HEALTH AND LIFE INSURANCE** In addition to providing pension benefits, 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 federally qualified Health Maintenance Organizations (HMO's). The Company recognized the cost of health care benefits by expensing the annual incurred claims and HMO premiums totaling $20.7 million and $19.2 million in 1985 and 1984, respectively. The life insurance and similar benefits for active and retired employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The Company recognizes the cost of these benefits by expensing the annual insurance premiums, which were $.9 million in 1985 and $.7 million in 1984. The cost of providing health and life insurance benefits for 2,438 retirees is not separable from the cost of providing benefits for approximately 14,400 active employees.

## NOTE 10
## INCOME TAXES

Current and deferred income tax provisions were as follows:

| (in thousands) | Year ended December 31, 1985 | 1984 | 1983 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 28,258 | $ 5,383 | $ 1,502 |
| State and local | 26,150 | 20,623 | 9,956 |
| Foreign | 26,483 | 19,522 | 13,382 |
| | 80,891 | 45,528 | 24,840 |
| Deferred: | | | |
| Federal | 31,912 | 45,875 | 39,599 |
| State and local | (2,387) | (565) | 11,166 |
| Foreign | (118) | (1,175) | (812) |
| | 29,407 | 44,135 | 49,953 |
| Total | $ 110,298 | $ 89,663 | $ 74,793 |

The deferred tax provisions are the result of certain items being accounted for in different time periods for financial reporting purposes than for income tax purposes.

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

| (in thousands) | Year ended December 31, 1985 | 1984 | 1983 |
|---|---|---|---|
| Deferred income on lease financing | $103,640 | $63,948 | $46,202 |
| Lower loan loss deduction for income tax purposes | (86,866) | (24,571) | (2,193) |
| Cash basis accounting for tax purposes | 19,457 | (5,134) | 7,206 |
| Realization of losses (gains) on sales of equity investments | (7,423) | 242 | (650) |
| Foreign exchange | (2,872) | 8,240 | (2,692) |
| Other | 3,471 | 1,410 | 2,080 |
| Total | $ 29,407 | $ 44,135 | $ 49,953 |





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

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

| (in thousands) | Year ended December 31, 1985 Amount | 1985 Percent | 1984 Amount | 1984 Percent | 1983 Amount | 1983 Percent |
|---|---|---|---|---|---|---|
| Statutory federal income tax expense and rate | $ 138,153 | 46.0% | $ 119,107 | 46.0% | $ 105,659 | 46.0% |
| Increase (decrease) in tax rate resulting from: | | | | | | |
| Tax exempt income | (16,610) | (5.5) | (14,672) | (5.7) | (11,991) | (5.2) |
| State and local taxes on income, net of federal income tax benefit | 12,890 | 4.3 | 10,819 | 4.2 | 11,268 | 4.9 |
| Capital gain rate difference | (7,044) | (2.4) | (1,806) | (.7) | (4,252) | (1.9) |
| Amortization of investment tax credit | (6,601) | (2.2) | (5,665) | (2.2) | (7,009) | (3.1) |
| Indefinitely reinvested earnings of foreign subsidiaries and an affiliate | (6,430) | (2.1) | (15,948) | (6.2) | (13,299) | (5.8) |
| Investment tax credit on furniture and equipment | (4,551) | (1.5) | (3,168) | (1.2) | (4,655) | (2.0) |
| Other | 491 | .1 | 996 | .4 | (928) | (.3) |
| Effective income tax expense and rate | $ 110,298 | 36.7% | $ 89,663 | 34.6% | $ 74,793 | 32.6% |

The Company had deferred income taxes payable of $186.2 million, $195.3 million and $163.0 million at December 31, 1985, 1984 and 1983, respectively. It had current income taxes payable (receivable) of $(6.6) million, $9.5 million and $(1.1) million at the same dates.

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

In management's opinion, the effective income tax rate is not indicative of the Company's true economic tax burden.

The Company acts as an intermediary for tax incentives between the U.S. Government and certain recipients identified by Congress. These incentives are primarily intended to be indirect subsidies to state and local governments as well as to benefit companies that cannot directly utilize such incentives. Because interest income from state and local obligations is exempt from federal income tax, the Company is able to accept lower yields on these obligations, thereby providing lower borrowing costs to the issuers. Had these obligations been taxable, the Company would not have been able to reduce the interest rates to these borrowers and, thus, would have reported additional interest income and paid additional tax. Similarly, the Company, by utilizing the tax incentives of ownership, is able to offer lower cost lease financing to businesses through the reduction of rental payments from lessees. Such tax incentives lower the Company's effective income tax rate, but a substantial portion of the benefit of lower taxes is passed on to the Company's customers and to publicly supported borrowers.

Additionally, the Company is subject to indirect taxation because it must maintain noninterest-earning reserves with the Federal Reserve Bank. These reserves generate revenue for the Federal Reserve which, net of expenses, is turned over to the U.S. Treasury. The Company has estimated the amount of this indirect tax based upon its average funds borrowed rate and the average noninterest-earning reserve balances. While no single method of determination can precisely quantify this additional federal tax burden, the Company believes the foregoing method is reasonable.

If the effects of tax-exempt financing and reserve requirements had been included in the Company's income statement and tax provision, the effective income tax rate would have been 45% in 1985, 1984 and 1983.

## NOTE 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 International Banking Facilities. 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:

(1) cost for capital funds is charged based on the amount and nature of the assets funded;
(2) adjustments are made for the difference between host country and U.S. tax rates;
(3) income and expenses are primarily allocated based on the distribution of assets;
(4) 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;
(5) foreign exchange trading activities in domestic and foreign offices are included in foreign activities.

Total revenue, income (loss) before income taxes, net income (loss) and total identifiable assets by geographic area at December 31, 1985, 1984 and 1983 and for the years then ended were as follows:

| (in millions) | | Total revenue | Income (loss) before income tax expense | Net income (loss) | Total identifiable assets |
|---|---|---|---|---|---|
| Latin America and Mexico | 1985 | $ 209.4 | $ (4.0) | $ (2.3) | $ 2,073.3 |
| | 1984 | 231.7 | 1.1 | .8 | 2,006.2 |
| | 1983 | 214.1 | 17.6 | 15.3 | 1,998.4 |
| Europe | 1985 | 71.2 | 1.9 | 1.1 | 702.8 |
| | 1984 | 158.0 | 5.3 | 3.6 | 1,368.1 |
| | 1983 | 142.4 | 11.5 | 10.0 | 1,306.2 |
| Asia and Pacific Basin | 1985 | 53.5 | .3 | .2 | 530.7 |
| | 1984 | 68.7 | .9 | .6 | 595.0 |
| | 1983 | 90.1 | 7.1 | 6.2 | 809.8 |
| Canada | 1985 | 5.7 | .1 | — | 56.2 |
| | 1984 | 16.5 | .5 | .3 | 143.0 |
| | 1983 | 21.9 | 1.8 | 1.6 | 209.0 |
| Middle East and Africa | 1985 | 5.7 | — | — | 56.2 |
| | 1984 | 16.4 | .2 | .1 | 142.2 |
| | 1983 | 20.4 | 1.7 | 1.5 | 195.9 |
| Total foreign | 1985 | 345.5 | (1.7) | (1.0) | 3,419.2 |
| | 1984 | 491.3 | 8.0 | 5.4 | 4,254.5 |
| | 1983 | 488.9 | 39.7 | 34.6 | 4,519.3 |
| Domestic | 1985 | 3,104.3 | 302.0 | 191.0 | 26,010.2 |
| | 1984 | 2,900.3 | 250.9 | 163.9 | 23,929.6 |
| | 1983 | 2,508.1 | 190.0 | 120.3 | 22,498.3 |
| Total foreign and domestic | 1985 | $ 3,449.8 | $ 300.3 | $ 190.0 | $ 29,429.4 |
| | 1984 | 3,391.6 | 258.9 | 169.3 | 28,184.1 |
| | 1983 | 2,997.0 | 229.7 | 154.9 | 27,017.6 |

A condensed income statement for foreign activities follows:

| (in thousands) | Year ended December 31, 1985 | 1984 | 1983 |
|---|---|---|---|
| Interest income | $ 339,674 | $ 465,003 | $ 456,702 |
| Interest expense | 267,072 | 398,590 | 377,673 |
| Net interest income | 72,602 | 66,413 | 79,029 |
| Provision for loan losses | 42,170 | 25,647 | 9,763 |
| Net interest income after provision for loan losses | 30,432 | 40,766 | 69,266 |
| Noninterest income | 5,818 | 26,297 | 32,177 |
| Noninterest expense | 37,919 | 59,036 | 61,787 |
| Income (loss) before income tax expense | $ (1,669) | $ 8,027 | $ 39,656 |
| Net income (loss) | $ (968) | $ 5,408 | $ 34,552 |

Changes in the allowance for loan losses related to foreign activities were as follows:

| (in thousands) | Year ended December 31, 1985 | 1984 | 1983 |
|---|---|---|---|
| Balance, beginning of year | $ 30,906 | $ 24,879 | $ 24,100 |
| Provision for loan losses | 42,170 | 25,647 | 9,763 |
| Gross charge-offs | 27,811 | 20,091 | 9,444 |
| Recoveries | (3,000) | (1,041) | (610) |
| Net loan charge-offs | 24,811 | 19,050 | 8,834 |
| Other deductions | 3,043 | 570 | 150 |
| Balance, end of year | $ 45,222 | $ 30,906 | $ 24,879 |

The net gains arising out of foreign currency transactions, which were included in noninterest income, were $3.6 million in 1985, negligible in 1984 and $9.8 million in 1983.





## NOTE 12
## PARENT COMPANY

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

### CONDENSED STATEMENT OF INCOME

| (in thousands) | Year ended December 31, 1985 | 1984 | 1983 |
|---|---|---|---|
| **Income** | | | |
| Dividends from subsidiaries: | | | |
| Wells Fargo Bank, N.A. | $ 62,084 | $ 54,647 | $ 46,097 |
| Nonbank | 33,363 | 22,675 | 26,000 |
| Interest income (primarily from subsidiaries) | 466,067 | 421,094 | 289,779 |
| Noninterest income | 68,574 | 430 | 11,568 |
| Total income | 630,088 | 498,846 | 373,444 |
| **Expense** | | | |
| Interest on: | | | |
| Short-term borrowings | 166,619 | 226,238 | 159,257 |
| Senior and subordinated debt | 272,433 | 160,906 | 92,390 |
| Indebtedness to nonbank subsidiary | 42,799 | 46,660 | 43,525 |
| Provision for loan losses | 3,864 | 1,000 | — |
| Noninterest expense | 9,045 | 6,516 | 8,550 |
| Total expense | 494,760 | 441,320 | 303,722 |
| Income before income tax benefit (expense) and undistributed income of subsidiaries | 135,328 | 57,526 | 69,722 |
| Income tax benefit (expense) | (4,431) | 16,177 | 3,739 |
| Equity in undistributed income (loss) of subsidiaries: | | | |
| Wells Fargo Bank, N.A. | 75,389 | 98,362 | 81,319 |
| Nonbank | (16,252) | (2,800) | 120 |
| **Net income** | $ 190,034 | $ 169,265 | $ 154,900 |

### CONDENSED BALANCE SHEET

| (in thousands) | December 31, 1985 | 1984 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 1,455 | $ 2,546 |
| Investment securities | 1,242,793 | 151,885 |
| Net loans | 70,043 | 167,383 |
| Loans and advances to subsidiaries: | | |
| Wells Fargo Bank, N.A. | 798,275 | 482,384 |
| Nonbank | 3,967,131 | 3,241,725 |
| Investment in subsidiaries: | | |
| Wells Fargo Bank, N.A. | 1,368,355 | 1,265,711 |
| Nonbank | 254,493 | 283,930 |
| Other assets | 206,196 | 205,150 |
| Total assets | $ 7,908,741 | $ 5,800,714 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Commercial paper outstanding | $ 1,436,227 | $ 1,783,885 |
| Other short-term borrowings | 815,256 | 369 |
| Senior and subordinated debt | 3,786,617 | 2,250,906 |
| Indebtedness to nonbank subsidiary | 264,000 | 315,646 |
| Other liabilities | 148,681 | 106,238 |
| Total liabilities | 6,450,781 | 4,457,044 |
| Stockholders' equity | 1,457,960 | 1,343,670 |
| Total liabilities and stockholders' equity | $ 7,908,741 | $ 5,800,714 |

## CONDENSED STATEMENT OF CHANGES IN FINANCIAL POSITION

| (in thousands) | Year ended December 31, 1985 | 1984 | 1983 |
|---|---|---|---|
| Financial resources provided by (applied to): | | | |
| Operations: | | | |
| Net income | $ 190,034 | $ 169,265 | $ 154,900 |
| Noncash charges (credits): | | | |
| Provision for loan losses | 3,864 | 1,000 | — |
| Deferred income tax expense | 22,012 | 20,602 | (2,099) |
| Equity in undistributed income of subsidiaries | (59,137) | (95,562) | (81,439) |
| Financial resources provided by operations | 156,773 | 95,305 | 71,362 |
| Cash dividends declared | (65,779) | (63,138) | (58,878) |
| Net financial resources provided by operations | 90,994 | 32,167 | 12,484 |
| Other financing activities: | | | |
| Short-term borrowings | 467,229 | 71,604 | 224,760 |
| Senior and subordinated debt | 1,535,711 | 1,190,291 | 150,215 |
| Indebtedness to nonbank subsidiary | (51,646) | 30,273 | 12,091 |
| Common stock repurchased, net of issued | (12,190) | (108,241) | 7,528 |
| Preferred stock issued, net of issuance costs | — | — | 146,200 |
| Financial resources provided by other financing activities | 1,939,104 | 1,183,927 | 540,794 |
| Other activities – (increase) decrease in net nonearning assets: | | | |
| Cash and due from banks | 1,091 | (1,425) | (319) |
| Investment in subsidiaries | (14,070) | (138,709) | (23,788) |
| Other, net | 21,610 | (105,320) | 56,869 |
| Financial resources provided by (applied to) net nonearning assets | 8,631 | (245,454) | 32,762 |
| Increase in financial resources invested in earning assets | $ 2,038,729 | $ 970,640 | $ 586,040 |
| Increase (decrease) in earning assets: | | | |
| Investment securities | $ 1,090,908 | $ 68,352 | $ 72,039 |
| Net loans | (93,476) | 81,457 | 85,389 |
| Loans and advances to subsidiaries | 1,041,297 | 820,831 | 428,612 |
| Increase in earning assets | $ 2,038,729 | $ 970,640 | $ 586,040 |

The Parent had available lines of credit supporting commercial paper borrowings and similar arrangements with unaffiliated banks totaling $480 million and $680 million at December 31, 1985 and 1984, respectively. The lines of credit require commitment fees or compensating balances, which were not significant.

## NOTE 13
## LOANS TO RELATED PARTIES

Certain directors and executive officers of the Company, certain entities to which they are related and their relatives were loan customers of the Company during 1985 and 1984. Substantially all such loans were made by the Bank in the ordinary course of business at the Bank's normal credit terms, including interest rate and collateralization, and none represent more than a normal risk of collection. Such loans were $142.4 million at December 31, 1985 and $60.7 million at December 31, 1984. During 1985, additional loans made were $112.6 million and payments received were $30.9 million.





## NOTE 14
## LEASE COMMITMENTS

The Company has lease arrangements primarily for the use of real property. These leases do not contain restrictive clauses concerning dividends, debt financing or further leasing, nor do they generally involve contingent rentals or bargain purchase options.

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. Future minimum payments under capital leases and noncancelable operating leases with terms in excess of one year as of December 31, 1985 are as follows:

| (in thousands) | Capital leases | Operating leases |
|---|---|---|
| **Year ended December 31,** | | |
| 1986 | $ 17,614 | $ 43,455 |
| 1987 | 17,501 | 35,096 |
| 1988 | 17,400 | 31,252 |
| 1989 | 17,317 | 26,717 |
| 1990 | 17,247 | 22,698 |
| Thereafter | 224,273 | 71,648 |
| Total minimum lease payments | 311,352 | $ 230,866 |
| Executory costs | (51,455) | |
| Amounts representing interest | (162,542) | |
| Present value of net minimum lease payments | $ 97,355 | |

Net rental expense for all operating leases was $46.4 million, $43.4 million and $47.7 million for the years ended December 31, 1985, 1984 and 1983, respectively.

## NOTE 15
## COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business there are various commitments outstanding and contingent liabilities, such as foreign exchange contracts, letters of credit and commitments to extend credit, which are not reflected in the accompanying financial statements. No material losses are anticipated by management as a result of these commitments.

At December 31, 1985, the Company had outstanding commitments under standby letters of credit and guarantees totaling $1.3 billion. This amount includes $.2 billion of participations purchased and is net of $.1 billion of participations sold.

Actions are pending against the Company in which the relief or damages sought are very substantial. In addition, the Company is at all times subject to numerous pending and threatened legal actions and proceedings arising in the normal course of business. After reviewing with counsel pending and threatened actions and proceedings, management considers that the outcome of such actions or proceedings will not have a material adverse effect on stockholders' equity of the Company.

## NOTE 16
## SUBSEQUENT EVENT

On February 7, 1986, the Company entered into a definitive stock purchase agreement (Purchase Agreement) with Midland Bank plc (Midland) and certain Midland affiliates providing for the acquisition by the Company of all the issued and outstanding common stock of Crocker National Corporation (Crocker). On the basis of assets of $19.2 billion as of December 31, 1985, Crocker was the 25th largest bank holding company in the United States. It is anticipated that Crocker's wholly-owned subsidiary, Crocker National Bank, will be combined with Wells Fargo Bank, N.A. and operated under the Wells Fargo Bank name.

The base purchase price is $1,080 million and is subject to certain adjustments. Subject to receipt of appropriate regulatory and shareholder approvals, and the fulfillment of certain conditions, the acquisition is expected to close in 1986. There is no assurance as to when or whether such approvals will be obtained and, if obtained, as to what, if any, conditions or restrictions might be imposed. The Purchase Agreement may be terminated by either party if the transaction has not closed on or before December 31, 1987 and in certain other circumstances.

The purchase price is payable in cash and, at the Company's election, common stock of the Company, provided that the number of shares issued to Midland may not exceed the greater of (1) 4.9% of the total number of shares of common stock outstanding at closing of the proposed acquisition (giving effect to the issuance of common stock to Midland) or (2) that number of shares of common stock which has an aggregate value of $75 million.

To meet the requirements for additional primary capital in connection with the proposed acquisition, the Company expects to issue approximately $300 million of common stock, including the stock that may be issued to Midland, approximately $250–$350 million of preferred stock and up to approximately $500 million of debt securities. The amount of equity and debt securities to be issued may change depending on specific plans developed for integrating Crocker's assets as well as on market conditions.

The acquisition will be accounted for as a purchase transaction. Accordingly, the results of operations of Crocker will be included with that of the Company for periods subsequent to the date of acquisition.

The following unaudited pro forma condensed combined income statement shows the pro forma effect of the proposed acquisition of Crocker on the historical income statement of the Company. This statement is based on information available to the Company as of February 18, 1986 as well as on the Securities and Exchange Commission's rules and regulations.

The unaudited pro forma condensed combined income statement is based upon the audited income statements of the Company and Crocker for the year ended December 31, 1985. Purchase accounting adjustments have been made, based upon preliminary estimates and assumptions, to reflect estimated fair values with respect to Crocker's assets and liabilities at December 31, 1985. Such preliminary estimates and assumptions are subject to change as additional information is obtained. Purchase adjustments will be made on the basis of estimates, appraisals and evaluations as of the date of closing and, therefore, will differ from those reflected below.

Because the pro forma income statement is based on historical data, the Company believes that it is not necessarily indicative of the effects which the proposed acquisition will have on the results of operations of the Company in the future. The Company believes that such results will be affected, in particular, by the effects of the sale of substantially all of Crocker's international business and certain domestic assets to Midland; operating efficiencies and cost reductions which may be achieved following the proposed acquisition; the Company's intention to reduce the asset size of the resulting entity; and certain tax benefits which may accrue to the Company. The pro forma income statement does not include the effects of the foregoing factors since they cannot be estimated as of February 18, 1986.

Following is the unaudited pro forma condensed combined income statement for 1985 of the Company and Crocker as though the acquisition had occurred on January 1, 1985:

| (in millions) | Year ended December 31, 1985 |
|---|---|
| Net interest income | $ 1,879 |
| Provision for loan losses | 482 |
| Net interest income after provision for loan losses | 1,397 |
| Noninterest income | 623 |
| Noninterest expense | 1,729 |
| Income tax expense | 108 |
| Income before extraordinary item | 183 |
| Extraordinary item—tax benefit of loss carryforward | 9 |
| Net income | $ 192 |

The pro forma net income of $192 million consists of 1985 net income of the Company and Crocker of $190 million and $38 million, respectively, less a pro forma net expense of $36 million. The pro forma net expense includes amortization of $11 million relating to an estimated $270 million excess purchase price over fair value of Crocker's net assets acquired (goodwill).





## 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, 1985 and 1984 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, 1985. 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, 1985 and 1984, 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, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.
Certified Public Accountants

San Francisco, California
January 20, 1986, except as to note 16,
which is as of February 18, 1986

# SUPPLEMENTAL QUARTERLY AND ANNUAL FINANCIAL DATA

## CONDENSED CONSOLIDATED STATEMENT OF QUARTERLY INCOME

| (in thousands) | 1985 Quarter ended | | | | 1984 Quarter ended | | | |
|---|---|---|---|---|---|---|---|---|
| | March 31 | June 30 | Sept. 30 | Dec. 31 | March 31 | June 30 | Sept. 30 | Dec. 31 |
| **Interest income** | $ 753,328 | $ 761,882 | $ 748,185 | $ 753,552 | $ 723,250 | $ 776,110 | $ 808,688 | $ 793,499 |
| **Interest expense** | 475,599 | 462,612 | 448,408 | 447,294 | 484,100 | 509,983 | 539,363 | 518,059 |
| Amortized gain (loss) on interest rate hedging | 9,347 | 8,229 | 12,065 | 7,584 | (85) | (1,627) | 5,259 | 15,890 |
| **Net interest income** | 287,076 | 307,499 | 311,842 | 313,842 | 239,065 | 264,500 | 274,584 | 291,330 |
| Provision for loan losses | 128,614 | 48,632 | 89,159 | 105,431 | 31,302 | 48,409 | 50,552 | 64,330 |
| Net interest income after provision for loan losses | 158,462 | 258,867 | 222,683 | 208,411 | 207,763 | 216,091 | 224,032 | 227,000 |
| **Noninterest income:** | | | | | | | | |
| Service charges on deposit accounts | 25,766 | 27,693 | 27,205 | 28,330 | 23,384 | 23,632 | 23,207 | 25,013 |
| Domestic fees and commissions | 21,607 | 19,529 | 23,489 | 23,551 | 16,539 | 20,336 | 17,396 | 21,125 |
| Investment securities gains | 3,747 | 1,750 | 29,625 | 20,349 | 420 | 416 | 187 | 1,999 |
| Trust and investment services income | 13,122 | 13,371 | 14,415 | 14,224 | 14,890 | 11,783 | 11,944 | 12,542 |
| Sale of a mortgage banking subsidiary | 50,152 | — | — | — | — | — | — | — |
| Other (1) | 15,863 | (2,504) | 3,930 | 20,450 | 9,559 | 11,619 | 9,817 | 14,821 |
| Total noninterest income | 130,257 | 59,839 | 98,664 | 106,904 | 64,792 | 67,786 | 62,551 | 75,500 |
| **Noninterest expense:** | | | | | | | | |
| Salaries | 104,391 | 103,055 | 105,351 | 101,648 | 99,380 | 99,442 | 101,761 | 105,266 |
| Employee benefits | 25,468 | 24,153 | 24,769 | 25,078 | 24,049 | 22,413 | 17,519 | 19,518 |
| Net occupancy | 21,016 | 21,326 | 22,024 | 23,422 | 20,380 | 20,762 | 20,208 | 20,304 |
| Equipment | 18,315 | 19,348 | 18,235 | 20,042 | 17,303 | 18,250 | 18,681 | 19,955 |
| Other | 57,180 | 70,107 | 69,845 | 68,982 | 51,562 | 60,231 | 61,351 | 68,252 |
| Total noninterest expense | 226,370 | 237,989 | 240,224 | 239,172 | 212,674 | 221,098 | 219,520 | 233,295 |
| **Income before income tax expense** | 62,349 | 80,717 | 81,123 | 76,143 | 59,881 | 62,779 | 67,063 | 69,205 |
| Income tax expense | 17,399 | 33,234 | 32,572 | 27,093 | 19,855 | 21,927 | 23,224 | 24,657 |
| **Net income** | $ 44,950 | $ 47,483 | $ 48,551 | $ 49,050 | $ 40,026 | $ 40,852 | $ 43,839 | $ 44,548 |
| **Net income applicable to common stock** | $ 41,594 | $ 43,977 | $ 45,644 | $ 46,031 | $ 36,276 | $ 37,234 | $ 39,826 | $ 40,835 |
| PER COMMON SHARE | | | | | | | | |
| Net income | $ 1.95 | $ 2.05 | $ 2.12 | $ 2.18 | $ 1.52 | $ 1.63 | $ 1.80 | $ 1.92 |
| Dividends declared | $ .60 | $ .60 | $ .60 | $ .68 | $ .54 | $ .54 | $ .54 | $ .54 |

(1) Amounts in 1985 include a total of $11.6 million in net closing costs associated with restructuring the Company's international activities, of which $9.3 million was recognized in the second quarter.





## FINANCIAL REPORTING AND CHANGING PRICES

As required by FASB Statement No. 33, "Financial Reporting and Changing Prices," the Company has provided supplemental information concerning the effects of changing prices on its financial statements.

The following data were calculated by adjusting certain historical cost information—premises and equipment and monetary assets and liabilities—by the average Consumer Price Index for All Urban Consumers (CPI) to reflect changes in the general purchasing power of the dollar. This results in historical cost/constant dollar amounts, which are intended to eliminate financial statement distortions caused by general inflation.

### SUPPLEMENTARY FIVE-YEAR COMPARISON OF SELECTED FINANCIAL DATA ADJUSTED FOR THE EFFECTS OF CHANGING PRICES

| (in thousands)<br>(dollars expressed in average 1985 dollars) | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| Historical cost information adjusted for general inflation | 1985 | 1984 | 1983 | 1982 | 1981 |
| Net interest income (after provision for loan losses) (1) | $ 848,423 | $ 906,102 | $ 857,204 | $ 787,367 | $ 789,579 |
| Net income | 133,957 | 128,286 | 118,955 | 110,697 | 125,472 |
| Net income per common share (2) | 5.68 | 5.00 | 4.47 | 4.64 | 5.39 |
| Purchasing power loss on net monetary assets held during the year | 23,905 | 28,120 | 24,261 | 23,733 | 57,251 |
| Net assets at year end | 2,017,406 | 1,956,498 | 2,021,573 | 1,797,293 | 1,744,929 |
| Other information: | | | | | |
| Cash dividends declared per common share | 2.48 | 2.24 | 2.14 | 2.14 | 2.27 |
| Market price per common share at year end | 62⅜ | 48⅛ | 42 | 29⅝ | 29¼ |
| Average consumer price index | 322.2 | 311.1 | 298.4 | 289.1 | 272.4 |

(1) Net interest income is not presented on a taxable-equivalent basis.
(2) Computed based on net income applicable to common stock.

The principal difference between 1985 net income as determined on the historical cost/constant dollar basis ($134.0 million) and net income as reported in the financial statements ($190.0 million) is additional depreciation and amortization expense in the historical cost/constant dollar presentation ($56.0 million) caused by increasing the value of premises and equipment before computing depreciation expense thereon. It should be noted that the accounting principles involved do not change under historical cost/constant dollar assumptions; only the unit of measure changes under this concept. Restatement based on current cost/constant dollar data has been omitted because there is no material difference from historical cost/constant dollar data.

As specified by FASB Statement No. 33, no adjustments or allocations of the amount of income tax in the primary financial statements were made in the computation of the supplemental information.

The Company believes that comparisons of price level adjusted data are most meaningful when interpreted in terms of trends and relationships among the periods. Management believes that the effects of changing prices are more appropriately measured through careful analysis of liquidity management and interest-rate sensitivity as discussed in Management's Analysis of Financial Operations on pages 20 and 21. Management does not believe that the restatement of financial data based on changes in the CPI is necessarily indicative of the effects of inflation on financial institutions. The nature of the Company's operations is such that there will always be an excess of monetary assets over monetary liabilities. Therefore, this calculation will always show a loss of purchasing power in periods of price increases.

How well the Company copes with changing prices and fluctuating interest rates may also be assessed by analyzing its asset and liability structure. This is developed under Asset/Liability Management in Management's Analysis of Financial Operations on page 21. Additional insight can be obtained by reference to the rate/yield table on page 10. The Company believes that such analysis is superior to a mechanical restatement as specified by FASB Statement No. 33.

# DIRECTORS

## WELLS FARGO & COMPANY AND ITS PRINCIPAL SUBSIDIARY, WELLS FARGO BANK, N.A.

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

**James F. Dickason**
Chairman of the Board
The Newhall Land and Farming Company
(agricultural, recreational, petroleum and land development)

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

**Paul Hazen**
President and Chief Operating Officer

**Robert K. Jaedicke**
Dean
Graduate School of Business
Stanford University

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

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

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

**Arjay Miller**
Dean Emeritus
Graduate School of Business
Stanford University

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

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

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

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

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

**Carl E. Reichardt**
Chairman and Chief Executive Officer

**Harry O. Reinsch**
President, Bechtel Power Corporation
(engineering, construction, management of power-generating facilities)

**Donald B. Rice**
President, The Rand Corporation
(nonprofit research and analysis firm)

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

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

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

## DIRECTORS EMERITI

### WELLS FARGO BANK, N.A.

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

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

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

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



# MANAGEMENT

## WELLS FARGO & COMPANY

*Chairman and Chief Executive Officer*
Carl E. Reichardt

*President and Chief Operating Officer*
Paul Hazen

*Executive Vice Presidents*
Thomas H. Boughey
R. Thomas Decker
Ronald E. Eadie
Gordon S. Grout
John F. Grundhofer
Jack L. Hancock
E. Alan Holroyde
Robert L. Joss
Frank N. Newman
Clyde W. Ostler
Fredrick W. Petri
David M. Petrone
Guy Rounsaville, Jr.
Dale R. Walker
William F. Zuendt

*Chief Financial Officer*
Frank N. Newman

*General Auditor*
Clyde W. Ostler

*Chief Counsel and Secretary*
Guy Rounsaville, Jr.

*Chief Loan Examiner*
Douglas P. Holloway

*Director of Taxes*
Alan C. Gordon

*Treasurer*
Alan J. Pabst

*Controller*
Frank A. Moeslein

*Director of Investor Relations*
Eric R. Durant

*Director of Corporate Communications*
Lona L. Jupiter

## WELLS FARGO BANK, N.A.

*Chairman and Chief Executive Officer*
Carl E. Reichardt

*President and Chief Operating Officer*
Paul Hazen

**Commercial Banking Group**
Charles M. Johnson
Executive Vice President

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

**Consumer Operations and Systems Division**
Barry E. Young
Executive Vice President

**Consumer Services Division**
Jack Kopec
Executive Vice President

**Corporate Banking Group**
R. Thomas Decker
Executive Vice President

James C. Flood
Executive Vice President

**Credit Policy Group**
Gordon S. Grout
Executive Vice President

**Finance Group**
Frank N. Newman
Executive Vice President

**Funding Group**
Thomas H. Boughey
Executive Vice President

**International Banking Group**
Robert L. Joss
Executive Vice President

**Operations Group**
E. Alan Holroyde
Executive Vice President

**Real Estate Industries Group**
Dale R. Walker
Executive Vice President

**Retail Banking Group**
William F. Zuendt
Executive Vice President

Jerry A. Grundhofer
Executive Vice President

**Strategy and Systems Group**
Jack L. Hancock
Executive Vice President

**Trust and Investment Group**
Robert L. Joss
Executive Vice President

## WELLS FARGO BANK GLOBAL FACILITIES

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

Wells Fargo International Limited,
*Cayman Islands*

**Branches**
Hong Kong
Japan: Tokyo
Korea: Seoul
Nassau

**Representative Offices**
Argentina: Buenos Aires
Brazil: São Paulo
Mexico: Mexico City
Singapore
Venezuela: Caracas

## WELLS FARGO & COMPANY NONBANK SUBSIDIARIES

**Wells Fargo Ag Credit**

Englewood, Colorado
Michael J. Gillfillan, President

**Wells Fargo Business Credit**

Dallas, Texas
Thomas D. Drennan, President

**Wells Fargo Capital Markets, Inc.**

San Francisco, California
Charles A. Greenberg, President

**Wells Fargo Credit Corporation**

Scottsdale, Arizona
Larry S. Crawford, President

**Wells Fargo Insurance Services/ Central Western Insurance Company**

San Francisco, California
James G. Jones, President

**Wells Fargo Investment Advisors**

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

**Wells Fargo Leasing Corporation**

San Francisco, California
Theodore J. Rogenski, President

**Wells Fargo Realty Advisors**

Los Angeles, California
Fredrick W. Petri, President

**Wells Fargo Realty Finance**

San Francisco, California
George A. Tillotson, President

**Wells Fargo Securities Clearance Corporation**

New York, New York
Barry X. Lynn, President

## THE INTERNATIONAL ADVISORY COUNCIL

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

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

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

Edward Carlson
*Chairman Emeritus*
*UAL, Incorporated*
*Chicago, Illinois*

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

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

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

George S. Ishiyama
*President*
*Ishiyama Corporation*
*San Francisco, California*

Ahmed Juffali
*Managing Director*
*E. A. Juffali & Brothers*
*Jedda, Saudi Arabia*

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, Limited*
*Paris, France*

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

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

**Stock Exchange Listings**

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

**Transfer Agent and Registrar of Stock**

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

*Co-Transfer Agent and Co-Registrar*
Manufacturers Hanover Trust Company of New York
P.O. Box 24935, Church Street Station
New York, New York 10249

**Notice to Shareholders**

The annual meeting of Wells Fargo & Company will be held at 2 p.m. on Tuesday, April 15, 1986 at 464 California Street, San Francisco, California.



READERS WISHING MORE
DETAILED INFORMATION ABOUT
WELLS FARGO & COMPANY
MAY OBTAIN COPIES OF
THE COMPANY'S FORM 10-K
AT NO CHARGE UPON REQUEST
FROM:

WELLS FARGO & COMPANY
CONTROLLER'S DIVISION, 0102-132
475 SANSOME STREET
SAN FRANCISCO, CALIFORNIA 94163

WFC0386B

WELLS FARGO & COMPANY
420 MONTGOMERY STREET
SAN FRANCISCO
CALIFORNIA 94163