WELLS FARGO & COMPANY

1990 Annual Report

Highlights

WELLS FARGO & COMPANY AND SUBSIDIARIES

(in millions)	1990	1989	% Change
FOR THE YEAR			
Net income	$ 711.5	$ 601.1	18%
Per common share			
Net income	$ 13.39	$ 11.02	22
Dividends declared	3.90	3.30	18
Average common shares outstanding	51.2	52.1	(2)
Profitability ratios			
Net income to average total assets (ROA)	1.39%	1.26%	10
Net income applicable to common stock to average common stockholders' equity (ROE)	25.07	24.49	2
Average loans	$44,061	$39,426	12
Average assets	51,109	47,763	7
Average core deposits	36,219	32,850	10
Net interest margin	5.12%	5.11%	—
AT YEAR END			
Loans	$48,977	$41,727	17%
Allowance for loan losses	885	739	20
Assets	56,199	48,737	15
Core deposits	41,840	35,607	18
Common stockholders' equity	2,955	2,456	20
Stockholders' equity	3,360	2,861	17
Tier 1 capital	2,649	2,323	14
Total capital (Tier 1 and 2)	4,878	4,645	5
Book value per common share	$ 57.44	$ 48.08	19
Capital ratios			
Common stockholders' equity to assets	5.26%	5.04%	4
Stockholders' equity to assets	5.98	5.87	2
Risk-based capital ratios			
Tier 1 capital	5.03	4.95	2
Total capital	9.27	9.91	(6)
Leverage ratio	5.04	4.79	5
Common stockholders	31,551	28,176	12
Staff (full-time equivalent)	21,800	19,500	12
Branches (domestic, all California)	574	455	26

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Letter to Shareholders

WELLS FARGO & COMPANY AND SUBSIDIARIES

The year 1990 was marked by the threat of war in the Persian Gulf, a faltering domestic economy and a continuous stream of bad news affecting the nation's financial services industry.

In these unsettled times, investor concerns about what lay ahead for Wells Fargo and the California economy largely overshadowed the Company's steady financial performance.

▮ Net income for the year rose 18%, to $711.5 million. Earnings per common share were $13.39, an increase of 22% in comparison with last year's $11.02 per share. Returns on average assets and average equity were 1.39% and 25.07%, respectively. These results included an after-tax gain of $68.6 million, or $1.34 per share, in connection with the Wells Fargo Nikko Investment Advisors (WFNIA) joint venture. Excluding this gain, 1990 earnings and earnings per share would have been $642.9 million and $12.05, respectively.

▮ Our regular quarterly cash dividend on common shares was raised from $.90 to $1.00 per share in July 1990.

▮ Common shareholders' equity increased $499 million, or 20%, to $2.95 billion, or $57.44 per share, at December 31, 1990.

▮ At year end Wells Fargo's total risk-based capital ratio, according to 1992 guidelines, was 9.27%. Under those same rules, our Tier 1 capital, sometimes referred to as "core" capital, was 5.03% of risk-weighted assets. By all measures of capital adequacy, Wells Fargo exceeds minimum regulatory guidelines.

Carl E. Reichardt, Chairman — Paul Hazen, President

▮ More than four million households and small business establishments banked with Wells Fargo in 1990. Average core deposits increased $3.4 billion, to $36.2 billion—a gain of 10%. At year end these core deposits were equal to 85% of Wells Fargo's loans and 98% of total deposits. Both ratios are considerably above average for major U.S. banks.

▮ Average loans outstanding during 1990 increased 12%, to $44.1 billion, mainly reflecting growth in 1-4 family mortgage originations. At year end, total loans outstanding were $49 billion, an increase of $7.3 billion. A significant portion of the increase was due to bank mergers and branch purchases. The Company had no cross-border outstandings to developing countries at the end of 1990, other than $8 million in short-term trade facilities as a service to customers.

▮ At year end, nonaccrual loans and other real estate (ORE) were 2.9% of total loans plus ORE—up from 2.7% a year ago. Our allowance for loan losses was 1.81% of total loans, compared with 1.77% a year ago. Domestic net loan charge-offs for the year totaled .45% of average total loans. Recoveries from previous write-offs of foreign loans helped reduce net charge-offs to .38% of average total loans.

A Changing Agenda

Over the past 12 months, much of our attention has focused on the softening domestic economy and on those areas of our business most vulnerable to recession. Defensive actions—redoubling surveillance of our real estate and corporate loan portfolios, working out arrangements with delinquent borrowers, trimming back corporate and real estate banking activities, increasing loan loss reserves, and strengthening the Company's capital base—occupied an increasingly important place in our day-to-day agendas.

The year 1990 was also one of steady progress in broadening our coverage of Southern California and the Central Valley—two markets Wells Fargo has targeted for accelerated development over the next several years.

▮ Early in 1990 we completed the previously announced acquisitions of Valley National Bank of Glendale; Central Pacific Corporation and its subsidiary, American National Bank of Bakersfield; and the Torrey Pines Group of Solana Beach (San Diego County). The three merged

institutions added a total of 28 offices and $1.5 billion in deposits to our expanding branch network.

- In December we purchased 92 Southern California branch offices with $4.4 billion in deposits, and $4.1 billion in assets from Great American Bank of San Diego.

- Late in the year we also acquired Citizens Holdings, parent of El Camino Bank of Anaheim and Citizens Bank of Costa Mesa. The addition of their six offices, with $207 million in deposits, gave us a total of 53 branches serving Orange County.

Banking on the California Economy

With the bulk of its loans and practically all of its deposits concentrated in California, Wells Fargo Bank has been a major contributor to—and beneficiary of—the state's economic growth.

Although it ranks third among California banks in total assets, Wells Fargo is the largest middle market lender, commercial real estate lender, agricultural lender and money manager, and second largest retail deposit gatherer in a state that ranks eighth among the top economies of the world.

California is not without economic concerns. The drought, along with the ripple effect it may have throughout the state's economy, is one. We are encouraged by the effort being spearheaded by our state's public leaders to address this problem. Real estate is another. We have been concerned for some time about the overbuilding of offices, hotels and other commercial properties in some parts of the state, as well as recent trends in California's home sales and consumer spending.

However, it would be hard to imagine California, with its economic and geographic advantages, faring worse in a recession, or prospering less in the ensuing recovery, than the nation as a whole. On the contrary, there is every indication that California will continue to outperform the rest of the country in employment and population growth, household formation, housing starts, income and gross regional product over the balance of the decade.

In short, we remain optimistic about California's prospects—and we still believe that our sharply focused regional marketing strategy is right for Wells Fargo.

Focusing Our Resources

In recent years the Company has continued to emphasize four core businesses: retail banking, investment management, real estate lending, and commercial and corporate banking. These businesses complement and balance one another in several important ways.

- Retail banking gives us stability: a steady, dependable source of funds from branch deposits and a reliable stream of service fees and interest income from consumer, small business and home mortgage loans. Retail banking can also be quite profitable: In 1990 it was by far the largest contributor to Wells Fargo's consolidated earnings. Our retail business will be discussed at greater length later in this letter.

- Investment management is a high-rate-of-return business involving a substantial investment in staff and technology, but only a modest capital commitment. Wells Fargo's Private Banking Group, which administers $32 billion in assets, is one of the largest private trust businesses in the country. Fifty-percent-owned WFNIA manages $83 billion of institutional fund assets and is among the largest pension fund advisors in the world. The substantial volume of noninterest income Wells Fargo earns from these fee-based trust and advisory services has been partly responsible for the Company's comparatively high average rates of return on assets and equity over the past several years.

As previously noted, the gain from our contribution of Wells Fargo Investment Advisors and related trust operations in exchange for a 50% stake in the newly formed WFNIA joint venture and $125 million in cash made an important contribution to 1990 net income. One of the joint venture's chief targets for the 1990s will be the $1 trillion Japanese pension fund management market—until recently, the exclusive province of Japanese insurance companies and trust banks.

- Wells Fargo's commercial, corporate and real estate banking groups manage a diverse loan portfolio totaling more than $27 billion. These groups also provide their customers a number of fee-related services, such as wire transfers and account reconciliation. However, their primary function is lending. Each year they channel billions of dollars from our customers' deposits into construction of new homes and commercial properties, new industrial and agricultural facilities, and other investments that help to spur the economic development of the regions and communities we serve, while earning a fair return for our shareholders.

Managing a High-Profile Loan Portfolio

Over the years Wells Fargo has adopted a number of lending practices, pricing policies and credit standards designed to compensate for, and partly offset, the risks inherent in banking real estate and corporate credits. These practices have worked well for us in the past, and we believe they are especially appropriate to today's relatively high-risk banking environment.

But in the final analysis, whatever success we've had in corporate and real estate lending is due to two things: good customers and a well-seasoned team of senior lending officers.

Most of our senior people have been actively involved in real estate lending with Wells Fargo for many years—long enough to remember the severe real estate recessions of 1973-75 and 1981-82. Among other things, experience has taught us to anticipate and react quickly to potential problems—and to recognize small problems before they become big ones. It has also taught us to place as much faith in our analysis of our borrowers' integrity and their ability to pay as in the value of their collateral.

Residential and commercial real estate development are among the most cyclical of businesses. In a recession, even top-tier developers may find themselves in a temporary cash bind and unable to meet their loan payments. Consequently, nonaccrual loans can tend to rise rather sharply in a down-cycle. During the 1981-82 recession, commercial real estate nonaccrual loans and ORE rose to nearly 8% of related outstandings and ORE. However, we were able to recapture interest and principal on virtually all of those loans during the recovery that followed.

Our construction and commercial real estate portfolio at year end totaled $14 billion. Over the past 15 years, our annual losses on these loans have averaged approximately .12% of outstandings—a figure that compares favorably with the .59% average loss ratio on the Company's total loan portfolio for the same 15-year period.

During the 1980s, Wells Fargo's Corporate Banking Group assisted in financing the restructuring, acquisition or buyout of slightly more than one hundred American corporations. Typically, Wells Fargo acted as lead banker and senior lender in these highly leveraged transactions (HLTs), providing secured term loans with average maturities of five to seven years. Normally, repayment schedules were based on reasonable projections of cash flow from operations, rather than the sale of corporate assets.

Our HLT outstandings declined from $4.2 billion at the end of 1989 to $3.6 billion at the end of 1990. As the economy slipped into a recession in 1990, we began to experience problems with some of our HLT borrowers. At year end $336 million of senior HLT loans were on nonaccrual status, up from $148 million at the end of 1989. Net charge-offs of HLT loans for the year were $36 million.

The risks related to our HLT portfolio differ in two significant respects from those involved in real estate lending. First, the HLT portfolio is widely diversified, both geographically and by industry. Second, our experience in this type of lending has not been tested by recession. These differences make it more difficult to anticipate how the HLTs as a group will perform over the next 12 months. All we can say with certainty is that we will be exercising even more than our customary diligence in managing our HLTs as well as all other segments of our loan portfolio in coming months.

Retail Banking

A decade ago many bankers would have challenged the premise that you could make a profit while providing superior customer service in retail banking. The fixed costs of running a branch banking system were simply too high. But for the past nine years, by managing this part of our business more closely, we discovered that profitability and superior customer service are not only compatible, but mutually indispensable aims.

The following before-and-after snapshots illustrate how far our retail bankers have come in their efforts to achieve those indivisible goals, creating a branch system that is a valuable, stable franchise and a major strength of the Bank.

- Ten years ago we estimated it cost Wells Fargo about $3.50 of branch expense—mostly branch payrolls, occupancy and data processing costs—to support $100 worth of deposits. Today it costs us less than $1.80.

- Ten years ago the average Wells Fargo branch banked approximately $25 million of deposits—about the minimum volume a branch needs to be self-supporting. Today the average is over $70 million.

- Ten years ago we had fewer than 250 automatic teller machines in operation throughout the state. Today we have over 1,500 ATMs in about 700 locations and can

almost guarantee that at least one ATM at each Wells Fargo banking location will be in service whenever a customer needs to make a deposit, withdrawal or transfer. Furthermore, depositors can now get cash from their Wells Fargo accounts practically anywhere in the country through 50,000 ATM units tied into the PLUS SYSTEM® and STAR SYSTEM® networks.

- Ten years ago customers might spend their lunch breaks waiting to cash their paychecks at busy downtown Wells Fargo branch offices. Now we'll get them through the teller line in five minutes "max," or add a $5 credit to their checking accounts.

- Ten years ago our office hours were 10 to 3, Monday through Friday. Now customers can bank with Wells Fargo whenever they wish—in person from 9 to 6 weekdays, and at most branches from 9 to 2 Saturday; or any time, day or night, at ATMs or via our 24-hour person-to-person telephone service, which can handle more than 100 banking transactions while the customer is on the line.

From a marketing perspective, we strive to be California's premier retail financial services provider, not only in terms of service quality and efficiency, but also in the range and value of services we provide our customers through their local Wells Fargo branch office.

Business Banking is a prime example. Wells Fargo was among the first major banks in California to develop products, such as our BusinessLine™ line of credit and "no surprises" checking, uniquely tailored to the needs of small businesses and professional people. We were also one of the first to establish a cadre of Business Banking Officers (BBOs) specially trained to serve those needs. In the three years since this program was established, our branch BBOs have developed full-service relationships with thousands of local businesses and professionals who had formerly done little or no banking with their local Wells Fargo branch. This business-within-a-business currently banks over $1 billion in small business loans.

In addition, we recently created a new unit to develop a broader line of retail savings and investment products—mutual stock funds, bond funds, annuities and more. Ultimately, we hope to provide Wells Fargo's branch customers investment options similar to those available to our Private Banking customers—but on a scale that is more affordable and in a form more easily accessible to the average depositor.

Community Development

Wells Fargo has a 139-year history of community involvement. Our branch people have always been the driving forces behind our effort to be more than a bank to the communities we serve. Their efforts have been strongly reinforced by the individual contributions of hundreds of Wells Fargo community service volunteers from all areas of the Company.

To bring these community service activities into sharper focus, we established a Corporate Community Development Group last year and gave it the task of coordinating all of the Company's community-related programs, including corporate contributions, aid to education, community reinvestment and the work of our volunteer network.

One of the Group's chief responsibilities is to administer Wells Fargo's Community and Economic Development Loan Program, to which we have committed $1 billion in financing over a seven-year period. In 1990 we lent more than $228 million through the program. Some of these loans were to small, minority- or woman-owned businesses—many of them situated in economically underdeveloped communities. Some were extended-term consumer loans to low-income borrowers. The balance was used to fund construction and permanent financing of housing for people with low to moderate incomes. With several thousand housing units financed to date, and more to come, Wells Fargo has emerged as a leader in the effort to alleviate California's critical shortage of decent, affordable housing for low-income families, the elderly and the disabled.

Perspectives

By year end, public confidence in the nation's financial institutions appeared to have sunk to the lowest level in half a century. The S&L industry was in the process of liquidation, consolidation or conversion to bank charters. Stocks of most major banks were selling at the lowest prices, relative to earnings, in modern history. And some federal officials were openly speculating about another "S&L-type debacle" in the banking industry.

Several developments since then have altered that somber picture. The Federal Reserve Board's moves in early 1991 to reduce interest rates and increase the banking system's liquidity were encouraging. Even more important was the recognition that, at last, something was being done to restore public confidence in our federal deposit insurance system and to redesign a financial services industry stuck in the time-warp of the 1930s.

The Bush Administration has already proposed measures to bolster declining deposit insurance reserves and to provide further safeguards against the sort of abuses that undermined and ultimately destroyed the S&L deposit insurance system. Also in the works are White House-sponsored bills to modernize our archaic, highly fragmented bank regulatory system.

Along with the introduction of full, reciprocal interstate banking privileges, a number of other barriers to the creation of a stronger, healthier, more competitive banking system are expected to fall in 1991. The Administration is proposing to allow bank holding companies to merge bank subsidiaries in two or more states into true interstate banking systems. In addition, proposed legislation would remove restrictions on investment by industrial corporations in banks and bank holding companies—an important move in view of the industry's continual need to attract equity capital.

These are all encouraging signs that our government is finally coming to grips with the fundamental structural problems affecting the American banking system. But no less important are the self-correcting changes taking place in the marketplace.

The system is going through a cleansing cycle, and right now it's on spin—wringing out the surplus capacity that has burdened our industry for over half a century.

In the past ten years the number of S&Ls in this country has declined by 50%, and the number of commercial banks by 20%. That process is continuing—and accelerating. In the past three years alone, forced liquidations, mergers, and branch sales have transferred billions of dollars of deposits out of insolvent S&Ls and into the commercial banking system. That process, too, is continuing. Over the next few years the shift of deposits from weak to strong institutions will bring greater discipline and security to a financial marketplace badly in need of both.

Voluntary bank mergers will also play an important part in strengthening a dangerously fragmented industry. As the final barriers to interstate banking are removed, we can expect to see more mergers of that type. But the main thrust of the merger movement will probably be among financial institutions sharing the same market. Our own experience in acquiring Crocker Bank and other California-based institutions has demonstrated the tremendous economies of scale that can be achieved through consolidations of this type.

The world's greatest industrial economy has for too long been served, or disserved, by a financial system fragmented into thousands of under-managed, undercapitalized institutions; propped up by an under-funded insurance system; and supervised by more than a hundred overlapping and largely understaffed federal and state regulatory agencies. There is no better time than now to begin building a stronger, more rational foundation for our national prosperity.

Acknowledgments

During the year we were pleased to announce that Warren Buffett, one of the nation's most respected investors, had accumulated approximately five million shares, or 9.8% of the Company's outstanding common shares, through Berkshire Hathaway Inc. and other companies he controls.

Wells Fargo welcomed four distinguished Californians to its board of directors in 1990: Rayburn S. Dezember, former chairman of Central Pacific Corporation and American National Bank; William S. Davila, president of Vons Companies Inc., which operates the largest supermarket chain in Southern California; H. Jesse Arnelle, senior partner in the San Francisco-based law firm of Arnelle & Hastie; and Dr. Chang-Lin Tien, chancellor of the University of California at Berkeley.

Long-time director Henry F. Trione will become a Director Emeritus upon his retirement as a voting board member in April, and two other Wells Fargo stalwarts, Arjay Miller and B. Regnar Paulsen, will complete their terms as Directors Emeriti. We will miss them.

To the employees and customers of Valley National Bank, American National Bank, the Torrey Pines Group, Great American Bank and Citizens Holdings who have joined forces with Wells Fargo within the past year, welcome. Glad to have you with us.

To the rest of Wells Fargo's staff and customers, and to our directors and shareholders, our sincere thanks for your steadfast support throughout the past year.

Carl E. Reichardt
Chairman

Paul Hazen
President

March 5, 1991

Overview

Net income in 1990 was $711.5 million, compared with $601.1 million in 1989. Net income per share was $13.39, compared with $11.02 in 1989.

Earnings in 1990 benefited from a $116.5 million pretax gain that resulted from the establishment in April 1990 of Wells Fargo Nikko Investment Advisors (WFNIA), the Company's joint venture with Nikko Securities Co. Ltd. In this transaction, the Company contributed certain of its businesses in exchange for approximately a 50% interest in WFNIA and $125 million in cash. Without the after-tax effect of the WFNIA gain, earnings for the full year of 1990 would have been $642.9 million, or $12.05 per share. Excluding the WFNIA gain, the joint venture transaction did not have a material effect on the Company's net income in 1990.

Return on average assets (ROA) was 1.39% and return on average common equity (ROE) was 25.07% in 1990, up from 1.26% and 24.49%, respectively, in 1989. Excluding the after-tax effect of the WFNIA gain, ROA would have been 1.26% and ROE would have been 22.98% in 1990.

Earnings in 1990 benefited from an increase in net interest income, which resulted primarily from an increase in loans. This increase was substantially offset by an increase in noninterest expense. Net interest income on a taxable-equivalent basis rose 7% to $2,341.0 million in 1990.

Average earning assets grew 7% in 1990 compared with 1989, substantially due to an increase in average loans, partially offset by a decrease in average investment securities. The average volume of loans in 1990 was $44.1 billion, 12% higher than 1989, predominantly due to increases of 39% in real estate 1-4 family first mortgage loans, 17% in consumer loans and 23% in other real estate mortgage loans. The average volume of core deposits in 1990 was $36.2 billion, 10% higher than 1989. Core deposits, which consist of noninterest-bearing deposits, interest-bearing checking accounts, savings accounts and savings certificates, funded 71% of the Company's average total assets in 1990, compared with 69% in 1989.

Noninterest income was $908.6 million in 1990, compared with $778.7 million in 1989. Noninterest expense was $1,717.3 million in 1990, compared with $1,574.5 million in 1989.

The Company's 1990 provision for loan losses was $310 million, compared with $362 million in 1989. During 1990, net charge-offs were $168.0 million, or .38% of average loans, compared with $266.6 million, or .67%, during 1989. The 1990 net charge-offs include foreign recoveries of $30.0 million. Domestic net charge-offs were $198.0 million, or .45% of average domestic loans, during 1990, compared with $175.9 million, also .45%, during 1989. The allowance for loan losses was 1.81% of total loans at December 31, 1990, compared with 1.77% of total loans at December 31, 1989.

The Company has not had any medium- and long-term cross-border outstandings to developing countries since March 1989. In the second quarter of 1990, the Company sold its developing country short-term cross-border outstandings, which totaled $122 million at March 31, 1990. These sales resulted in losses of $27.1 million being charged against the allowance for loan losses.

The Company's International Trade Services Group continues to provide foreign exchange lines and trade facilities to support the needs of its domestic customers engaged in world trade.

At December 31, 1990, total nonaccrual and restructured loans were $1,012.3 million, or 2.1% of total loans, compared with $780.1 million, or 1.8%, at September 30, 1990; and $763.3 million, or 1.8%, at December 31, 1989. Total nonaccrual and restructured loans and other real estate (ORE) were $1,428.6 million, or 2.9% of total loans and ORE, at December 31, 1990, compared with $1,208.9 million, or 2.7%, at September 30, 1990; and $1,153.7 million, or 2.7%, at December 31, 1989.

The Company underwent a target examination of its commercial real estate portfolio in the fourth quarter of 1990. Similar to a number of other large national banks, the Company has been for several years and continues to be examined by the Office of the Comptroller of the Currency (OCC) and has OCC examiners in residence.

At December 31, 1990, common equity to total assets was 5.26%, compared with 5.04% at December 31, 1989.

Based on the Federal Reserve Board's 1992 guidelines, the Company's total risk-based capital ratio at December 31, 1990, after excluding $180 million of preferred stock redeemed in January 1991, was 9.27% and its Tier 1 risk-based capital ratio was 5.03%, exceeding the 1992 minimum guidelines of 8.00% and 4.00%, respectively. The ratios at December 31, 1989 were 9.91% and 4.95%, respectively. The leverage ratios were 5.04% and 4.79% at December 31, 1990 and 1989, respectively. A discussion of risk-based capital and leverage ratio guidelines is in the Capital Adequacy/Ratios section.

During 1990, the Company completed the purchase of 92 Southern California branches from Great American Bank (GA), a Federal Savings Bank. The purchase price was approximately $365 million and the Company acquired assets of $4.1 billion, including loans of $3.7 billion, and assumed deposit liabilities of $4.4 billion. Refer to Note 2 to the Financial Statements for further information.

Also during 1990, the Company completed the acquisition of four California banking companies with combined assets of $1.9 billion, Valley National Bank of Glendale, Central Pacific Corporation of Bakersfield, the Torrey Pines Group of Solana Beach and Citizens Holdings and its two banking subsidiaries of Orange County. These acquisitions did not have a material effect on the Company's net income in 1990.

TABLE 1

RATIOS AND PER COMMON SHARE DATA

	Year ended December 31, 1990	1989	1988
PROFITABILITY RATIOS			
Net income to average total assets (ROA)	**1.39%**	1.26%	1.14%
Net income applicable to common stock to average common stockholders' equity (ROE)	**25.07**	24.49	23.99
Net income to average stockholders' equity	**22.68**	21.88	21.06
CAPITAL RATIOS			
At year end:			
Common stockholders' equity to assets	**5.26%**	5.04%	4.66%
Stockholders' equity to assets (1)	**5.98**	5.87	5.53
Risk-based capital ratios			
Tier 1 capital (core capital) (2)	**5.03**	4.95	4.57
Total capital (2)	**9.27**	9.91	9.15
Leverage ratio (2)	**5.04**	4.79	4.49
Average balances:			
Common stockholders' equity to assets	**5.34**	4.90	4.52
Stockholders' equity to assets	**6.14**	5.75	5.43
PER COMMON SHARE DATA			
Dividend payout (3)	**29%**	30%	27%
Book value	**$57.44**	$48.08	$41.38
Market prices (4):			
High	**$ 84¼**	$ 87⅜	$ 70¾
Low	**42¼**	59	43¾
Year end	**57¼**	74⅛	60⅜

(1) In January 1991, the Company redeemed all $180 million of its Market Auction Preferred Stock (MAPS). Excluding the MAPS, the 1990 year-end stockholders' equity to assets ratio would have been 5.66%.
(2) See the Capital Adequacy/Ratios section for additional information.
(3) Dividends declared per common share as a percentage of net income per common share.
(4) Based on daily closing prices reported on the New York Stock Exchange Composite Transaction Reporting System.

TABLE 2

SIX-YEAR SUMMARY OF SELECTED FINANCIAL DATA (1)

(in millions)	1990	1989	1988	1987	1986	1985	% Change 1990/1989	Five-year compound growth rate
INCOME STATEMENT								
Net interest income (2)	**$2,313.9**	$2,158.6	$1,972.1	$1,801.6	$1,493.7	$1,220.2	7%	14%
Provision for loan losses	**310.0**	362.0	300.0	892.0	361.7	371.8	(14)	(4)
Noninterest income (2)	**908.6**	778.7	682.2	600.0	574.8	395.7	17	18
Noninterest expense	**1,717.3**	1,574.5	1,519.1	1,520.5	1,315.2	943.8	9	13
Net income	**711.5**	601.1	512.5	50.8	273.5	190.0	18	30
Per common share								
Net income	**$ 13.39**	$ 11.02	$ 9.20	$ .52	$ 5.03	$ 4.15	22	26
Dividends declared	**3.90**	3.30	2.45	1.67	1.41	1.24	18	26
BALANCE SHEET								
Loans	**$ 48,977**	$ 41,727	$ 37,670	$ 36,791	$ 36,771	$ 24,614	17%	15%
Allowance for loan losses	**885**	739	752	1,357	734	417	20	16
Assets	**56,199**	48,737	46,617	44,183	44,577	29,429	15	14
Core deposits	**41,840**	35,607	33,042	30,005	30,995	18,358	18	18
Senior debt	**529**	695	923	1,574	2,019	2,130	(24)	(24)
Subordinated debt	**1,888**	1,846	1,994	2,250	2,392	2,057	2	(2)
Stockholders' equity	**3,360**	2,861	2,579	2,248	2,343	1,458	17	18

(1) Reflects the acquisition of Crocker National Corporation beginning June 1, 1986.
(2) The year 1985 was not reclassified upon the 1988 adoption of Statement of Financial Accounting Standards No. 91 (FAS 91), Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, as complete information was not available.

Earnings Performance

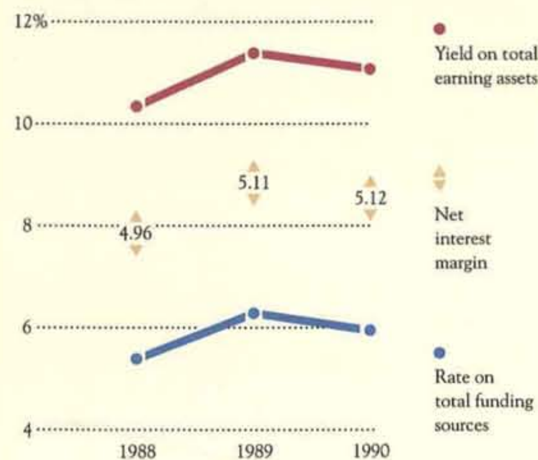
Wells Fargo & Company (Parent) is a bank holding company whose principal subsidiary is Wells Fargo Bank, N.A. (Bank). In this Annual Report, Wells Fargo & Company and its subsidiaries are referred to as the Company. Substantially all of the consolidated net income for 1990 was contributed by the Bank.

Net Interest Income

Net interest income is the difference between interest income (which includes yield-related loan fees) and interest expense. Net interest income on a taxable-equivalent basis was $2,341.0 million in 1990, an increase of 7% over $2,188.2 million in 1989.

The 7% improvement in net interest income was primarily due to a 7% growth in earning assets, which substantially resulted from a 12% increase in average loans, partially offset by a 51% decrease in investment securities. Loans averaged $44.1 billion during 1990, reflecting increases in real estate 1-4 family first mortgage loans, consumer loans and other real estate mortgage loans. (See additional discussion in the Investment Securities and Loan Portfolio sections.)

Net interest income on a taxable-equivalent basis expressed as a percentage of average total earning assets is referred to as the net interest margin, which represents the average net effective yield on earning assets. For 1990, the net interest margin was 5.12%, a 1 basis point increase over 1989 that was primarily due to an improvement in the mix of earning assets, substantially offset by a lower spread between LIBOR-based loans and their funding sources. Individual components of net interest income and net interest margin are presented in Table 5.



Noninterest Income

Table 3 shows the major components of noninterest income.

TABLE 3

NONINTEREST INCOME

(in millions)	Year ended December 31,			% Change	
	1990	1989	1988	1990/1989	1989/1988
Domestic fees and commissions	$301.7	$283.7	$278.2	6%	2%
Service charges on deposit accounts	289.6	246.7	219.6	17	12
Trust and investment services income	142.5	178.2	153.7	(20)	16
Check printing charges	25.2	22.7	15.4	11	47
International fees, commissions and foreign exchange	18.7	17.7	16.9	6	5
Income from cost method equity investments	13.1	38.1	36.1	(66)	5
Investment securities losses	(.5)	(2.7)	(4.3)	(80)	(39)
Losses on dispositions of premises and equipment	(1.7)	(33.1)	(14.9)	(95)	122
Partial sale of investment advisory business	116.5	—	—	—	—
Losses from other dispositions of operations	(13.3)	(5.5)	—	141	—
All other	16.8	32.9	(18.5)	(49)	—
Total	$908.6	$778.7	$682.2	17%	14%

The Company recognized a pretax gain of $116.5 million that resulted from the establishment of the Company's joint venture with Nikko Securities Co. Ltd., WFNIA, on April 1, 1990. In this transaction, the Company contributed certain of its businesses in exchange for approximately a 50% interest in WFNIA and $125 million in cash.

Beginning with the establishment of WFNIA, the Company's equity method share ($11.7 million for 1990) of WFNIA's pretax income is reported in "all other" noninterest income, rather than reporting the revenues and expenses of the businesses contributed to WFNIA in their respective categories (e.g., trust and investment services income and salaries expense). Accordingly, in the last nine months of 1990, the Company did not record any "trust and investment services income" generated by the contributed businesses; the Company recorded $45.9 million of such income in the last nine months of 1989.

The two largest components of domestic fees and commissions were credit card merchant fees (including interchange fees), which were $83.5 million and $69.2 million in 1990 and 1989, respectively, and credit card membership fees, which were $34.5 million and $33.0 million in 1990 and 1989, respectively. There were 2.2 million cardholder accounts at year-end 1990, a 6% increase over 2.1 million accounts at year-end 1989.

The increase in service charges on deposit accounts in 1990 compared with 1989 was mostly due to an increase of .4 million in the number of checking accounts, which totaled 2.7 million at December 31, 1990.

Most of the 1990 and 1989 income from cost method equity investments resulted from gains on sales of equity positions. In 1989, the majority of the income from cost method equity investments resulted from gains on sales of and special distributions from investments in securities of companies involved in highly leveraged transactions. It is difficult to predict the timing of and resulting gains or losses from future sales of cost method equity investments.

Most of the losses from other dispositions of operations in 1990 resulted from the consolidation of certain, primarily out-of-state, offices of the Corporate and Real Estate Banking Groups.

If it were not for net-of-tax accounting related to acquisitions, "all other" noninterest income would have been $22.8 million in 1990 and $24.7 million in 1989. Income tax expense would have been correspondingly affected, resulting in no effect on net income.

Noninterest Expense

Table 4 shows the major components of noninterest expense.

TABLE 4

NONINTEREST EXPENSE

(in millions)	Year ended December 31,			% Change	
	1990	1989	1988	1990/1989	1989/1988
Salaries	$ 660.5	$ 631.3	$ 619.8	5%	2%
Employee benefits	157.2	149.2	152.4	5	(2)
Net occupancy	182.5	178.5	166.8	2	7
Equipment	137.5	137.3	135.8	—	1
Postage, stationery and supplies	64.5	57.3	52.6	12	9
Advertising and promotion	56.6	57.4	41.4	(2)	39
Federal deposit insurance	43.9	27.4	24.5	60	12
Other real estate	43.0	11.7	20.6	268	(43)
Outside professional services	42.8	35.0	38.8	23	(10)
Telecommunications	38.2	36.2	43.7	5	(17)
Operating losses	36.9	38.3	25.0	(4)	53
Contract services	34.6	29.9	25.4	16	18
Travel and entertainment	29.3	25.0	24.2	17	3
Check printing	27.7	22.5	15.8	23	42
Goodwill amortization	27.2	21.2	22.7	28	(6)
Amortization of certain identifiable intangible assets	26.2	9.9	7.6	164	31
Outside data processing	20.7	15.5	16.3	33	(4)
Escrow and collection agency fees	17.5	14.7	15.7	19	(6)
Security	15.3	13.4	13.1	14	2
Donations	5.3	15.0	6.8	(65)	120
All other	49.9	47.8	50.1	4	(5)
Total	$1,717.3	$1,574.5	$1,519.1	9%	4%

Substantially all of the increase in salaries expense in 1990 compared with 1989 was due to an increase in the number of employees, partially offset by a decrease in incentive compensation. The Company's full-time equivalent staff, including hourly employees, was approximately 21,800 at December 31, 1990, compared with approximately 19,500 at December 31, 1989. Of the 2,300 increase in staff, approximately 2,000 resulted from 1990 acquisitions.

TABLE 5

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

(in millions)	1990 Average balance	1990 Yields/ rates	1990 Interest income/ expense	1989 Average balance	1989 Yields/ rates	1989 Interest income/ expense	1988 Average balance	1988 Yields/ rates	1988 Interest income/ expense	1987 Average balance	1987 Yields/ rates	1987 Interest income/ expense	1986 Average balance	1986 Yields/ rates	1986 Interest income/ expense
EARNING ASSETS															
Investment securities:															
U.S. Treasury securities	$ 338	6.82%	$ 23.1	$ 709	7.43%	$ 52.7	$ 860	7.52%	$ 64.6	$ 716	7.25%	$ 52.0	$ 585	7.88%	$ 46.1
Securities of other U.S. government agencies and corporations	998	8.95	89.3	2,253	8.81	198.6	1,966	8.72	171.5	1,866	8.61	160.7	170	8.66	14.7
Obligations of states and political subdivisions	68	7.76	5.3	70	7.51	5.2	83	7.41	6.2	101	7.76	7.8	135	8.67	11.7
Other securities	238	9.92	23.6	315	10.63	33.5	348	10.66	37.2	499	10.24	51.1	332	12.16	40.4
Total investment securities	1,642	8.60	141.3	3,347	8.67	290.0	3,257	8.58	279.5	3,182	8.53	271.6	1,222	9.24	112.9
Loans:															
Commercial, financial and agricultural	14,382	10.92	1,570.6	14,154	11.66	1,650.5	12,445	10.12	1,259.4	12,262	9.31	1,141.1	10,091	9.46	954.2
Real estate 1-4 family first mortgage	8,268	10.47	866.0	5,953	10.51	625.6	4,858	10.49	509.3	4,577	10.01	458.2	3,808	10.63	404.8
Other real estate mortgage (1)	7,022	10.62	745.8	5,714	11.06	631.9	4,978	10.13	504.5	4,221	10.13	427.9	2,160	10.98	237.1
Real estate construction (1)	4,271	10.83	462.6	4,385	11.70	512.9	4,596	10.50	482.6	4,351	9.93	432.1	4,826	10.01	482.9
Consumer	8,959	12.96	1,161.2	7,636	13.44	1,026.0	7,236	12.83	928.7	7,239	12.59	911.4	6,408	13.29	851.4
Lease financing	1,129	10.63	120.1	1,339	9.55	127.9	1,328	9.50	126.2	1,258	10.72	134.8	1,115	12.23	136.4
Foreign	30	8.41	2.5	245	8.61	21.1	1,545	6.04	93.3	2,126	5.75	122.2	2,101	8.96	188.2
Total loans (2)	44,061	11.19	4,928.8	39,426	11.66	4,595.9	36,986	10.56	3,904.0	36,034	10.07	3,627.7	30,509	10.67	3,255.0
Other	50	8.44	4.3	80	8.38	6.7	263	7.34	19.3	1,162	9.87	114.7	1,598	6.90	110.3
Total earning assets	$45,753	11.09	5,074.4	$42,853	11.42	4,892.6	$40,506	10.38	4,202.8	$40,378	9.94	4,014.0	$33,329	10.44	3,478.2
FUNDING SOURCES															
Interest-bearing liabilities:															
Deposits:															
Interest-bearing checking	$ 3,835	3.93	150.8	$ 3,593	3.92	141.0	$ 3,534	3.94	139.1	$ 3,346	3.97	132.9	$ 2,549	4.85	123.6
Savings deposits	3,508	5.01	175.8	4,064	4.97	202.0	4,447	4.99	221.7	4,111	5.01	205.9	2,393	5.30	126.9
Market rate savings	9,788	6.32	618.8	8,155	6.67	543.6	8,007	5.55	444.3	7,847	5.05	396.0	6,883	5.34	367.9
Savings certificates	11,905	7.74	921.0	10,161	7.91	804.1	8,925	6.84	610.7	8,145	6.50	529.6	7,609	7.42	564.7
Certificates of deposit	418	8.72	36.5	436	8.99	39.2	529	9.00	47.6	876	8.60	75.3	807	9.00	72.6
Other time deposits	177	8.23	14.6	159	8.76	14.0	168	7.41	12.4	193	8.03	15.5	308	8.06	24.8
Deposits in foreign offices	261	8.84	23.1	654	9.02	59.0	1,049	7.06	74.1	1,247	6.90	86.0	717	7.52	53.9
Total interest-bearing deposits	29,892	6.49	1,940.6	27,222	6.62	1,802.9	26,659	5.81	1,549.9	25,765	5.59	1,441.2	21,266	6.27	1,334.4
Short-term borrowings:															
Federal funds borrowed and repurchase agreements	4,522	7.95	359.7	4,147	9.19	381.0	2,389	7.44	177.6	1,921	7.71	148.0	1,080	6.31	68.2
Commercial paper	2,799	7.90	221.0	2,823	9.18	259.3	2,488	7.48	186.1	3,134	6.69	209.8	1,619	6.76	109.4
Other	72	7.88	5.7	69	7.25	5.0	88	7.40	6.5	110	6.32	7.0	165	6.25	10.3
Total short-term borrowings	7,393	7.93	586.4	7,039	9.17	645.3	4,965	7.46	370.2	5,165	7.06	364.8	2,864	6.56	187.9
Senior debt	587	9.02	53.0	815	9.11	74.3	1,204	9.17	110.3	1,819	9.55	173.7	2,235	9.68	216.4
Subordinated debt	1,864	8.23	153.4	1,943	9.36	181.9	2,124	7.76	164.8	2,316	7.11	164.6	2,225	7.10	157.9
Total interest-bearing liabilities	39,736	6.88	2,733.4	37,019	7.31	2,704.4	34,952	6.28	2,195.2	35,065	6.12	2,144.3	28,590	6.63	1,896.6
Portion of noninterest-bearing funding sources	6,017	—	—	5,834	—	—	5,554	—	—	5,313	—	—	4,739	—	—
Total funding sources	$45,753	5.97	2,733.4	$42,853	6.31	2,704.4	$40,506	5.42	2,195.2	$40,378	5.31	2,144.3	$33,329	5.69	1,896.6
Net interest margin and net interest income on a taxable-equivalent basis (3)		5.12%	$2,341.0		5.11%	$2,188.2		4.96%	$2,007.6		4.63%	$1,869.7		4.75%	$1,581.6
NONINTEREST-EARNING ASSETS															
Cash and due from banks	$ 2,616			$ 2,623			$ 2,478			$ 2,569			$ 2,353		
Other	2,740			2,287			1,869			1,907			1,692		
Total noninterest-earning assets	$ 5,356			$ 4,910			$ 4,347			$ 4,476			$ 4,045		
NONINTEREST-BEARING FUNDING SOURCES															
Deposits	$ 7,183			$ 6,877			$ 6,386			$ 6,300			$ 5,463		
Other liabilities	1,053			1,120			1,082			1,187			1,275		
Preferred stockholders' equity	405			405			405			405			319		
Common stockholders' equity	2,732			2,342			2,028			1,897			1,727		
Noninterest-bearing funding sources used to fund earning assets	(6,017)			(5,834)			(5,554)			(5,313)			(4,739)		
Net noninterest-bearing funding sources	$ 5,356			$ 4,910			$ 4,347			$ 4,476			$ 4,045		
TOTAL ASSETS	$51,109			$47,763			$44,853			$44,854			$37,374		

The average prime rate of the Bank was 10.01%, 10.87%, 9.32%, 8.21% and 8.33% for 1990, 1989, 1988, 1987 and 1986, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 8.28%, 9.29%, 7.99%, 7.19% and 6.83% for the same years, respectively.

(1) During the fourth quarter of 1990, loans were reclassified from the real estate construction loan category to the other real estate mortgage loan category so that the real estate construction loan category consists solely of properties where construction is not complete. Prior period balances have not been reclassified as complete information is not available. For 1989, 1988 and 1987, loans secured primarily by completed and operational real estate are included in the other real estate mortgage loan category; for 1986, these loans are included in the construction loan category.

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

(3) Includes taxable-equivalent adjustments that mostly relate to income on certain loans and securities that is exempt from federal and applicable state income taxes. The federal statutory tax rate was 34% in 1990, 1989 and 1988; 40% in 1987; and 46% in 1986.

The increase in federal deposit insurance in 1990 compared with 1989 was mostly due to an increase from .083% to .120% in the federal deposit insurance rate. The federal deposit insurance rate increased to .195% in 1991. In addition, legislation was recently adopted which allows the Federal Deposit Insurance Corporation to further increase the rate in 1991.

Most of the ORE expense increase in 1990 compared with 1989 was due to higher ORE write-downs.

The decrease in operating losses in 1990 compared with 1989 was substantially due to 1990 legal settlements and recoveries.

Substantially all of the increase in amortization of certain identifiable intangible assets in 1990 compared with 1989 related to 1990 acquisitions and mostly resulted from amortization of core deposit intangibles. In addition, amortization of GA identifiable intangible assets included in this noninterest expense category is expected to total approximately $34 million in 1991, compared with $3 million in 1990.

Total noninterest expense included integration costs of approximately $9 million related to the purchase of branches from Great American Bank. Additional integration noninterest expenses of approximately $11 million are expected to be incurred in the first quarter of 1991.

In December 1990, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 106 (FAS 106), Employers' Accounting for Post-Retirement Benefits Other than Pensions. This Statement changes the method of accounting for post-retirement benefits other than pensions from a cash basis to an accrual basis. The Statement is effective on January 1, 1993; earlier implementation is permitted.

The determination of the accrued liability requires a calculation of the accumulated post-retirement benefit obligation (APBO). The APBO represents the actuarial present value of post-retirement benefits other than pensions to be paid out in the future (e.g., health benefits to be paid for retirees) that have been earned up to the date of adoption. FAS 106 allows employers to either (1) amortize the initial APBO as of the transition date over the average remaining service period of active participants or (2) expense the total initial APBO at the beginning of the year the Statement is implemented. If the average remaining service period of active participants is less than 20 years, FAS 106 allows employers to amortize the initial APBO over 20 years.

The Company has not completed the complex analysis required to accurately determine the financial impact of the Statement; therefore, the Company has not yet decided when to implement the Statement or the period of amortization of the initial APBO.

Income Taxes

The Company's effective income tax rate was 40% for both 1990 and 1989. (For additional information, refer to Note 11 to the Financial Statements.)

The FASB issued Statement of Financial Accounting Standards No. 96 (FAS 96), Accounting for Income Taxes, in December 1987. This Statement changes the method of computing income taxes for financial statement purposes by adopting the liability (or balance sheet) method under which the net deferred tax liability or asset is determined based on the tax effects of the differences between the book and tax bases of the various balance sheet assets and liabilities. Under this method, the computation of the net deferred tax liability or asset gives current recognition to changes in tax laws and rates. The Statement supercedes Accounting Principles Board (APB) Opinion No. 11, Accounting for Income Taxes, under which the net deferred tax liability or asset was an accumulation of annual adjustments based on the tax effects of the book and tax income statement differences and was not adjusted for subsequent changes in tax rates.

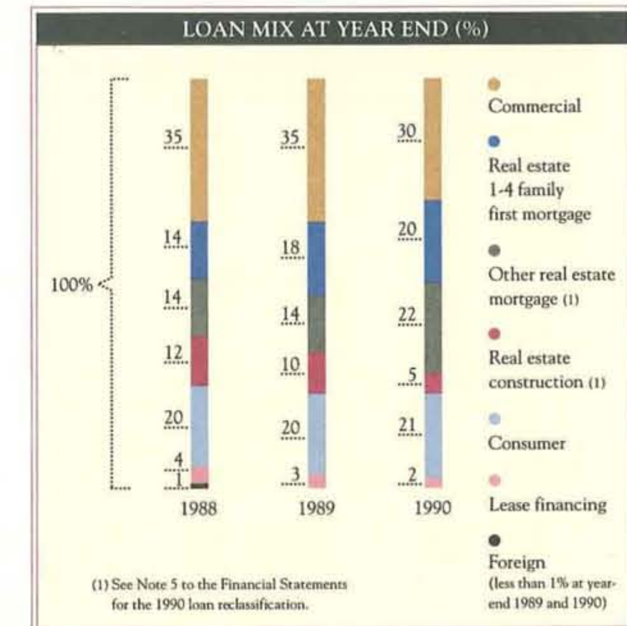
In 1989, the FASB delayed the effective date of FAS 96 to 1992; earlier implementation is permitted. Financial statements for years prior to the year of adoption may be restated to conform with the requirements of the Statement. The effect of applying FAS 96 on the amount of the net deferred tax asset or liability at the beginning of the year adopted or the earliest year restated is to be reflected as an adjustment to earnings for that year.

The Company has not yet determined whether to adopt FAS 96 before 1992 or whether to restate any prior financial statements. Due to the Statement's more restrictive criteria for the recognition of deferred tax assets than under current APB Opinion No. 11 principles, the Company estimates that, if the principles of the Statement in its present form had been applied at December 31, 1990, the Company's net deferred tax asset of $327 million would be reduced by not more than $70 million. This adjustment would correspondingly be recorded as an expense of either the current or prior periods.

Presently, the FASB is considering a proposal to amend FAS 96, which would significantly alter its application, including delaying implementation until 1993. In addition, certain interpretations of FAS 96 made by the Company to estimate the effect of adoption could change if an amendment is made or further guidance is ultimately issued by the FASB. However, based on the proposal currently being considered by the FASB, the Company anticipates that an amendment made to FAS 96 would not result in an increase in the above estimated maximum adjustment of $70 million.

Balance Sheet Analysis

A comparison between the year-end 1990 and 1989 balance sheets is presented below. The Bank's assets represented substantially all of the consolidated total assets at December 31, 1990.



(1) See Note 5 to the Financial Statements for the 1990 loan reclassification.

Investment Securities

Investment securities were $1.4 billion at December 31, 1990, a 20% decrease from $1.7 billion at December 31, 1989. Substantially all of the decrease was due to maturities during 1990; sales of investment securities were negligible. Investment securities averaged $1.6 billion in 1990, a 51% decrease from $3.3 billion in 1989. In addition to the 1990 maturities, the decrease in average investment securities also resulted from sales of Government National Mortgage Association securities and U.S. Treasury securities in late 1989. The securities were sold primarily to accommodate unforeseen growth in higher-yielding assets, particularly real estate 1-4 family first mortgage loans. Sales of investment securities in 1990 and 1989 did not and are not expected to have an adverse effect on the net interest margin; the sales resulted in negligible losses. Management has no current plans to sell additional securities.

At December 31, 1990, the investment securities portfolio had an estimated net unrealized loss of $24 million (which reflected estimated gross unrealized losses of $33 million), or 1.7% of the book value of investment securities. This amount is not considered material in relation to future income, liquidity or capital resources trends, nor is this amount expected to have a material impact on future yields of investment securities. At December 31, 1989, the investment securities portfolio had an estimated net unrealized loss of $33 million (which reflected estimated gross unrealized losses of $39 million), or 1.9% of the book value of investment securities. (Note 4 to the Financial Statements shows the book and market values of the investment portfolio by type of issuer.)

Loan Portfolio

A comparative schedule of average loan balances is presented in Table 5; year-end balances are presented in Note 5 to the Financial Statements.

Loans averaged $44.1 billion in 1990, an increase of 12% over 1989. Real estate 1-4 family first mortgage loans increased 39%, substantially due to growth in fixed-initial rate mortgage (FIRM™) loans. FIRM™ loans carry fixed rates during the first 3 through 10 years of the loan term and carry adjustable rates thereafter. Consumer loans increased 17%, substantially due to growth in credit card loans, primarily resulting from the December 1989 purchase of a credit card portfolio, and in real estate junior lien mortgage loans. Other real estate mortgage loans increased 23%, of which the majority was due to loans secured by commercial (primarily owner-occupied) and multi-family properties.

In addition to the growth in FIRM™ loans, real estate 1-4 family first mortgage loans of $9.9 billion at December 31, 1990 increased over a year earlier due to approximately $1.7 billion of loans acquired in December from Great American Bank. The Company plans to sell some of these acquired loans, with servicing rights retained, subject to, among other factors, market conditions.

Other real estate mortgage loans increased 75% to $10.5 billion at December 31, 1990 compared with year-end 1989, mostly due to the fourth quarter 1990 real estate loan reclassification (see Note 5 to the Financial Statements for further information), approximately $1.2 billion of loans acquired in December from Great American Bank and the growth in loans secured by commercial and multi-family properties.

The real estate construction loan portfolio of $2.7 billion at year-end 1990 decreased by $1.4 billion, or 35%, from year-end 1989, substantially due to the fourth quarter 1990 loan reclassification.

Included in the commercial portfolio were agricultural loans of $734 million and $641 million at December 31, 1990 and 1989, respectively. Agricultural loans include loans to finance agricultural production, fisheries and forestries and other loans to farmers. Agricultural loans that are primarily secured by real estate are included in other real estate mortgage loans; such loans were $261 million and $215 million at December 31, 1990 and 1989, respectively.

The Company's total commercial real estate loans were $14,490 million at December 31, 1990 and included (1) loans to real estate developers of $1,316 million included in commercial loans, (2) real estate mortgage loans, other than those secured by 1-4 family residential properties, of $10,505 million and (3) real estate construction loans of $2,669 million. Tables 6 and 7 summarize the real estate mortgage loans and construction loans, respectively, by state and project type.

TABLE 6

REAL ESTATE MORTGAGE LOANS BY STATE AND TYPE (EXCLUDING 1-4 FAMILY)

(in millions) December 31, 1990

	California		Colorado		Arizona		Virginia	Illinois	Texas		Other states (2)		Total by type	% of total loans	Non-accrual loans by type	Non-accruals as a % of total by type
	Total loans	Non-accrual	Total loans	Non-accrual	Total loans	Non-accrual	Total loans (1)	Total loans (1)	Total loans	Non-accrual	Total loans	Non-accrual				
Office buildings	$2,570	$ 70	$ 75	$ 30	$ 10	$ 5	$ 60	$ 5	$ 25	$ —	$ 355	$ 5	$ 3,100	30%	$110	3.6%
Shopping centers	520	—	25	—	25	5	60	100	55	20	430	—	1,215	12	25	2.0
Industrial	965	5	—	—	10	—	—	10	20	—	65	5	1,070	10	10	1.0
Land	595	5	45	25	55	10	35	—	10	—	130	10	870	8	50	6.0
Apartments	640	—	10	—	30	—	20	—	20	10	25	5	745	7	15	1.8
Hotels/motels	320	—	—	—	30	—	—	—	5	—	75	15	430	4	15	3.4
Junior liens	395	20	—	—	—	—	—	—	—	—	5	5	400	4	25	5.6
Other	2,095	35	65	—	40	—	5	40	15	—	415	—	2,675	25	35	1.4
Total by state	$8,100	$135	$220	$ 55	$200	$20	$180	$155	$150	$ 30	$1,500	$45	$10,505	100%	$285	2.7%
% of total loans	78%		2%		2%		2%	1%	1%		14%		100%			
Nonaccruals as a % of total by state		1.6%		25.6%		9.4%				21.6%		3.0%				

(1) There were no loans on nonaccrual status at December 31, 1990.
(2) Consists of 32 states; loans in each of these states were less than $150 million at December 31, 1990.

TABLE 7

REAL ESTATE CONSTRUCTION LOANS BY STATE AND TYPE

(in millions) December 31, 1990

	California		Arizona		District of Columbia	Illinois	Tennessee	Other states (2)	Total by type	% of total loans	Non-accrual loans by type	Non-accruals as a % of total by type
	Total loans	Non-accrual	Total loans	Non-accrual	Total loans (1)	Total loans (1)	Total loans (1)	Total loans (1)				
Land (excluding 1-4 family)	$ 615	$20	$ 10	$ —	$ 5	$25	$10	$105	$ 770	29%	$20	2.8%
1-4 family structures and land	515	—	50	50	—	—	5	5	575	22	50	8.4
Shopping centers	295	—	20	—	5	45	60	135	560	21	—	—
Office buildings	110	5	45	—	90	—	—	90	335	12	5	1.5
Industrial	120	—	—	—	—	10	—	25	155	6	—	—
Apartments	80	5	—	—	—	—	—	25	105	4	5	2.4
Other	90	—	—	—	—	—	—	80	170	6	—	—
Total by state	$1,825	$30	$125	$ 50	$100	$80	$75	$465	$2,670	100%	$80	3.1%
% of total loans	68%		5%		4%	3%	3%	17%	100%			
Nonaccruals as a % of total by state		1.8%		38.4%								

(1) There were no loans on nonaccrual status at December 31, 1990.
(2) Consists of 19 states; loans in each of these states were less than $75 million at December 31, 1990.

HIGHLY LEVERAGED TRANSACTIONS

The Company's loan portfolio includes loans made to companies involved in highly leveraged transactions (HLTs). The banking regulators define an HLT as a financing transaction that exceeds $20 million (including all participating creditors) and that involves the buyout, acquisition or recapitalization of an existing business. In addition to the dollar threshold and purpose test, one of the following criteria must be met for the transaction to be considered an HLT: (1) the transaction at least doubles the subject company's liabilities and results in a leverage ratio higher than 50%, (2) the transaction results in a leverage ratio higher than 75% or (3) the transaction is designated an HLT by a syndication agent. The HLT leverage ratio is total liabilities divided by total assets. As set forth by the banking regulators, a financing transaction is considered HLT-related until the entire credit, including commitments, no longer exceeds $20 million or the credit has performed satisfactorily for approximately two years and the transaction results in a leverage ratio below 75%. The Company's subordinated HLT loans are included in mezzanine investments and are discussed in the last paragraph of this section.

The Company's senior HLT loans outstanding, including working capital loans, totaled $3.6 billion and $4.2 billion at December 31, 1990 and 1989, respectively. The Company was also committed to lend an additional $1.3 billion and $2.5 billion relating to HLTs at year-end 1990 and 1989, respectively, and may consider financing future HLTs that meet the Company's criteria. Most of the decrease in the HLT portfolio from December 31, 1989 was due to repayments of loans and cancellations of related commitments and due to HLT loans and commitments that were no longer considered HLT-related based on the criteria set forth by the banking regulators. The decrease in the HLT portfolio was partially offset by additional HLT loans and commitments. Table 8 below shows a breakdown of the Company's senior HLT loan portfolio by HLT loan type.

TABLE 8

HIGHLY LEVERAGED TRANSACTION LOAN PORTFOLIO

(in millions)

	December 31, 1990	1989
Loans in connection with:		
Buyouts	$1,739	$2,114
Acquisitions	1,481	1,809
Recapitalizations	362	291
Total (1)	$3,582	$4,214

(1) Includes California asset-based, secured lending of $327 million and $202 million at December 31, 1990 and 1989, respectively. California asset-based, secured lending consists of middle-market companies whose loans are collateralized by receivables, inventories, plant and equipment in conformity with the Company's borrowing requirements.

The HLT loan portfolio is subject to both a formal approval process and an ongoing review by senior management and committees of the Company. In addition, the Company has established limitations regarding the maximum amount of HLT outstandings and commitments allowed based on the Company's total capital (Tier 1 and 2). Management ensures the HLT loan portfolio is broadly diversified by industry, as shown in Table 9.

TABLE 9

HIGHLY LEVERAGED TRANSACTION LOAN PORTFOLIO BY INDUSTRY

(in millions)

	December 31, 1990				December 31, 1989
	Total HLT loans	% of total HLT loans	HLT nonaccrual loans	Nonaccruals as a % of total HLT loans by industry	% of total HLT loans
Manufacturing—paper	$ 325	9.0%	$ —	—%	8.0%
Media and broadcasting	313	8.7	—	—	11.6
Wholesale—food	300	8.4	19	6.2	3.2
Manufacturing—textile and apparel	292	8.1	50	17.3	8.9
Services—health care	283	7.9	49	17.3	8.1
Manufacturing—industrial and commercial machinery	208	5.8	—	—	8.0
Manufacturing—electrical	170	4.7	55	31.7	4.4
Transportation	150	4.2	14	9.6	4.4
Manufacturing—petroleum, chemical and rubber	142	4.0	39	27.2	1.7
Manufacturing—fabricated metal products	134	3.7	—	—	2.8
Wholesale—trade	128	3.6	—	—	.7
Retail—miscellaneous	122	3.4	86	69.7	4.5
Manufacturing—printing and publishing	113	3.2	2	1.5	2.4
Retail—furniture and furnishings	108	3.0	—	—	4.5
Retail—food stores	101	2.8	—	—	3.5
Cable television	100	2.8	—	—	3.0
Services—financial	6	.2	—	—	3.4
Other	587	16.5(1)	22	3.8	16.9(1)
Total	$3,582	100.0%	$336	9.3%	100.0%

(1) Consists of 11 and 13 industries at December 31, 1990 and 1989, respectively.

TABLE 10

HIGHLY LEVERAGED TRANSACTION LOAN PORTFOLIO BY LOAN RANGE AMOUNT

(in millions)				December 31,
	1990		1989	
Loan range	Total amount outstanding	Number of transactions	Total amount outstanding	Number of transactions
$ 1-20	$ 551	44	$ 543	50
21-40	928	33	910	32
41-60	836	17	966	19
61-80	547	8	646	9
81-100	179	2	175	2
Over $100	541	4	974	6
Total	$3,582	108	$4,214	118

The range of loan amounts of the HLT portfolio is summarized in Table 10. The Company was originating agent for $1.9 billion, representing 47 transactions, of the amount outstanding at December 31, 1990 shown in Table 10, compared with $2.1 billion, representing 50 transactions, of the amount outstanding at December 31, 1989. After formation of the primary bank group, the Company's general practice is to not retain a total outstanding and commitment amount exceeding approximately $100 million. At December 31, 1990, the largest single HLT loan outstanding was $148 million and the average HLT loan outstanding was $33 million.

Senior HLT loans on nonaccrual status were $336 million, representing 15 transactions, at December 31, 1990 and $148 million, representing 6 transactions, at December 31, 1989. The increase in HLT nonaccruals at December 31, 1990 compared with December 31, 1989 was substantially due to borrowers with liquidity difficulties. The Company has additional borrowers who are having liquidity and/or business difficulties (including HLT loans of approximately $85 million to borrowers who entered into bankruptcy proceedings in early 1991) which, depending on their resolution, may result in additional HLT nonaccrual loans. The Company believes at the present time that these loans are substantially secured by the assets of the borrowers. In addition, at December 31, 1990 and 1989, senior HLT loans past due 90 days and still accruing were $8 million and $20 million, respectively. There were no HLT loans on restructured status and there was no ORE resulting from HLT loans at December 31, 1990 and 1989. Senior HLT loans of $36 million and $30 million were charged off in 1990 and 1989, respectively. During an economic downturn or a sustained period of rising interest rates, HLT borrowers may experience a decrease in their financial performance greater than that of non-HLT borrowers.

Fees and interest rates on HLTs vary because of different market influences on various types or segments of HLTs. However, approximately 60% of the Company's current senior HLT portfolio provided fees (typically 1%-2% of the commitment) and carry interest rates (typically prime plus 1.5% or LIBOR plus 2.5%) that are higher than most other corporate loans. The remaining senior HLTs provided fees and carry interest rates that are comparable with other corporate and commercial loans. The Company does not aggregate fees relating to HLT loans separately from its other corporate financing activities. However, the Company estimates that during 1990 it received fees of approximately $30 million related to senior HLT loans. Approximately $40 million of senior HLT loan fees, which were received prior to and during 1990, were recognized in 1990 as gross revenues (interest income and noninterest income). HLT fees that have been received prior to and during 1990 and that have not yet been recognized as income (deferred fees) totaled approximately $40 million at December 31, 1990. Approximately 60% of HLT loans contributed higher revenues than that which would have been earned if the resources had been redeployed to other corporate loans. Based on an assumption that other corporate loans, on average, generate approximately 50% less in loan fees and bear interest rates that are 150 basis points lower than these HLT loans, the Company estimates that gross revenues and, correspondingly, net income for 1990 would have been approximately 1% and 4% lower, respectively, if resources used for these HLT loans had been redeployed to other corporate loans. The net income effect for 1990 would be less if noninterest expenses unique to HLTs were considered.

In addition to the $3.6 billion in senior loans, the Company had both mezzanine (subordinated, high-yielding debt) and equity investments relating to HLTs. At December 31, 1990, mezzanine investments totaled $105 million and consisted of subordinated loans of $66 million, which are included in the loan portfolio, and high-yielding debt securities of $39 million (market value of $30 million), which are included in the investment securities portfolio; equity investments, which are included in other assets, were $236 million. At December 31, 1990, the largest single investment was an equity investment of $65 million. At December 31, 1989, mezzanine investments totaled $110 million, which consisted of subordinated loans of $71 million and high-yielding debt securities of $39 million, and equity investments totaled $183 million. The Company had $22 million of subordinated loans on nonaccrual status at December 31, 1990 and none at December 31, 1989. Similar to senior HLT loans, additional subordinated loans may be placed on nonaccrual. The Company had negligible write-offs of mezzanine and equity investments during 1990 and 1989. Gains on sales of and special distributions from mezzanine and equity investments during 1990 and 1989 were approximately $5 million and $25 million, respectively. These investments are subject to the same approval and review process as senior HLT loans.

Nonaccrual Loans, Restructured Loans and Other Real Estate

Table 11 presents comparative data for nonaccrual loans, restructured loans and ORE. Management's classification of a loan as nonaccrual or restructured does not necessarily indicate that the principal of the loan is uncollectible in whole or in part. (Note 1 to the Financial Statements describes the Company's policies relating to nonaccrual and restructured loans and ORE.)

Commercial nonaccruals increased at December 31, 1990 compared with a year earlier, substantially due to additional loans placed on nonaccrual status of approximately $470 million (including approximately $90 million in the retail industry and approximately $285 million of senior and subordinated HLT loans), partially offset by repayments of approximately $130 million, charge-offs of approximately $65 million and loans returned to accrual status of approximately $40 million. Most of the net increase in commercial nonaccruals at December 31, 1990 compared with a year earlier occurred in the fourth quarter of 1990.

Other real estate mortgage and real estate construction nonaccrual loans totaled $365.8 million at December 31, 1990, compared with $342.5 million at December 31, 1989. (The other real estate mortgage and real estate construction portfolios were combined for analysis purposes due to the 1990 real estate loan reclassification discussed in note 3 to Table 11.) The increase was primarily due to additional loans placed on nonaccrual status of approximately $230 million, mostly offset by transfers to ORE of approximately $130 million (the majority of which were office buildings in California), repayments of approximately $35 million, charge-offs of approximately $25 million and loans returned to accrual status of approximately $15 million. Increases in the real estate nonaccrual categories, as well as transfers from real estate nonaccruals to ORE, may continue to occur until economic conditions and occupancy rates improve.

TABLE 11

NONACCRUAL LOANS, RESTRUCTURED LOANS AND OTHER REAL ESTATE (ORE)

(in millions)					December 31,
	1990	1989	1988	1987	1986
Domestic nonaccrual loans:					
Commercial, financial and agricultural (1) (2)	$ 602.2	$ 389.2	$ 335.7	$ 417.9	$ 500.5
Real estate 1-4 family first mortgage	24.3	12.6	11.3	13.2	18.8
Other real estate mortgage (3) (4)	284.3	171.1	108.1	71.6	50.0
Real estate construction (3)	81.5	171.4	101.3	24.3	115.4
Consumer	14.1	13.9	18.2	15.4	4.0
Lease financing	.2	.8	4.8	6.3	12.8
Total domestic nonaccrual loans	1,006.6	759.0	579.4	548.7	701.5
Restructured loans (all domestic)	5.7	4.3	10.3	11.7	13.8
Domestic nonaccrual and restructured loans	1,012.3	763.3	589.7	560.4	715.3
As a percentage of total domestic loans	2.1%	1.8%	1.6%	1.6%	2.1%
ORE (5)	416.3	390.4	334.7	317.3	319.6
Domestic nonaccrual loans, restructured loans and ORE	1,428.6	1,153.7	924.4	877.7	1,034.9
As a percentage of total domestic loans and ORE	2.9%	2.7%	2.5%	2.5%	3.0%
Foreign nonaccrual loans	—	—	103.6	711.4	255.4
Total nonaccrual loans, restructured loans and ORE	$1,428.6	$1,153.7	$1,028.0	$1,589.1	$1,290.3
As a percentage of total loans and ORE	2.9%	2.7%	2.7%	4.3%	3.5%

(1) Includes loans to real estate developers of $12 million and $16 million at December 31, 1990 and 1989, respectively.

(2) Includes agricultural loans of $18 million, $56 million, $134 million, $157 million and $223 million at December 31, 1990, 1989, 1988, 1987 and 1986, respectively.

(3) During the fourth quarter of 1990, loans were reclassified from the real estate construction loan category to the other real estate mortgage loan category so that the real estate construction loan category consists solely of properties where construction is not complete. Prior period balances have not been reclassified as complete information is not available. However, if 1989 balances were reclassified, the Company estimates that other real estate mortgage nonaccruals would have been approximately $255 million at December 31, 1989 and that real estate construction nonaccruals would have been approximately $85 million. At December 31, 1989, 1988 and 1987, loans secured primarily by completed and operational real estate are included in the other real estate mortgage loan category; at December 31, 1986, these loans are included in the construction loan category.

(4) Includes agricultural loans secured by real estate of $21 million, $27 million, $14 million, $12 million and $19 million at December 31, 1990, 1989, 1988, 1987 and 1986, respectively.

(5) Includes agricultural properties of $67 million, $86 million, $72 million, $103 million and $109 million at December 31, 1990, 1989, 1988, 1987 and 1986, respectively.

Interest on nonaccrual and restructured loans that was recognized as income amounted to $22.0 million and $10.6 million in 1990 and 1989, respectively.

Substantially all of the increase in ORE at December 31, 1990 compared with a year earlier was due to approximately $115 million in commercial properties (the majority of which were office buildings in California), approximately $20 million of residential properties and approximately $20 million of other properties, partially offset by sales of residential, commercial and agricultural properties with carrying values of approximately $55 million, $30 million and $25 million, respectively, and by write-downs of approximately $20 million. Table 12 summarizes ORE by state and type.

TABLE 12

OTHER REAL ESTATE BY STATE AND TYPE

(in millions)								December 31, 1990
	California	Texas	Arizona	Colorado	Georgia	Other states (1)	Total by type	% of total ORE
Office buildings	$ 55	$ 35	$—	$ 5	$—	$10	$105	25%
Land (excluding 1-4 family)	25	35	—	15	—	—	75	18
Agricultural	55	—	10	—	—	—	65	16
Hotels/motels	10	25	—	—	—	10	45	11
1-4 family	5	15	10	5	5	5	45	11
Buildings/warehouses	15	10	—	—	—	—	25	6
Apartments	—	5	10	—	—	5	20	5
Other	15	10	—	—	10	—	35	8
Total by state	$180	$135	$30	$25	$15	$30	$415 (2)	100%
% of total ORE	43%	33%	7%	6%	4%	7%	100%	

(1) Consists of 16 states; ORE in each of these states was less than $10 million at December 31, 1990.
(2) Includes approximately $146 million of ORE resulting from loans other than other real estate mortgage and real estate construction loans.

TABLE 13

LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING

(in millions)					December 31,
	1990	1989	1988	1987	1986
Commercial, financial and agricultural	$ 21.2	$ 46.4	$ 34.6	$ 51.5	$ 71.1
Real estate 1-4 family first mortgage (1)	18.9	—	—	—	—
Other real estate mortgage (1) (2)	46.1	28.6	26.9	41.3	65.4
Real estate construction (2)	10.1	2.3	30.7	6.1	11.2
Consumer	61.4	47.8	35.9	35.3	62.9
Lease financing	1.0	1.7	2.1	1.3	1.7
Foreign	—	—	—	—	3.7
Total	$158.7	$126.8	$130.2	$135.5	$216.0

(1) In years prior to 1990, real estate 1-4 family first mortgage loans were included in the other real estate mortgage loan category. Prior period balances have not been reclassified as complete information is not available.
(2) During the fourth quarter of 1990, loans were reclassified from the real estate construction loan category to the other real estate mortgage loan category so that the real estate construction loan category consists solely of properties where construction is not complete. Prior period balances have not been reclassified as complete information is not available. At December 31, 1989, loans secured primarily by completed and operational real estate are included in the other real estate mortgage loan category; for years prior to 1989, these loans are included in the real estate construction loan category.

Table 13 shows loans contractually past due 90 days or more as to interest or principal, but not included in the nonaccrual or restructured categories. All loans in this category are both well secured and in the process of collection or are consumer loans or 1-4 family residential real estate loans that are exempt under regulatory rules from being classified as nonaccrual.

Allowance for Loan Losses

An analysis of the changes in the allowance for loan losses, including net charge-offs by loan category, is presented in Note 5 to the Financial Statements. At December 31, 1990, the allowance for loan losses was $885.4 million, or 1.81% of total loans, compared with $738.6 million, or 1.77%, at December 31, 1989.

The provision for loan losses in 1990 was $310 million, compared with $362 million in 1989. Domestic net charge-offs in 1990 were $198.0 million, compared with $175.9 million in 1989. As a percentage of average domestic loans outstanding, domestic net charge-offs were .45% for both 1990 and 1989.

Net charge-offs of commercial loans were $35.0 million in 1990, a decrease of $39.7 million compared with 1989; the decrease occurred in a variety of industries. Substantially all of the commercial loan net charge-offs in 1990 were related to HLTs. Net charge-offs of other real estate mortgage loans and real estate construction loans totaled $35.3 million, a $19.0 million increase compared with 1989, which was primarily due to lower recoveries in 1990. Net charge-offs of credit card loans of $90.3 million increased $22.6 million in 1990 compared with 1989 due to the growth in credit card loans; the ratio of credit card loan net charge-offs to average credit card loans was essentially unchanged in 1990 (3.5%) compared with 1989 (3.3%). Total net charge-offs in 1990 were $168.0 million, compared with $266.6 million in 1989. As a percentage of average total loans outstanding, net charge-offs were .38% in 1990 compared with .67% in 1989. Foreign net charge-offs (recoveries) were $(30.0) million in 1990, compared with $90.7 million in 1989. In 1989, the Company charged off its remaining medium- and long-term loans to developing countries of $106.9 million.

Loan loss recoveries were $111.9 million in 1990, compared with $120.5 million in 1989.

During the second quarter of 1990, the Company sold its remaining developing country short-term cross-border outstandings, which totaled $122 million at March 31, 1990. These sales resulted in losses of $27.1 million being charged against the allowance for loan losses. In 1989, losses of $98.1 million were charged against the allowance for loan losses, substantially due to sales of medium- and long-term loans to developing countries.

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

The Company's determination of the level of the allowance and, correspondingly, the provision for loan losses rests upon various judgments and assumptions including, but not limited to, general economic conditions, loan portfolio composition and prior loan loss experience. The Company considers the allowance for loan losses of $885.4 million adequate to cover losses inherent in loans; commercial, real estate and other loan commitments; and standby letters of credit at December 31, 1990. No assurance can be given that the Company will not in any particular period sustain loan losses that are sizable in relation to the amount reserved, or that subsequent evaluations of the loan portfolio, in light of conditions and factors then prevailing, will not require significant changes in the allowance for loan losses.

The Company has an established process to determine the adequacy of the allowance for loan losses that assesses the risk and losses inherent in its portfolio. This process uses three complementary allocation procedures: historical factor allocations, specific credit allocations and special allocations. The total of these allocations is then supplemented by the unallocated portion of the allowance for loan losses.

Other Assets

Other assets were $1.8 billion at December 31, 1990, a 69% increase from $1.1 billion at December 31, 1989. The increase was primarily due to increases in the identifiable intangible assets that are included in other assets, which were $508 million at December 31, 1990, compared with $181 million at December 31, 1989, and in the deferred income tax balance, which was $327 million at December 31, 1990, compared with $234 million at December 31, 1989. Core deposit intangibles, which totaled $288 million at December 31, 1990, accounted for most of the increase in the identifiable intangible assets. The deferred income tax balance increase was substantially due to a lower loan loss deduction for tax return purposes than for financial reporting purposes and the impact of phasing in changes required by the Tax Reform Act of 1986.

Deposits

Comparative detail of average deposit balances is presented in Table 5. Average core deposits and average total deposits increased 10% and 9%, respectively, in 1990 compared with 1989, substantially due to growth in savings certificates and market rate savings. Average core deposits funded 71% and 69% of the Company's average total assets in 1990 and 1989, respectively.

Year-end deposit balances are presented in Table 14.

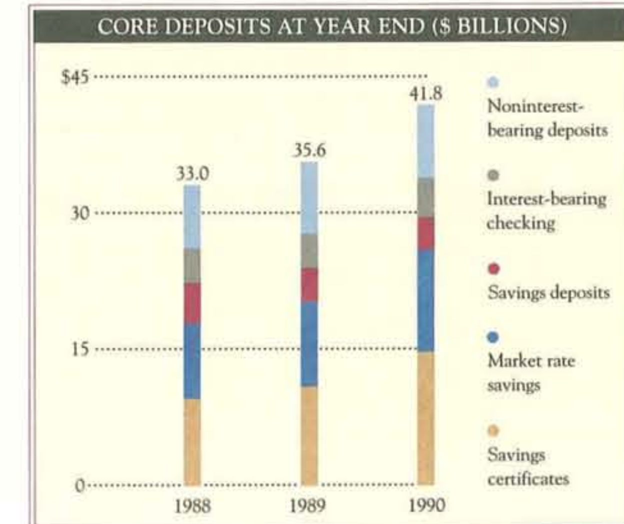


TABLE 14

DEPOSITS

(in millions)	December 31, 1990	1989
Noninterest-bearing deposits	$ 8,129.9	$ 8,003.2
Interest-bearing checking	4,348.1	3,750.4
Savings deposits	3,528.7	3,649.9
Market rate savings	11,115.3	9,295.6
Savings certificates	14,718.0	10,908.3
Core deposits	41,840.0	35,607.4
Certificates of deposit	411.8	406.5
Other time deposits	175.7	143.0
Interest-bearing deposits—foreign	257.5	273.4
Total deposits	$42,685.0	$36,430.3

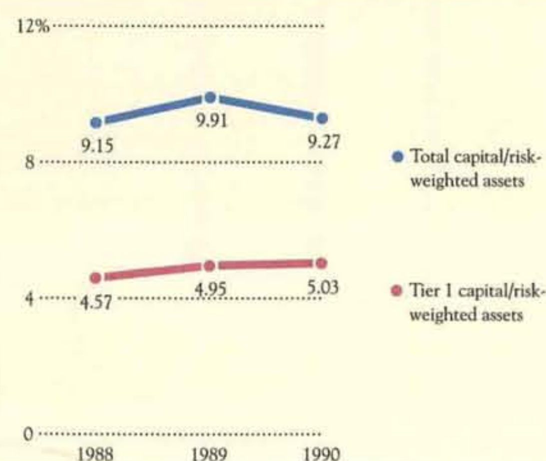
Core deposits and total deposits increased 18% and 17%, respectively, at December 31, 1990 compared with 1989. These increases resulted from the growth mentioned in the preceding paragraph, as well as the December 1990 acquisition of certain GA deposits, which added $2.8 billion and $.8 billion in savings certificates and market rate savings, respectively.

Capital Adequacy/Ratios

The Company uses a variety of measures to evaluate capital adequacy. Common equity was 5.26% of total assets at December 31, 1990, compared with 5.04% at year-end 1989. Based on the Federal Reserve Board's 1992 guidelines, the Company's total risk-based capital (RBC) ratio at December 31, 1990, after excluding $180 million of Market Auction Preferred Stock (MAPS) redeemed in January 1991, was 9.27% and its Tier 1 risk-based capital ratio was 5.03%, exceeding the 1992 minimum guidelines of 8.00% and 4.00%, respectively. The ratios at December 31, 1989 were 9.91% and 4.95%, respectively.

In 1990, the Federal Reserve Board (FRB) approved a new minimum leverage ratio of 3.00% as the minimum capital to total assets standard for top-rated banking organizations. Higher minimum guidelines may be required for other banking organizations, as well as for organizations experiencing or anticipating significant asset growth. The new leverage ratio consists of Tier 1 capital based on the 1992 RBC guidelines, divided by quarterly average total assets (excluding goodwill, which was deducted to arrive at Tier 1 capital). The leverage ratios were 5.04% and 4.79% at December 31, 1990 and 1989, respectively. Due to the December 1990 acquisition of certain GA assets, quarterly average total assets are lower than year-end assets by approximately $3.1 billion. If the leverage ratio at December 31, 1990 was based on year-end assets, the ratio would have been 4.76%. As required by the FRB, the leverage ratio is used in tandem with the risk-based capital ratios, thereby eliminating effective December 31, 1990 the 6.00% total and 5.50% primary capital to assets ratios as the minimum capital standards for banking organizations. Total capital was 11.18% of total assets at December 31, 1990; primary capital was 7.93%. Excluding the MAPS, which were redeemed in January 1991, primary capital to total assets would have been 7.62% at December 31, 1990.

Management reviews the various capital measures monthly and takes appropriate action to ensure that they are within established internal and external guidelines. Management believes that the Company's current capital position, which exceeds guidelines established by industry regulators, 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, 1990, standby letters of credit were $1.7 billion, or 34% of total capital (Tier 1 and 2).



RISK-BASED CAPITAL RATIOS

In 1989, the FRB and the Office of the Comptroller of the Currency (OCC) issued final risk-based capital guidelines for bank holding companies and national banks, respectively. The FRB is the primary regulator for the Company and the OCC is the primary regulator for the Bank. The guidelines, which establish a risk-adjusted ratio relating capital to risk-weighted assets and off-balance sheet exposures, require minimum RBC ratios at December 31, 1990 and more restrictive ratios by year-end 1992. Under transition rules, the guidelines for computing the ratio (for example, items allowed to be counted as capital) also become more restrictive by 1992. The discussion below is based on the FRB's 1992 guidelines.

TABLE 15

RISK-BASED CAPITAL RATIOS

(BASED ON 1992 GUIDELINES)

(in billions)	December 31, 1990	1989
Tier 1:		
Common stockholders' equity	$ 2.9	$ 2.5
Adjustable rate preferred stock	.2	.2
Goodwill	(.5)	(.4)
Total Tier 1 capital	2.6	2.3
Tier 2:		
Market auction preferred stock	—	.2
Mandatory convertible debt (1)	.3	.5
Subordinated debt and unsecured senior debt (2)	1.3	1.1
Allowance for loan losses allowable in Tier 2	.7	.6
Excess Tier 2 capital	—	(.1)
Total Tier 2 capital	2.3(3)	2.3
Total capital	$ 4.9	$ 4.6
Risk-weighted balance sheet assets	$ 48.1	$41.3
Risk-weighted off-balance sheet assets:		
Commitments to make or purchase loans	3.9	4.9
Standby letters of credit	1.0	1.1
Other	.3	.1
Total risk-weighted off-balance sheet assets	5.2	6.1
Goodwill	(.5)	(.4)
Allowance for loan losses not included in Tier 2	(.2)	(.1)
Total risk-weighted assets	$ 52.6	$46.9
Tier 1 RBC ratio (minimum requirement 4.00%)	5.03%	4.95%
Total RBC ratio (minimum requirement 8.00%)	9.27%	9.91%

(1) Net of note fund and dedicated stockholders' equity.
(2) Discounted based on remaining maturity.
(3) Excludes $180 million of Market Auction Preferred Stock redeemed in January 1991; this exclusion reduced the total RBC ratio by 34 basis points.

There are two categories of capital under the guidelines. Tier 1 capital includes common stockholders' equity and qualifying preferred stock, less goodwill. Tier 2 capital includes preferred stock not qualifying as Tier 1 capital, mandatory convertible debt, subordinated debt, unsecured senior debt and the allowance for loan losses, subject to limitations by the guidelines. Tier 2 capital is limited to the amount of Tier 1 capital. The Company's Tier 1 and Tier 2 capital components are shown in Table 15.

Under the guidelines, one of four risk weights is applied to the different balance sheet assets, primarily based on the relative credit risk of the counterparty (for example, qualifying 1-4 family first mortgage loans are risk-weighted at 50%). Off-balance sheet items, such as loan commitments, are also applied a risk weight, after applying one of four credit conversion factors to these items to determine a balance sheet equivalent amount. The credit conversion factors are primarily based on the likelihood of the off-balance sheet item becoming an asset. (For example, certain loan commitments are converted at 50% and then risk-weighted at 100%.) The risk weights and credit conversion factors are 0%, 20%, 50% and 100%. (Refer to Note 14 to the Financial Statements for further discussion of off-balance sheet items.)

The Company's risk-weighted assets are calculated as shown in Table 15. Risk-weighted balance sheet assets were $8.1 billion and $7.4 billion less than total assets on the consolidated balance sheet of $56.2 billion and $48.7 billion at December 31, 1990 and 1989, respectively, as a result of weighting certain types of assets at less than 100%; such assets, for both December 31, 1990 and 1989, substantially consisted of 1-4 family first mortgage loans, cash and due from banks and claims on or guaranteed by the U.S. government or its agencies.

Liquidity Management

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

In recent years, core deposits have provided the Company with a sizable source of relatively stable and low-cost funds. The Company's average core deposits and stockholders' equity funded 77% and 75% of its average total assets in 1990 and 1989, respectively. The 10% increase in average core deposits in 1990 compared with 1989 essentially funded the 7% growth in average total assets.

Most of the remaining funding was provided by short-term borrowings and senior and subordinated debt. In 1990, short-term borrowings averaged $7.4 billion, a $354 million increase from 1989, while deposits in foreign offices decreased by $393 million. During 1990, senior debt of $190 million matured or was redeemed. Refer to the Consolidated Statement of Cash Flows for further information.

Other sources of liquidity include maturity extensions of short-term borrowings, confirmed lines of credit from banks and sale or runoff of assets. Commercial and real estate loans totaled $37.7 billion at December 31, 1990. Of these loans, $12.7 billion matures in one year or less, $11.0 billion matures in over one year through five years and $14.0 billion matures in over five years. Of the $25.0 billion that matures in over one year, $12.7 billion has floating or adjustable rates and $12.3 billion has fixed rates. Of the $12.3 billion of fixed-rate loans, approximately $4.5 billion represents FIRM™ loans. The estimated net income impact of fixed-rate mortgage loans maturing beyond one year that carry rates below market on December 31, 1990 is not material.

The Company believes that liquidity is further provided by its ability to raise funds in a variety of domestic and

international money and capital markets. Under shelf registration statements filed with the Securities and Exchange Commission (SEC), the Company had debt securities that were registered but unissued of approximately $705 million at December 31, 1990, which included approximately $385 million issued from January 1 through February 19, 1991. (Refer to Note 7 to the Financial Statements for a schedule of outstanding senior and subordinated debt as of December 31, 1990 and 1989.)

To accommodate future growth and current business needs, the Company has a capital expenditure program. Capital expenditures for 1991 are estimated at $225 million for additional automation equipment for branches, relocation and remodeling of Company facilities and routine replacement of furniture and equipment. The Company will fund these expenditures from various sources, including retained earnings of the Company and borrowings of various maturities.

Asset/Liability Management

The principal objectives of asset/liability management are to manage the sensitivity of net interest spreads to potential changes in interest rates and to enhance profitability in ways that promise sufficient reward for understood and controlled risk. Specific asset/liability strategies are chosen to achieve an appropriate trade-off between average spreads and the variability of spreads. 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 loans and their funding sources through the use of interest rate futures and other financial contracts. Deferred gains and losses on these interest rate futures contracts are included in loans and are amortized over the expected loan or funding source holding period.

Approximately 75% of the Company's prime-based loan portfolio is funded by market rate savings. The remainder is funded by various short-term borrowings and other deposits. The majority of the Company's LIBOR-based loan portfolio is funded by savings certificates. The Company uses interest rate futures and other financial contracts to better match the average effective interest rate maturities of prime- and LIBOR-based loans with their funding sources in order to provide more stable and more profitable spreads between the yields on these loans and the rates on their funding sources.

TABLE 16

INTEREST RATE SENSITIVITY

(in billions)	Averages for December 1990					
Remaining interest rate maturity	Assets	Liabilities and equity	Net assets (liabilities) (column 1 minus column 2)		Net assets (liabilities) as a % of total assets	
1-29 days	$ 5.6	$11.3	$ (5.7)		(10.2)%	
Prime-based	15.0	—	15.0		26.7	
Market rate savings	—	11.1	(11.1)		(19.8)	
30-179 days	8.6	8.7	(.1)		(.2)	
180-364 days	3.1	2.5	.6		1.1	
1-5 years	9.9	2.5	7.4		13.3	
Over 5 years	4.4	.4	4.0	$1.3	7.1	2.4%
Nonmarket	9.6	19.7	(10.1)		(18.0)	
Total	$56.2	$56.2				

Table 16 shows the Company's interest rate sensitivity based on average balances for December 1990. Interest rate sensitivity measures the interval of time before earning assets and interest-bearing liabilities respond to changes in market rates of interest. Assets and liabilities are categorized by remaining interest rate maturities rather than by principal maturities of obligations. For example, a new five-year loan with a rate that is adjusted every 180 days would have a remaining interest rate maturity of 180 days. In 60 days, the same loan would have a remaining interest rate maturity of 120 days.

Management has made certain judgments and approximations in assigning assets and liabilities to rate maturity categories: (1) the remaining maturities of fixed-rate loans have been estimated based on recent repayment patterns rather than on contractual maturity; (2) "nonmarket" assets include noninterest-earning assets, credit card loans and nonaccrual and restructured loans; "nonmarket" liabilities include savings deposits, interest-bearing checking accounts, noninterest-bearing deposits, other noninterest-bearing liabilities and common stockholders' equity; and (3) asset and liability maturities reflect the effects of those interest rate swaps used to (a) hedge mismatches in the rate maturity of certain loans and their funding sources and (b) convert interest rates on senior and subordinated debt from fixed to floating.

The one-year-and-over net asset position was $1.3 billion for December 1990 (2.4% of total assets), compared with $.2 billion for December 1989 (.5% of total assets). Most of the increase for December 1990 compared with December 1989 was due to increases in fixed-rate mortgages (mostly FIRM™ loans), credit card loans and intangible assets, partially offset by a reduction in fixed-rate investment securities and an increase in equity.

Comparison of 1989 Versus 1988

Net income in 1989 was $601.1 million, an increase of 17% over $512.5 million in 1988. Net income per share was $11.02, up 20% from $9.20 in 1988. Return on average assets (ROA) was 1.26% and return on average common equity (ROE) was 24.49% in 1989, up from 1.14% and 23.99%, respectively, in 1988.

Earnings in 1989 benefited from increased net interest income, which primarily resulted from growth in domestic loans. Net interest income on a taxable-equivalent basis rose 9% to $2,188.2 million in 1989 and the net interest margin increased 15 basis points to 5.11%. The 15 basis point increase in the net interest margin in 1989 was primarily due to sales and charge-offs of low-yielding developing country loans and a higher spread between prime-based loans and their funding sources.

Average earning assets grew 6% in 1989, substantially due to an increase in average loans. The average volume of loans in 1989 was $39.4 billion, 7% higher than 1988, mostly due to increases of 14% in commercial, financial and agricultural (commercial) loans and 23% in real estate 1-4 family first mortgage loans, partially offset by an 84% decrease in foreign loans. The increase in commercial loans was primarily due to growth in corporate and middle-market loans. Predominantly all of the increase in real estate 1-4 family first mortgage loans was due to growth in FIRM™ loans. The foreign loan decrease was substantially due to sales and charge-offs of developing country loans.

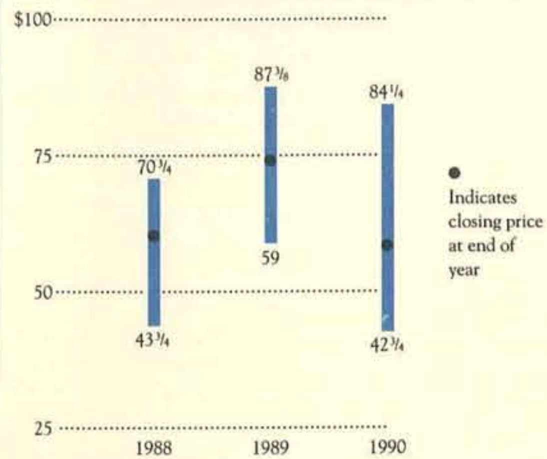
The average volume of core deposits in 1989 was $32.9 billion, 5% higher than 1988, mostly due to an increase in savings certificates and noninterest-bearing deposits. (A schedule of average loan and deposit balances for 1989 and 1988 is shown in Table 5.)

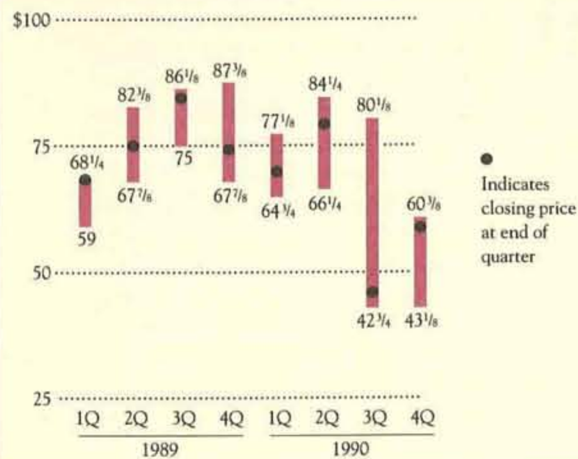
Noninterest income was $778.7 million in 1989, compared with $682.2 million in 1988. Trust and investment services income increased 16% to $178.2 million in 1989, primarily due to additional funds invested by new and existing customers and higher stock market prices, as fees are generally based on the value of assets managed. If it were not for the net-of-tax accounting related to Crocker National Corporation, 1989 and 1988 "all other" noninterest income would have been $24.7 million and $6.5 million, respectively.

Noninterest expense was $1,574.5 million in 1989, compared with $1,519.1 million in 1988. Salaries expense increased 2% to $631.3 million in 1989, with most of the increase resulting from bonuses relating to retail banking activities. Advertising and promotion expense increased 39% to $57.4 million in 1989, with most of the increase related to consumer products and services. Operating losses increased 53% to $38.3 million in 1989, primarily due to an increase in legal settlements.

The Company's 1989 provision for loan losses was $362 million, compared with $300 million in 1988. During 1989, domestic net charge-offs were $175.9 million, or .45% of average domestic loans, compared with $196.5 million, or .55% of average domestic loans, during 1988. During 1989, total net charge-offs were $266.6 million, or .67% of average total loans, compared with $299.0 million, or .80%, during 1988. The decreases in both the domestic and total net charge-off ratios were primarily due to an increase in loan loss recoveries. Loan loss recoveries were $120.5 million in 1989, compared with $84.8 million in 1988, with most of the increase resulting from higher foreign loan recoveries and real estate construction loan recoveries. Net charge-offs of foreign loans were $90.7 million in 1989, compared with $102.5 million in 1988. In 1989, the Company charged off its remaining medium- and long-term loans to developing countries of $106.9 million. In 1988, the Company charged off those loans to developing countries that were covered by allocated transfer risk reserves of $77.8 million. In addition to charge-offs, the Company reduced its cross-border outstandings to developing countries through loan sales, which resulted in charges of $98.1 million and $620.8 million against the allowance for loan losses in 1989 and 1988, respectively. The allowance for loan losses at the end of 1989 was $738.6 million, or 1.77% of total loans, compared with $752.1 million, or 2.00% of total loans, at December 31, 1988.

Additional Information





Common stock of the Company is traded on the New York Stock Exchange, the Pacific Stock Exchange, the London Stock Exchange and the Frankfurter Börse. The high, low and end-of-period annual and quarterly closing prices of the Company's stock as reported on the New York Stock Exchange Composite Transaction Reporting System are presented in the graphs. The number of holders of record of the Company's common stock was 31,545 as of January 31, 1991.

Common dividends declared per share totaled $3.90 in 1990, $3.30 in 1989 and $2.45 in 1988. The common stock quarterly dividend was last increased in the second quarter of 1990 from $.90 to $1.00 per share. The Company, with the approval of the Board of Directors, intends to continue its present policy of paying quarterly cash dividends to stockholders. The level of future dividends will be determined by the Board of Directors in light of the earnings and financial condition of the Company.

In 1990, the Company repurchased 2.2 million shares of common stock at an average price of $72 per share. Additional repurchases will be made from time to time pursuant to authorizations from the Board of Directors that allow shares to be repurchased in relation to the number of shares issued or expected to be issued under various benefit plans and the Company's dividend reinvestment plan, and that allow shares to be repurchased for other corporate purposes.

Consolidated Statement of Income

WELLS FARGO & COMPANY AND SUBSIDIARIES

(in millions)	Year ended December 31, 1990	1989	1988
INTEREST INCOME			
Loans	**$4,911.6**	$4,582.5	$3,889.5
Investment securities	**135.3**	281.0	268.7
Other	**4.3**	6.7	19.3
Total interest income	**5,051.2**	4,870.2	4,177.5
INTEREST EXPENSE			
Deposits	**1,944.5**	1,810.1	1,560.3
Short-term borrowings	**586.4**	645.3	370.2
Senior and subordinated debt	**206.4**	256.2	274.9
Total interest expense	**2,737.3**	2,711.6	2,205.4
NET INTEREST INCOME	**2,313.9**	2,158.6	1,972.1
Provision for loan losses	**310.0**	362.0	300.0
Net interest income after provision for loan losses	**2,003.9**	1,796.6	1,672.1
NONINTEREST INCOME			
Domestic fees and commissions	**301.7**	283.7	278.2
Service charges on deposit accounts	**289.6**	246.7	219.6
Trust and investment services income	**142.5**	178.2	153.7
Investment securities losses	**(.5)**	(2.7)	(4.3)
Partial sale of investment advisory business	**116.5**	—	—
Other	**58.8**	72.8	35.0
Total noninterest income	**908.6**	778.7	682.2
NONINTEREST EXPENSE			
Salaries	**660.5**	631.3	619.8
Employee benefits	**157.2**	149.2	152.4
Net occupancy	**182.5**	178.5	166.8
Equipment	**137.5**	137.3	135.8
Other	**579.6**	478.2	444.3
Total noninterest expense	**1,717.3**	1,574.5	1,519.1
INCOME BEFORE INCOME TAX EXPENSE	**1,195.2**	1,000.8	835.2
Income tax expense	**483.7**	399.7	322.7
NET INCOME	**$ 711.5**	$ 601.1	$ 512.5
NET INCOME APPLICABLE TO COMMON STOCK	**$ 684.8**	$ 573.6	$ 486.7
PER COMMON SHARE			
Net income	**$ 13.39**	$ 11.02	$ 9.20
Dividends declared	**$ 3.90**	$ 3.30	$ 2.45
Average common shares outstanding	**51.2**	52.1	52.9

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheet

WELLS FARGO & COMPANY AND SUBSIDIARIES

(in millions)	1990	December 31, 1989
ASSETS		
Cash and due from banks	$ 2,508.4	$ 2,929.8
Investment securities (estimated market value $1,363.2 and $1,704.9)	1,387.2	1,737.7
Loans	48,976.6	41,726.9
Allowance for loan losses	885.4	738.6
Net loans	48,091.2	40,988.3
Due from customers on acceptances	164.2	211.0
Accrued interest receivable	416.3	389.9
Premises and equipment, net	896.9	679.6
Other real estate	416.3	390.4
Goodwill	533.1	352.6
Other assets	1,784.9	1,057.3
Total assets	$56,198.5	$48,736.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing—domestic	$ 8,129.9	$ 8,003.2
Interest-bearing—domestic	34,297.6	28,153.7
Interest-bearing—foreign	257.5	273.4
Total deposits	42,685.0	36,430.3
Short-term borrowings:		
Federal funds borrowed and repurchase agreements	4,860.9	2,706.7
Commercial paper outstanding	1,752.8	3,090.4
Other	109.4	44.3
Total short-term borrowings	6,723.1	5,841.4
Acceptances outstanding	164.2	211.0
Accrued interest payable	87.0	100.8
Senior debt	529.2	695.2
Other liabilities	762.7	751.2
	50,951.2	44,029.9
Subordinated debt	1,887.5	1,845.8
Total liabilities	52,838.7	45,875.7
Stockholders' equity:		
Preferred stock	405.0	405.0
Common stock—$5 par value, authorized 150,000,000 shares; issued and outstanding 51,438,238 shares and 51,074,971 shares	257.2	255.4
Additional paid-in capital	287.1	274.1
Retained earnings	2,414.7	1,930.7
Cumulative foreign currency translation adjustments	(4.2)	(4.3)
Total stockholders' equity	3,359.8	2,860.9
Total liabilities and stockholders' equity	$56,198.5	$48,736.6

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Stockholders' Equity

WELLS FARGO & COMPANY AND SUBSIDIARIES

(in millions)	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Foreign currency translation adjustments	Total stockholders' equity
BALANCE DECEMBER 31, 1987	$ 405.0	$ 263.8	$ 415.0	$ 1,171.0	$(7.2)	$ 2,247.6
Net income—1988				512.5		512.5
Common stock issued under employee benefit and dividend reinvestment plans		2.4	20.3			22.7
Exercise of warrants		.3	.5			.8
Common stock repurchased		(3.8)	(46.1)			(49.9)
Preferred stock dividends				(25.8)		(25.8)
Common stock dividends				(129.5)		(129.5)
Foreign currency translation adjustments					1.0	1.0
Net change	—	(1.1)	(25.3)	357.2	1.0	331.8
BALANCE DECEMBER 31, 1988	405.0	262.7	389.7	1,528.2	(6.2)	2,579.4
Net income—1989				601.1		601.1
Common stock issued under employee benefit and dividend reinvestment plans		2.4	21.5			23.9
Common stock issued for acquisitions		.3	4.7			5.0
Common stock repurchased		(10.0)	(141.8)			(151.8)
Preferred stock dividends				(27.5)		(27.5)
Common stock dividends				(171.1)		(171.1)
Foreign currency translation adjustments					1.9	1.9
Net change	—	(7.3)	(115.6)	402.5	1.9	281.5
BALANCE DECEMBER 31, 1989	405.0	255.4	274.1	1,930.7	(4.3)	2,860.9
Net income—1990				711.5		711.5
Common stock issued under employee benefit and dividend reinvestment plans		2.4	20.8			23.2
Common stock issued for acquisitions		10.4	137.7			148.1
Common stock repurchased		(11.0)	(145.5)			(156.5)
Preferred stock dividends				(26.7)		(26.7)
Common stock dividends				(200.8)		(200.8)
Foreign currency translation adjustments					.1	.1
Net change	—	1.8	13.0	484.0	.1	498.9
BALANCE DECEMBER 31, 1990	$405.0	$257.2	$287.1	$2,414.7	$(4.2)	$3,359.8

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows

(in millions)	Year ended December 31, 1990	1989	1988
Cash flows from operating activities:			
Net income	$ 711.5	$ 601.1	$ 512.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	310.0	362.0	300.0
Depreciation and amortization	175.3	153.6	142.7
Provision for deferred taxes	(93.0)	(204.6)	165.8
Net increase (decrease) in net deferred loan fees	(20.2)	36.2	(25.4)
Net decrease (increase) in accrued interest receivable	15.0	(24.2)	(40.7)
Net decrease in accrued interest payable	(28.6)	(9.3)	(26.2)
Other, net	(15.4)	62.7	71.2
Net cash provided by operating activities	1,054.6	977.5	1,099.9
Cash flows from investing activities:			
Proceeds from sales of investment securities	1.3	1,809.1	197.5
Proceeds from maturities of investment securities	1,004.0	1,213.7	1,106.0
Purchases of investment securities	(659.4)	(792.8)	(1,583.7)
Net increase in loans resulting from loan originations and principal collections	(4,435.0)	(5,856.6)	(2,232.0)
Proceeds from sales (including participations) of loans	2,123.2	2,019.2	1,609.0
Purchases (including participations) of loans	(376.5)	(631.2)	(316.6)
Cash and cash equivalents from acquisitions, net of cash paid	368.1	—	115.8
Other, net	(156.6)	105.6	(118.0)
Net cash used by investing activities	(2,130.9)	(2,133.0)	(1,222.0)
Cash flows from financing activities:			
Net increase in deposits	332.5	1,361.5	1,636.5
Net increase in short-term borrowings	872.8	839.1	221.0
Repayment of senior and subordinated debt	(190.1)	(362.1)	(877.9)
Common stock issued	23.2	28.9	23.5
Common stock repurchased	(156.5)	(151.8)	(49.9)
Cash dividends paid	(221.6)	(191.2)	(141.5)
Other, net	(5.4)	(2.3)	(80.8)
Net cash provided by financing activities	654.9	1,522.1	730.9
Net change in cash and cash equivalents (due from banks)	(421.4)	366.6	608.8
Cash and cash equivalents at beginning of year	2,929.8	2,563.2	1,954.4
Cash and cash equivalents at end of year	$ 2,508.4	$ 2,929.8	$ 2,563.2
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 2,765.9	$ 2,720.9	$ 2,231.6
Income taxes	$ 621.7	$ 472.9	$ 217.2
In connection with acquisitions:			
Fair value of assets acquired	$ 6,326.6	$ —	$ 1,317.6
Cash paid	(141.6)	—	(125.7)
Common stock issued	(148.1)	—	—
Fair value of liabilities assumed	$ 6,036.9	$ —	$ 1,191.9

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 the financial statements for prior years have been reclassified to conform with the current financial statement presentation. The following is a description of the 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.

Significant majority-owned subsidiaries and a foreign branch are consolidated on a line-by-line basis. Significant intercompany accounts and transactions are eliminated in consolidation. Other subsidiaries and affiliates in which there is at least 20% ownership are generally accounted for by the equity method. Equity investments in which there is less than 20% ownership are carried at cost.

Securities

Securities are accounted for according to their purpose. Realized and, if applicable, unrealized gains and losses are recorded by securities category in noninterest income.

Securities acquired for investment purposes, including debt securities acquired with the intent to hold for the foreseeable future, are recorded at historical cost, adjusted for amortization of premium and accretion of discount, where appropriate. If a decision is made to dispose of securities or should the Company become unable to hold securities to maturity, they would be recorded at the lower of cost or market. For marketable equity securities, declines in value that are considered other than temporary are recorded as losses on investment securities. For debt securities, if it is probable that the carrying value will not be realized due to permanent impairment, the estimated loss is recorded as losses on investment securities. Upon sale, gains and losses on investment securities are recorded using the identified certificate method.

Nonmarketable equity securities are acquired for various reasons, such as troubled debt restructurings and investments made to finance corporate purchases or restructurings. These securities are accounted for at cost and are included in other assets as they do not have the investment intent and marketability characteristics of an investment portfolio. The asset value is reduced when declines in value are considered to be other than temporary.

Securities acquired for short-term appreciation or other trading purposes, if any, are recorded in a trading portfolio and are carried at market value.

Premises and Equipment

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

Depreciation and amortization are computed primarily using the straight-line method. Estimated useful lives range up to 40 years for buildings, 3-10 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, which includes deferred fees net of deferred direct incremental loan origination costs, is amortized to interest income generally over the contractual life of the loan using an interest method or the straight-line method if it is not materially different.

NONACCRUAL LOANS

Unless both well secured and in the process of collection, loans, other than consumer loans for which no portion of the principal has been charged off, are placed on nonaccrual status when a loan becomes 90 days past due as to interest or principal, when the full timely collection of interest or principal becomes uncertain or when a portion of the principal balance has been charged off. Real estate 1-4 family loans originated in the Company's consumer lending units are placed on nonaccrual status when they become 180 days past due as to interest or principal, regardless of security. When a loan is placed on nonaccrual status, the accrued and unpaid interest receivable is reversed and the loan is accounted for on the cash or

cost recovery method thereafter, until qualifying for return to accrual status. Generally, a loan may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan agreement or when the loan is both well secured and in the process of collection.

RESTRUCTURED LOANS

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

ALLOWANCE FOR LOAN LOSSES

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

Other Real Estate

Other real estate, consisting of real estate acquired as a result of troubled debt and premises no longer needed for conducting business, is carried at the lower of cost or fair value. When the property is acquired, any excess of the loan balance over fair value of the property is charged to the allowance for loan losses. Subsequent write-downs, if any, and disposition gains and losses are included in noninterest expense.

Goodwill and Identifiable Intangible Assets

Goodwill, representing the excess of purchase price over the fair value of net assets acquired, results from acquisitions made by the Company. Most of the Company's goodwill is being amortized using the straight-line method over 20 years. The remaining period of amortization, on a weighted average basis, approximated 16 years at December 31, 1990.

Identifiable intangible assets included in other assets are generally amortized using an accelerated method. Amortization is based on estimated useful lives, which range from 5 to 15 years. Approximately 40% of the balance of $508 million at December 31, 1990 will be amortized in 3 years.

Income Taxes

The Company files a consolidated federal income tax return. Consolidated or combined state tax returns are filed in certain states, including California. Income taxes are generally allocated to individual subsidiaries as if each had filed a separate return. Payments are made to the Parent by those subsidiaries with net tax liabilities on a separate return basis. Subsidiaries with net tax losses and excess tax credits receive payment for these benefits from the Parent.

Deferred income tax assets and liabilities are determined in accordance with Accounting Principles Board Opinion No. 11, Accounting for Income Taxes, and result from certain items being accounted for in different time periods for financial reporting purposes than for income tax purposes.

Interest Rate Futures and Other Financial Contracts

The Company hedges primarily to reduce mismatches in the rate maturity of loans and their funding sources through the use of interest rate futures and other financial contracts. Deferred gains and losses on these interest rate futures contracts are included in loans and are amortized over the expected loan or funding source holding period. The amortization is included in interest income on loans.

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, such as stock options, and other potentially dilutive securities is not material; therefore, they are not included in the computation.

NOTE
2
ACQUISITION FROM GREAT AMERICAN BANK (PHASE 1)

On December 1, 1990, the Company completed the purchase of 92 Southern California branches from Great American Bank (GA), a Federal Savings Bank, in the first phase of a two-phase purchase of the California branch network of GA. The purchase price was approximately $365 million and the Company acquired assets of $4.1 billion, including loans of $3.7 billion, and assumed deposit liabilities of $4.4 billion. This acquisition was accounted for as a purchase transaction and did not have a material effect on the Company's net income in 1990. Certain fair value estimates and, correspondingly, goodwill may change as additional information is obtained.

No assurance can be given that the second phase of the acquisition, which would include 38 branches, will be completed. If consummated, it is not expected to occur until the second half of 1991. The second phase would include assets of approximately $1.8 billion, including loans of approximately $1.7 billion, and deposit liabilities of approximately $1.9 billion for a purchase price of approximately $.1 billion.

NOTE
3
CASH, LOAN AND DIVIDEND RESTRICTIONS

Federal Reserve Board regulations require reserve balances on deposits to be maintained by the Bank with the Federal Reserve Bank. The average required reserve balance was approximately $1.3 billion and $1.2 billion in 1990 and 1989, respectively.

The Bank is subject to certain restrictions under the Federal Reserve Act, including restrictions on extensions of credit to its affiliates. In particular, the Bank is prohibited from lending to the Parent and its nonbank subsidiaries unless the loans are secured by specified collateral. Such secured loans and other regulated transactions made by the Bank (including its subsidiaries) are limited in amount as to each of its affiliates, including the Parent, to 10% of the Bank's capital stock and surplus (as defined) and, in the aggregate to all of its affiliates, to 20% of the Bank's capital stock and surplus. The Bank's capital stock and surplus at December 31, 1990 was $3.8 billion.

Dividends payable by the Bank to the Parent without the express approval of the Office of the Comptroller of the Currency (OCC) are limited to the Bank's net profits, which were defined by the OCC in December 1990 as undistributed net income based on regulatory accounting principles, for the preceding two years plus net profits up to the date of any dividend declaration. Based on this revised definition, applied on a retroactive basis, the Bank can declare dividends in 1991 of approximately $860 million of its undistributed net profits at December 31, 1990 plus undistributed net profits for 1991 up to the date of any such dividend declaration. Dividends declared by the Bank to the Parent in 1990 were $259.9 million.

NOTE

4

INVESTMENT SECURITIES

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

(in millions)								December 31,
				1990		1989		1988
	Book value	Estimated gross unrealized gains	Estimated gross unrealized losses	Estimated market value	Book value	Estimated market value	Book value	Estimated market value
U.S. Treasury securities	$ 260.2	$ .1	$ (.9)	$ 259.4	$ 363.0	$ 357.1	$ 858.4	$ 829.0
Securities of other U.S. government agencies and corporations	937.4	7.0	(12.7)	931.7	1,049.5	1,030.3	2,487.5	2,357.7
Obligations of states and political subdivisions	54.2	.1	(2.7)	51.6	66.9	63.8	73.5	67.7
Other bonds, notes and debentures	56.6	.1	(8.7)	48.0	57.6	55.8	61.5	61.9
Total debt securities	1,308.4	7.3	(25.0)	1,290.7	1,537.0	1,507.0	3,480.9	3,316.3
Corporate and Federal Reserve Bank stock	78.8	2.0	(8.3)	72.5	200.7	197.9	489.5	483.5
Total investment securities	$1,387.2	$9.3	$(33.3)	$1,363.2	$1,737.7	$1,704.9	$3,970.4	$3,799.8

The estimated market value of investment securities is determined based on current quotations, where available. Where current quotations are not available, the estimated market value is determined based primarily on the present value of future cash flows, adjusted for the quality rating of the securities and other factors.

The remaining contractual principal maturities of the debt securities included in the table above at December 31, 1990 are shown below:

(in millions)											December 31, 1990
	Total amount	Weighted average yield	Weighted average remaining maturity (in yrs.-mos.)	Remaining contractual principal maturity							
				One year or less		After one year through five years		After five years through ten years		After ten years	
				Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
BOOK VALUE											
U.S. Treasury securities	$ 260.2	6.78%	0-10	$260.2	6.78%	$ —	—%	$ —	—%	$ —	—%
Securities of other U.S. government agencies and corporations	937.4	9.09	13-7	23.6	10.67	117.7	8.64	199.4	8.70	596.7	9.25
Obligations of states and political subdivisions	54.2	7.41	4-2	7.7	7.48	33.0	7.49	8.2	7.02	5.3	7.41
Other bonds, notes and debentures	56.6	12.29	7-6	—	—	4.2	10.52	41.5	12.19	10.9	13.35
Total debt securities	$1,308.4	8.70%	10-5	$291.5	7.11%	$154.9	8.45%	$249.1	9.23%	$612.9	9.31%
ESTIMATED MARKET VALUE	$1,290.7			$293.1		$148.2		$233.5		$615.9	

Dividend income of $18.8 million, $19.2 million and $25.3 million in 1990, 1989 and 1988, respectively, is included in interest income on investment securities in the consolidated statement of income. Substantially all income on investment securities is taxable.

The book value of investment securities pledged to secure trust and public deposits and for other purposes as required or permitted by law was $893 million, $988 million and $1,946 million at December 31, 1990, 1989 and 1988, respectively.

There were no sales of debt securities during 1990; proceeds from sales of equity securities totaled $1.3 million during 1990.

NOTE

5

LOANS AND ALLOWANCE FOR LOAN LOSSES

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

(in millions)		December 31,
	1990	1989
DOMESTIC		
Commercial, financial and agricultural (1)	$14,639.4	$14,490.9
Real estate 1-4 family first mortgage	9,864.7	7,628.2
Other real estate mortgage (2)	10,505.2	6,018.7
Real estate construction (2)	2,668.8	4,088.1
Credit card	2,787.6	2,504.2
Other revolving credit	698.8	614.7
Monthly payment	1,464.4	1,333.6
Real estate 1-4 family junior lien mortgage	5,178.1	3,946.0
Total consumer	10,128.9	8,398.5
Lease financing	1,161.0	1,052.6
FOREIGN	8.6	49.9
Total loans (net of unearned income, including net deferred loan fees, of $424.7 and $394.6)	$48,976.6	$41,726.9

(1) Includes loans to real estate developers of $1,316 million and $1,720 million at December 31, 1990 and 1989, respectively.

(2) During the fourth quarter of 1990, approximately $2.0 billion of loans were reclassified from the real estate construction loan category to the other real estate mortgage loan category so that the real estate construction loan category consists solely of properties where construction is not complete. The reclassification includes loans of approximately $1.1 billion relating to completed properties where lease-up is less than 75%, of which approximately 6% were on nonaccrual at December 31, 1990. Prior period balances have not been reclassified as complete information is not available.

The Company extends credit for various types of loans as shown in the table at left. At December 31, 1990, commitments to extend credit included $5.9 billion under credit card lines and $18.4 billion of other commitments, the majority of which related to commercial, financial and agricultural (commercial) loans. Commitments to extend credit secured by real estate were $5.3 billion (primarily real estate 1-4 family junior lien mortgage loans) at December 31, 1990. At December 31, 1990, the Company's commercial loans and commitments did not have an industry concentration that exceeded 10% of total loans and commitments. Tables 6 and 7 in the Loan Portfolio section of the Financial Review summarize real estate mortgage (excluding 1-4 family) and real estate construction loans by state and project type. Substantially all of the Company's real estate first mortgage loans secured by 1-4 family residential properties and consumer loans are with customers located in California.

The Company determines the amount of collateral needed, if any, based on management's credit evaluation of the customer. The type of collateral held varies, but may include accounts receivable, inventory, land, buildings, equipment, income-producing commercial properties and residential real estate. The Company has the same collateral policy for commitments as for loans. See Note 14 for a further discussion of commitments to extend credit.

Certain directors and executive officers of the Company, certain entities to which they are related and certain of their relatives are loan customers of the Company. Such loans are made in the ordinary course of business on normal credit terms, including interest rate and collateralization, and none represent more than a normal risk of collection. Such loans were $216.5 million and $211.3 million at December 31, 1990 and 1989, respectively. During 1990, additional loans of $36.4 million were made and payments of $31.2 million were received.

Changes in the allowance for loan losses were as follows:

(in millions)	Year ended December 31, 1990	1989	1988
Balance, beginning of year	$738.6	$752.1	$1,357.2
Allowance related to acquisitions	32.5	.5	14.7
Provision for loan losses	310.0	362.0	300.0
Net loan charge-offs:			
Commercial, financial and agricultural	35.0	74.7	67.5
Real estate 1-4 family first mortgage	5.0	.4	1.3
Other real estate mortgage (1)	17.5	12.4	9.1
Real estate construction (1)	17.8	3.9	19.3
Credit card	90.3	67.7	76.2
Other revolving credit	6.0	5.3	7.7
Monthly payment	8.1	2.3	6.5
Real estate 1-4 family junior lien mortgage	6.1	1.8	2.9
Total consumer	110.5	77.1	93.3
Lease financing	12.2	7.4	6.0
Total domestic net loan charge-offs	198.0	175.9	196.5
Foreign	(30.0)	90.7	102.5
Total net loan charge-offs (2)	168.0	266.6	299.0
Losses on the sale or swap of developing country loans	27.7	98.1	620.8
Other deductions	—	11.3	—
Balance, end of year	$885.4	$738.6	$ 752.1
Domestic net loan charge-offs as a percentage of average domestic loans	.45%	.45%	.55%
Total net loan charge-offs as a percentage of average total loans	.38%	.67%	.80%
Allowance as a percentage of total loans	1.81%	1.77%	2.00%

(1) During the fourth quarter of 1990, loans were reclassified from the real estate construction loan category to the other real estate mortgage loan category so that the real estate construction loan category consists solely of properties where construction is not complete. Prior period balances have not been reclassified as complete information is not available.
(2) Net of recoveries of $111.9 million, $120.5 million and $84.8 million in 1990, 1989 and 1988, respectively.

Nonaccrual and restructured loans were $1,012.3 million and $763.3 million at December 31, 1990 and 1989, respectively. Related commitments to lend additional funds at December 31, 1990 were approximately $170 million.

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 amounts shown in the following table:

(in millions)	Year ended December 31, 1990	1989	1988
DOMESTIC			
Interest that would have been recorded under original terms	$85.0	$89.5	$60.3
Gross interest recorded	22.0	9.2	7.4
Reduction in domestic interest income	63.0	80.3	52.9
FOREIGN			
Interest that would have been recorded under original terms	—	3.1	53.0
Gross interest recorded	—	1.4	9.3
Reduction in foreign interest income	—	1.7	43.7
Reduction in total interest income	$63.0	$82.0	$96.6

NOTE
6
PREMISES AND EQUIPMENT

The following table presents comparative data for premises and equipment:

(in millions)	December 31, 1990	1989
Land	$ 144.3	$ 84.1
Buildings	443.1	280.9
Furniture and equipment	515.3	474.0
Leasehold improvements	226.7	220.5
Premises leased under capital leases	109.4	118.8
Total	1,438.8	1,178.3
Less accumulated depreciation and amortization	541.9	498.7
Net book value	$ 896.9	$ 679.6

Depreciation and amortization expense was $115.9 million, $117.4 million and $104.9 million for the years ended December 31, 1990, 1989 and 1988, respectively.

NOTE
7
SENIOR AND SUBORDINATED DEBT

The following is a summary of the major categories of senior and subordinated debt (reflecting unamortized debt discount and premium where applicable):

(in millions)	December 31, 1990	1989
SENIOR		
Intermediate-term (original maturities from 1–12 years)		
Parent: 8% Notes due 1993 (1)	$ 100.0	$ 100.0
8% Notes due July 15, 1993 (2)	100.0	99.9
9½% Notes due 1993 ($100.0 face amount) (1)	—	99.7
7.25% to 11.50% Medium-Term Notes due through 1996	30.0	113.5
Other notes	15.5	15.5
Notes payable by subsidiaries	34.4	.9
Total intermediate-term senior debt	279.9	429.5
Long-term (original maturities of more than 12 years)		
Parent: 8.60% Debentures due 2002 ($54.4 face amount) (3)	54.1	54.0
Other notes	117.9	124.6
Notes payable by subsidiaries	3.4	4.0
Total long-term senior debt	175.4	182.6
Obligations under capital leases (Note 14):		
Parent	—	5.9
Subsidiaries	73.9	77.2
Total obligations under capital leases	73.9	83.1
Total senior debt	529.2	695.2
SUBORDINATED		
Intermediate-term (original maturities from 1–12 years)		
Parent: 12⅝% Notes due 1991 ($100.0 face amount) (2)(4)	100.4	101.0
13⅜% Notes due 1991 (2)(4)	100.0	99.9
8¾% Notes due 1996 (1)	100.0	100.0
Floating Rate Notes due 1992 (1)(4)	116.3	116.3
Floating Rate Notes due 1994 (U.K. pounds sterling denominated £60.0 face amount) (1)(4)(5)	115.8	96.8
Floating Rate Notes due 1994 (1)(4)	99.7	99.7
Deutsche Mark Floating Rate Notes due 1995 (DM 300.0 face amount) (4)(6)	200.7	177.5
Floating Rate Notes due 1996 ($100.0 face amount) (1)(7)	99.7	99.7
Floating Rate Capital Notes due 1996 (1)(8)	150.0	150.0
Floating Rate Notes due 1997 (1)(4)	187.0	187.0
Floating Rate Notes due June 1997 ($100.0 face amount) (1)(9)	99.9	99.9
Floating Rate Notes due July 1997 (1)(4)(9)	100.0	100.0
Floating Rate Capital Notes due 1997 (1)(4)(8)	100.0	100.0
Floating Rate Capital Notes due 1998 (1)(4)(8)	200.0	200.0
Total intermediate-term subordinated debt	1,769.5	1,727.8
Long-term (original maturities of more than 12 years)		
Parent: Floating Rate Notes due 2000 (1)(4)	118.0	118.0
Total subordinated debt	1,887.5	1,845.8
Total senior and subordinated debt	$2,416.7	$2,541.0

(1) Initially redeemable in whole or in part, at par, at various dates through March 1993.
(2) The Company has entered into an interest rate swap agreement whereby the Company receives fixed-rate interest payments approximately equal to interest on the Notes and makes interest payments based on a floating rate.
(3) Assumed from Crocker National Corporation.
(4) May be redeemed in whole, at par, at any time in the event withholding taxes are imposed in the United States.
(5) The Company has entered into a swap agreement whereby the Company receives pounds sterling sufficient to cover floating-rate interest and principal on the Notes and makes payments in U.S. dollars covering interest and principal. The transaction amount at the date of issue and swap was $74.0 million. The differences of $41.8 million and $22.8 million at December 31, 1990 and 1989, respectively, were due to the foreign currency transaction adjustment.

(6) These notes are subject to a maximum interest rate of 8%. The Company has sold this interest rate cap under an agreement whereby it receives fixed payments in deutsche marks and makes payments based on the amount by which a floating rate exceeds 8%. The Company has also entered into a swap agreement whereby the Company receives deutsche marks approximately equal to interest and principal on the Notes and makes payments in U.S. dollars. The transaction amount at the date of issue and swap was $117.7 million. The differences of $83.0 million and $59.8 million at December 31, 1990 and 1989, respectively, were due to the foreign currency transaction adjustment.

(7) Equity Commitment Notes.

(8) Mandatory Equity Notes.

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

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

(in millions)	1991	1992	1993	1994	1995	Thereafter	Total
Parent	$233.4	$138.4	$209.3	$183.4	$130.7	$1,285.3	$2,180.5
Company	239.8	144.5	249.8	187.5	134.6	1,336.0	2,292.2

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

The Company's mandatory convertible debt, which is identified by notes (7) and (8) to the table on the preceding page, qualifies as Tier 2 capital. The terms of the Equity Commitment Notes, which totaled $100 million (face amount) at December 31, 1990, require the Company to deposit proceeds from the issuance of capital securities into a note fund. The cumulative minimum proceeds to be deposited will be $67 million by 1992 and $100 million by 1996. As of December 31, 1990, $33 million had been deposited in the note fund and $67 million of stockholders' equity had been dedicated for future deposit to the note fund. The terms of the Mandatory Equity Notes, which totaled $450 million at December 31, 1990, require the Company to sell or exchange with the noteholder the Company's common stock, perpetual preferred stock or other capital securities at maturity or earlier redemption of the Notes. As of December 31, 1990, $168 million of stockholders' equity had been dedicated to the retirement or redemption of the Mandatory Equity Notes.

Certain of the agreements under which debt has been issued contain provisions that may restrict the payment of dividends, the disposition of assets, the creation of property liens and the sale or merger of the Bank. The Company was in compliance with the provisions of the borrowing agreements at December 31, 1990.

NOTE 8

PREFERRED STOCK

At December 31, 1990, 25,000,000 shares of preferred stock were authorized and 4,501,800 shares were issued and outstanding as described below. All preferred shares rank senior to common shares both as to dividends and liquidation preference but have no general voting rights.

Adjustable Rate Cumulative Preferred Stock, Series A

At December 31, 1990 and 1989, there were 3,000,000 shares, or $150 million, of Series A preferred stock with a liquidation preference of $50 per share issued and outstanding. These shares are redeemable at the option of the Company through March 31, 1993 at a redemption price of $51.50 per share and, thereafter, at $50.00 per share plus accrued and unpaid dividends. Dividends are cumulative and payable on the last day of each calendar quarter. For each quarterly period, the dividend rate is 2.75% less than the highest of the three-month Treasury bill discount rate, 10-year constant maturity Treasury security yield or 20-year constant maturity Treasury bond yield, but limited to a minimum of 6% and a maximum of 12% per annum. The average dividend rate was 6.3% during 1990 and 1989 and 6.4% during 1988. Dividends of $9.4 million, $9.5 million and $9.6 million were declared in 1990, 1989 and 1988, respectively.

Adjustable Rate Cumulative Preferred Stock, Series B

At December 31, 1990 and 1989, there were 1,500,000 shares, or $75 million, of Series B preferred stock with a liquidation preference of $50 per share issued and outstanding. These shares are redeemable at the option of the Company between May 15, 1991 and May 14, 1996 at a redemption price of $51.50 per share and, thereafter, at $50.00 per share plus accrued and unpaid dividends. Dividends are cumulative and payable quarterly on the 15th of February, May, August and November. For each quarterly period, the dividend rate is 76% of the highest of the three-month Treasury bill discount rate, 10-year constant maturity Treasury security yield or 20-year constant maturity Treasury bond yield, but limited to a minimum of 5.5% and a maximum of 10.5% per annum. The average dividend rate was 6.8%, 6.7% and 6.9% during 1990, 1989 and 1988, respectively. Dividends of $5.1 million, $5.0 million and $5.2 million were declared in 1990, 1989 and 1988, respectively.

Market Auction Preferred Stock, Series I, II and III

At December 31, 1990 and 1989, there were 1,800 shares, or $180 million, of this preferred stock with a liquidation preference of $100,000 per share issued and outstanding. These shares are redeemable at the option of the Company on dividend payment dates at a redemption price of $100,000 per share plus accrued and unpaid dividends. Dividends are cumulative and payable every 49 days on specified dividend payment dates. Rates are determined every 49 days by auction and will generally not be greater than 110% of the "AA" Composite Commercial Paper Rate. The average dividend rate was 6.7%, 7.2% and 6.1% during 1990, 1989 and 1988, respectively. Dividends of $12.2 million, $13.0 million and $11.0 million were declared in 1990, 1989 and 1988, respectively.

In January 1991, the Company redeemed all $180 million of its Market Auction Preferred Stock.

NOTE
9

COMMON STOCK AND EMPLOYEE STOCK PLANS

Common Stock

The following table summarizes common stock reserved and authorized as of December 31, 1990:

	Number of shares
Tax advantage plan	2,894,189
Equity incentive plans	4,547,468
Dividend reinvestment plan	1,476,584
Employee stock purchase plan	1,100,000
Director option plans	174,643
Stock bonus plan	18,680
Total shares reserved	10,211,564
Shares not reserved	88,350,198
Shares issued and outstanding	51,438,238
Total shares authorized	150,000,000

Under the terms of mandatory convertible debt, the Company must exchange with the noteholder, or sell, various capital securities of the Company as described in Note 7 to the Financial Statements.

DIRECTOR OPTION PLANS

The Director Option Plan that was approved in 1987 (1987 DOP) allows participating directors to file an irrevocable election to receive stock options in lieu of their retainer fees to be earned in the calendar year. The options may be exercised for a period of 10 years from date of receipt; options become exercisable after one year at an exercise price of $1 per share. At December 31, 1990, 3,106 options were outstanding and 2,121 options were exercisable under the plan.

In 1990, the Board of Directors adopted, subject to shareholder approval, a second Director Option Plan (1990 DOP). The 1990 DOP provides for annual grants of options to purchase 500 shares of common stock to each non-employee director. The options may be exercised for a period of 10 years from date of grant; they become exercisable after one year at the fair market value at time of grant. The total number of shares of common stock issuable under the 1990 DOP is 100,000 in the aggregate and 20,000 in any one calendar year. At December 31, 1990, 6,504 options were outstanding and no options were exercisable under the plan.

Employee Stock Plans

EQUITY INCENTIVE PLANS

In 1990, a new Equity Incentive Plan (1990 EIP) was approved to succeed the Equity Incentive Plan approved in 1982 (1982 EIP). The 1990 EIP is similar to the 1982 EIP in all material respects, except that the 1990 EIP sets a higher limit on total yearly grants and provides greater flexibility to the committee that administers the Plan. The 1990 EIP provides for the granting to key employees of incentive stock options as defined under current tax laws, nonqualified stock options and restricted share rights. The options may be exercised for a period of up to 10 years from the grant date; they generally become fully exercisable three years from grant date at the fair market value at time of grant. The total number of shares of common stock issuable under the 1990 EIP is 2,500,000 in the aggregate and 800,000 in any one calendar year. No additional awards or grants will be issued under the 1982 EIP.

Transactions involving options of the EIPs are summarized as follows:

	Number of shares		
	1990 EIP	1982 EIP	
	1990	1990	1989
Options outstanding, beginning of year	–	1,104,934	1,277,586
Granted	19,000	347,500	–
Cancelled	–	(27,130)	(9,950)
Exercised	–	(102,401)	(156,233)
Share/tax withholding	–	(1,653)	(6,469)
Options outstanding, end of year	19,000	1,321,250	1,104,934
Options exercisable, end of year	–	818,530	762,839
Shares available for grant, end of year	2,329,010	–	590,981
Price range of options:			
Outstanding	$73.50–$79.38	$ 9.44–$71.00	$9.44–$54.50
Exercised	$ –	$18.38–$54.00	$9.44–$54.50

Loans may be made, at the discretion of the Company, to assist the participants of the EIPs in the acquisition of shares under options.

The holders of share rights that were issued after 1987 under the 1982 EIP and the 1990 EIP are entitled at no cost to 30% of the shares of common stock represented by the share rights held three years after the share rights were granted, an additional 30% after four years and the final 40% after five years. The holders of the share rights issued prior to 1988 under the 1982 EIP are entitled at no cost to the shares of common stock represented by the share rights held by each person five years after the share rights were granted. Upon receipt of the share rights, holders are entitled to receive quarterly cash payments equal to the cash dividends that would be paid on the number of common shares equal to the number of share rights. Except in limited circumstances, share rights are cancelled upon termination of employment. As of December 31, 1990, the 1990 EIP and the 1982 EIP had 151,990 and 726,218 share rights outstanding to 680 and 653 employees, respectively.

The amount of expense accrued for the 1990 and 1982 EIPs was $7.1 million, $4.3 million and $.8 million in 1990, 1989 and 1988, respectively.

EMPLOYEE STOCK PURCHASE PLAN

In 1990, a new Employee Stock Purchase Plan (ESPP) was approved under which options to purchase up to 1,100,000 shares of common stock may be granted. The new ESPP is the successor to a similar plan which expired on July 31, 1990. Under the new ESPP, employees of the Company with at least one year of service are eligible to participate, except certain hourly employees. Certain highly compensated employees may be excluded from participation at the discretion of the Management Development and Compensation Committee of the Board of Directors. The plan provides for an option price of the lower of market value at grant date or 85% to 100% (as determined by the Board of Directors for each option period) of fair market value at the end of the option period (12 months after the grant date for the current period). For the current option period ending on July 31, 1991, the Board approved a closing option price of 85% of fair market value. The plan is noncompensatory and results in no expense to the Company.

Transactions involving the ESPP are summarized as follows:

	Number of options	
	1990	1989
Options outstanding, beginning of year	108,534	114,025
Granted	200,402	114,656
Cancelled	(20,536)	(17,747)
Exercised ($61.88 in 1990 and $61.48 in 1989)	(95,723)	(102,400)
Options outstanding, end of year	192,677	108,534
Options available for grant, end of year	907,323	1,187,824

For information on employee stock ownership through the Tax Advantage Plan, see Note 10.

NOTE
10

EMPLOYEE RETIREMENT, INVESTMENT AND OTHER BENEFITS

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

(in millions)	Year ended December 31,		
	1990	1989	1988
Retirement plan	$29.0	$25.3	$29.4
Investment plan	$13.1	$13.1	$12.9

Retirement Plan

The Company has a defined contribution retirement plan with basic Company contributions of 4% of the total of employee base salary plus payments from certain bonus plans (covered compensation). The Company also makes special transition contributions related to the termination of a prior defined benefit plan of the Company ranging from .5% to 5% of covered compensation for certain employees. The plan covers salaried employees with at least

one year of service and contains a vesting schedule graduated from 3-7 years of service.

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

Investment Plan

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

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

Effective January 1, 1991, the Company merged the Retirement Plan and TAP to create the Tax Advantage and Retirement Plan, which retains the same contribution levels as the prior plans.

Health Care and Life Insurance

The Company provides certain health care and life insurance benefits for active and retired employees. The Company reserves its right to terminate these benefits at any time. The health care and similar benefits for active and retired employees are self-funded by the Company or provided through Health Maintenance Organizations (HMOs). The Company recognized the cost of health care benefits by expensing contributions totaling $46.8 million, $45.2 million and $46.8 million in 1990, 1989 and 1988, respectively, of which $38.4 million, $36.9 million and $40.9 million was incurred for active employees in 1990, 1989 and 1988, respectively. Life insurance and similar benefits for active and retired employees are provided through an insurance company. The Company recognizes the cost of these benefits by expensing the annual insurance premiums, which were $1.3 million, $.9 million and $1.0 million in 1990, 1989 and 1988, respectively, of which $1.1 million, $.8 million and $.9 million were incurred for active employees in 1990, 1989 and 1988, respectively. At December 31, 1990, the Company had approximately 19,800 active eligible employees and 5,555 retirees.

In December 1990, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 106 (FAS 106), Employers' Accounting for Post-Retirement Benefits Other than Pensions. Effective January 1993, this Statement changes the method of accounting for post-retirement benefits from a cash to an accrual basis. A further discussion of FAS 106 is in the Noninterest Expense section of the Financial Review.

NOTE 11

INCOME TAXES

Current and deferred income tax provisions were as follows:

(in millions)		Year ended December 31,	
	1990	1989	1988
Current:			
Federal	$441.8	$480.1	$103.1
State and local	134.8	122.8	45.5
Foreign	.1	1.4	8.3
	576.7	604.3	156.9
Deferred:			
Federal	(88.5)	(192.2)	120.3
State and local	(4.5)	(12.4)	45.5
	(93.0)	(204.6)	165.8
Total	$483.7	$399.7	$322.7

The Company's income tax provision for 1990, 1989 and 1988 included a tax benefit of $.2 million, $1.1 million and $1.8 million, respectively, related to investment securities losses.

The Company had deferred tax assets of $326.6 million, $233.6 million and $42.4 million at December 31, 1990, 1989 and 1988, respectively.

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

The deferred income tax provision is 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 provision were as follows:

(in millions)		Year ended December 31,	
	1990	1989	1988
Higher (lower) loan loss deduction for tax return purposes	$(76.6)	$ (65.5)	$231.6
Cash basis accounting for tax return purposes (1)	(30.6)	(35.4)	(31.2)
Higher (lower) loss from other real estate for tax return purposes	(23.1)	.2	9.2
Lower (higher) lease financing income for tax return purposes	19.8	(111.7)	39.9
Lower (higher) income for tax return purposes resulting from the net change in deferred income and expenses	12.9	(3.1)	(19.0)
Lower state tax deduction for tax return purposes	(1.3)	(21.9)	(11.1)
Alternative minimum tax credit	—	40.6	(40.6)
Other	5.9	(7.8)	(13.0)
Total	$(93.0)	$(204.6)	$165.8

(1) Effective January 1, 1987, the Company changed from the use of the cash method of computing tax return income to the accrual method due to enactment of the Tax Reform Act of 1986. The cumulative difference between the cash basis and accrual basis of accounting was included in the calculation of tax return income over a four-year period ending in 1990.

The Company has not provided federal income 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 income taxes on them, less credit for foreign taxes, would be provided at that time.

The Company's pretax income includes income (losses) recorded by its subsidiaries and branches located outside of the U.S. of approximately $9.0 million, $(132.4) million and $(244.5) million in 1990, 1989 and 1988, respectively.

In December 1987, the FASB issued FAS 96, Accounting for Income Taxes. This Statement changes the method of computing income taxes for financial statement purposes. A further discussion of FAS 96 is in the Income Taxes section of the Financial Review.

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

(in millions)					Year ended December 31,	
		1990		1989		1988
	Amount	%	Amount	%	Amount	%
Statutory federal income tax provision and rate	$406.4	34.0%	$340.3	34.0%	$284.0	34.0%
Change in tax rate resulting from:						
State and local taxes on income, net of federal income tax benefit	86.5	7.2	71.5	7.1	59.5	7.1
Income and expense related to acquired assets and liabilities accounted for net of tax	(8.5)	(.7)	(.2)	—	(27.3)	(3.3)
Other	(.7)	(.1)	(11.9)	(1.2)	6.5	.8
Effective income tax provision and rate	$483.7	40.4%	$399.7	39.9%	$322.7	38.6%

NOTE

12

FOREIGN ACTIVITIES

The Company reports its foreign activities on the basis of the domicile of the customer, as required by the Securities and Exchange Commission. While foreign activities are not considered material to the Company for the year ended December 31, 1990, the information is required due to its foreign activities for the year ended December 31, 1989. Because the Company's foreign and domestic activities are integrated, an identification of foreign activities necessarily involves certain assumptions. For the years presented, such assumptions include:

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

Selected financial data by geographic area at December 31, 1990, 1989 and 1988 and for the years then ended follows:

(in millions)		Total revenue	Income (loss) before income tax expense (benefit)	Net income (loss)	Assets at year end
Latin America (including Mexico)(1)	1990	$ 4.3	$ (4.8)	$ (2.8)	$ 2.0
	1989	6.9	(186.0)	(110.0)	114.0
	1988	70.6	(84.1)	(50.3)	452.1
Other	1990	4.2	.9	.5	41.0
	1989	17.9	(3.8)	(2.2)	54.8
	1988	33.1	9.6	5.8	623.4
Total foreign	1990	8.5	(3.9)	(2.3)	43.0
	1989	24.8	(189.8)	(112.2)	168.8
	1988	103.7	(74.5)	(44.5)	1,075.5
Domestic	1990	5,951.3	1,199.1	713.8	56,155.5
	1989	5,624.1	1,190.6	713.3	48,567.8
	1988	4,756.0	909.7	557.0	45,541.0
Total foreign and domestic	1990	$5,959.8	$1,195.2	$ 711.5	$56,198.5
	1989	5,648.9	1,000.8	601.1	48,736.6
	1988	4,859.7	835.2	512.5	46,616.5

(1) During 1990, the Company sold its remaining developing country short-term cross-border outstandings. During 1989 and 1988, the Company substantially reduced its assets in Latin America through sales and charge-offs of developing country loans.

Although management has allocated a specific portion of the allowance to foreign loans, commitments and standby letters of credit, the unallocated portion and any unabsorbed portion of the allocated allowance are available for any loan category. Changes in the allowance were as follows:

(in millions)	1990	Year ended December 31, 1989	1988
Balance, beginning of year	$ .3	$ 6.1	$674.5
Provision for loan losses	3.8	183.0	54.9
Gross charge-offs	—	117.9(1)	113.7(2)
Recoveries	(30.0)	(27.2)	(11.2)
Net loan charge-offs (recoveries)	(30.0)	90.7	102.5
Losses on the sale or swap of developing country loans	27.7	98.1	620.8
Balance, end of year	$ 6.4	$ .3	$ 6.1

(1) In March 1989, the Company charged off its remaining medium- and long-term loans to developing countries of $106.9 million.
(2) In June 1988, the Company charged off those loans to developing countries that were covered by allocated transfer risk reserves of $77.8 million.

NOTE

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PARENT COMPANY

Condensed financial information of Wells Fargo & Company (Parent) is presented below. For information regarding the Parent's long-term debt and commitments and contingent liabilities, see Notes 7 and 14, respectively.

CONDENSED STATEMENT OF INCOME

(in millions)	1990	Year ended December 31, 1989	1988
INCOME			
Dividends from subsidiaries:			
Wells Fargo Bank	$259.9	$218.9	$169.1
Nonbank subsidiaries	34.7	16.3	13.6
Interest income from:			
Wells Fargo Bank	161.7	234.7	248.5
Nonbank subsidiaries	140.6	162.5	139.3
Other	91.2	77.1	54.0
Noninterest income	10.8	35.1	25.6
Total income	698.9	744.6	650.1
EXPENSE			
Interest on:			
Short-term borrowings	224.2	260.3	189.1
Senior and subordinated debt	193.7	244.8	253.3
Indebtedness to subsidiaries	.3	.3	10.8
Provision for loan losses	1.5	6.0	(.8)
Noninterest expense	37.7	27.1	26.2
Total expense	457.4	538.5	478.6
Income before income tax benefit and undistributed income of subsidiaries	241.5	206.1	171.5
Income tax benefit	23.0	15.6	9.4
Equity in undistributed income of subsidiaries:			
Wells Fargo Bank	500.5	371.5	342.4
Nonbank subsidiaries	(53.5)	7.9	(10.8)
NET INCOME	$711.5	$601.1	$512.5

CONDENSED BALANCE SHEET

(in millions)	December 31, 1990	1989
ASSETS		
Cash and due from Wells Fargo Bank	$ .8	$ .5
Investment securities	93.2	212.5
Loans	578.7	571.6
Allowance for loan losses	8.7	8.6
Net loans	570.0	563.0
Loans and advances to subsidiaries:		
Wells Fargo Bank	1,597.8	2,124.1
Nonbank subsidiaries	1,106.8	1,949.5
Investment in subsidiaries:		
Wells Fargo Bank	3,389.6	2,979.9
Nonbank subsidiaries	116.7	170.0
Other assets	781.6	667.2
Total assets	$7,656.5	$8,666.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Commercial paper outstanding	$1,752.8	$3,090.4
Other short-term borrowings	7.2	11.6
Senior and subordinated debt	2,305.0	2,458.9
Indebtedness to subsidiaries	2.3	3.5
Other liabilities	229.4	241.4
Total liabilities	4,296.7	5,805.8
Stockholders' equity	3,359.8	2,860.9
Total liabilities and stockholders' equity	$7,656.5	$8,666.7

CONDENSED STATEMENT OF CASH FLOWS

(in millions)	Year ended December 31, 1990	1989	1988
Cash flows from operating activities:			
Net income	$ 711.5	$601.1	$ 512.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1.5	6.0	(.8)
Provision for deferred taxes	(8.7)	(11.6)	(7.0)
Equity in undistributed income of subsidiaries	(447.0)	(379.4)	(331.6)
Other, net	(1.5)	10.7	6.0
Net cash provided by operating activities	255.8	226.8	179.1
Cash flows from investing activities:			
Proceeds from sales of investment securities	—	31.2	34.1
Proceeds from maturities of investment securities	727.6	970.3	840.9
Purchases of investment securities	(609.1)	(718.9)	(874.7)
Net decrease (increase) in loans	(4.0)	(292.6)	52.1
Net decrease in loans and advances to subsidiaries	1,369.0	221.5	1,105.9
Investment in subsidiaries	(264.5)	(13.6)	(25.6)
Redemption of Wells Fargo Bank preferred stock	355.0	—	—
Acquisitions	(48.0)	—	(125.7)
Proceeds from sales of acquired companies to Wells Fargo Bank	—	—	125.7
Other, net	(59.8)	(129.4)	(91.3)
Net cash provided by investing activities	1,466.2	68.5	1,041.4
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(1,342.0)	344.5	(163.8)
Repayment of senior and subordinated debt	(190.1)	(318.3)	(662.2)
Net increase (decrease) in indebtedness to subsidiaries	(1.2)	1.2	(265.8)
Common stock issued for:			
Acquisitions	148.1	5.0	—
Other	23.2	23.9	23.5
Common stock repurchased	(156.5)	(151.8)	(49.9)
Cash dividends paid	(221.6)	(191.2)	(141.5)
Other, net	18.4	(9.1)	34.8
Net cash used by financing activities	(1,721.7)	(295.8)	(1,224.9)
Net change in cash and cash equivalents	.3	(.5)	(4.4)
Cash and cash equivalents at beginning of year	.5	1.0	5.4
Cash and cash equivalents at end of year	$ .8	$ .5	$ 1.0

NOTE

14

COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Company makes commitments and assumes contingent liabilities for various purposes, such as meeting the financing needs of its customers and reducing its own exposure to fluctuations in interest rates.

Financial Instruments with Off-Balance Sheet Risk

Off-balance sheet commitments, which are properly not reflected in the financial statements, involve various types and degrees of risk to the Company, including credit, interest rate and liquidity risk, and are summarized below:

(in millions)	December 31, 1990
Commitments to extend credit under credit card lines (1)	$ 5,900
Other commitments to extend credit (1)	18,400
Standby letters of credit (1)	1,700
Commercial and similar letters of credit (1)	200
Interest rate futures contracts (2)	5,400
Interest rate floors and caps contracts purchased (3)	5,100
Interest rate caps contracts written (2)	2,300
Interest rate swap contracts (3) (4)	3,100
Foreign exchange contracts (3)	900

(1) Financial instruments for which contract amounts represent credit risk.
(2) Financial instruments with no credit risk.
(3) Financial instruments for which the credit risk is substantially less than the notional or contract amounts, except for foreign exchange contracts, for which the replacement cost for those contracts in a gain position was $140 million at December 31, 1990. The Company does not anticipate nonperformance by the counterparties for any of these financial contracts.
(4) At December 31, 1990, the Parent's share of the notional principal amount of interest rate swaps outstanding was $1.1 billion.

A commitment to extend credit is a legally binding agreement to lend funds to a customer and is usually for a specified interest rate and purpose. These commitments have fixed expiration dates and generally require a fee immediately or on the unused portion of the commitment.

The Company uses the same credit policies in making commitments to extend credit as it does in making loans. The extension of a commitment gives rise to credit risk when it is drawn upon. The actual liquidity needs or the credit risk that the Company will experience will be lower than the contractual amount of commitments to extend credit shown in the above table because a significant portion of these commitments are expected to expire without being drawn upon. Certain commitments are subject to a loan agreement containing covenants regarding the financial performance of the customer that must be met before the Company is required to fund the commitment.

In addition, the Company manages the potential credit risk in commitments to extend credit by limiting the total amount of arrangements, both by individual customer and in the aggregate; by monitoring the size and maturity structure of these portfolios; and by applying the same credit standards maintained for all of its credit activities. The credit risk associated with these commitments is considered in management's determination of the allowance for loan losses.

Standby letters of credit are issued on behalf of customers in connection with contracts between the customers and third parties. Under a standby letter of credit, the Company assures that the third party will receive specified funds if a customer fails to meet his contractual obligation. The liquidity risk to the Company arises from its obligation to make payment in the event of a customer's contractual default. The credit risk involved in issuing letters of credit and the Company's management of that credit risk is the same as for loans. Standby letters of credit include approximately $300 million of participations purchased and are net of approximately $200 million of participations sold.

Included in standby letters of credit are those which back financial instruments (financial guarantees). Substantially all fees received from the issuance of financial guarantees are deferred and amortized on a straight-line basis over the term of the guarantee. At December 31, 1990, the Company had issued or purchased participations in financial guarantees of approximately $800 million for the following types of financial instruments:

(in millions)	December 31, 1990	Maturity ranges
Tax-exempt industrial revenue/development bonds	$300	1991-2000
Loans and investments	100	1991-1997
Commercial paper	100	1991-1999
Other financial instruments	300	1991-1999
Total financial guarantees	$800	

The Company enters into a variety of financial contracts, which include interest rate futures contracts, interest rate floors and caps and interest rate swap agreements. The contract or notional amounts do not represent exposure to liquidity risk. The contracts are used primarily to hedge mismatches in interest rate maturities and, therefore, serve to reduce rather than increase the Company's exposure to movements in interest rates. The Company controls the credit risk of its financial contracts (except futures contracts and interest rate caps contracts written, which do not have credit risk) through credit approvals, limits and monitoring procedures.

Interest rate futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific money market instrument at a predetermined date for a specific price. Gains and losses are settled daily based on a notional principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on organized exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. Market risks arise from movements in interest rates and securities values.

Interest rate floors and caps are interest rate protection instruments that involve the payment from the seller to the buyer of an interest differential. This differential represents the difference between current interest rates and an agreed-upon rate applied to a notional principal amount. The Company also offers these contracts to its customers and will either hedge the contracts with other capital market instruments or use the contracts for asset/liability management. For such instruments written by the Company, market risks arise from movements in interest rates. For those contracts in a gain position, the replacement cost in the event of nonperformance by counterparties for purchased interest rate floors and caps was approximately $90 million at December 31, 1990.

Interest rate swap contracts are entered into primarily as an asset/liability management strategy to reduce interest rate risk. Similar to interest rate floors and caps, the Company also offers swap contracts to its customers. Interest rate swap contracts are exchanges of interest payments, such as fixed-rate payments for floating-rate payments, based on a notional (underlying) principal amount. The primary risk associated with swaps is the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. For those contracts in a gain position, the replacement cost in the event of nonperformance by counterparties for the Company's interest rate swaps was approximately $90 million at December 31, 1990.

Lease Commitments

The Company is obligated under a number of noncancelable operating leases for premises and equipment with terms ranging from 1-25 years, many of which provide for periodic adjustment of rentals based on changes in various economic indicators. The following table shows future minimum payments under noncancelable operating leases and capital leases with terms in excess of one year as of December 31, 1990:

(in millions)	Operating leases	Capital leases
Year ended December 31,		
1991	$110.6	$ 15.5
1992	98.8	14.7
1993	91.7	14.6
1994	77.3	10.5
1995	57.4	10.4
Thereafter	276.8	130.2
Total minimum lease payments	$712.6	195.9
Executory costs		(7.7)
Amounts representing interest		(114.3)
Present value of net minimum lease payments		$ 73.9

Total future minimum payments to be received under noncancelable operating subleases at December 31, 1990 were approximately $245 million; these payments are not reflected in the table above.

Rental expense, net of rental income, for all operating leases was $93.5 million, $101.6 million and $104.2 million for the years ended December 31, 1990, 1989 and 1988, respectively.

Legal Actions and Proceedings

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

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheet of Wells Fargo & Company and Subsidiaries as of December 31, 1990 and 1989 and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1990. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wells Fargo & Company and Subsidiaries as of December 31, 1990 and 1989, and the results of their operations and cash flows for each of the years in the three-year period ended December 31, 1990, in conformity with generally accepted accounting principles.

KPMG Peat Marwick

KPMG Peat Marwick
Certified Public Accountants

San Francisco, California
January 14, 1991

Quarterly Financial Data

WELLS FARGO & COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME—QUARTERLY

(in millions)	1990 Quarter ended				1989 Quarter ended			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
INTEREST INCOME	$1,212.7	$1,252.5	$1,270.3	$1,315.6	$1,171.5	$1,212.0	$1,244.8	$1,241.9
INTEREST EXPENSE	660.4	686.3	687.2	703.4	636.4	685.0	707.8	682.5
NET INTEREST INCOME	552.3	566.2	583.1	612.2	535.1	527.0	537.0	559.4
Provision for loan losses	75.0	75.0	75.0	85.0	100.0	100.0	82.0	80.0
Net interest income after provision for loan losses	477.3	491.2	508.1	527.2	435.1	427.0	455.0	479.4
NONINTEREST INCOME								
Domestic fees and commissions	71.4	76.1	74.3	79.9	64.9	75.4	68.7	74.6
Service charges on deposit accounts	66.6	70.3	73.9	78.8	57.8	60.4	62.1	66.4
Trust and investment services income	47.5	32.1	32.1	30.9	42.8	43.7	45.6	46.2
Investment securities losses	(.2)	(.1)	—	(.2)	(1.1)	(.1)	(.6)	(.8)
Partial sale of investment advisory business	—	116.5	—	—	—	—	—	—
Other	14.3	14.4	15.0	15.1	21.0	32.3	16.1	3.4
Total noninterest income	199.6	309.3	195.3	204.5	185.4	211.7	191.9	189.8
NONINTEREST EXPENSE								
Salaries	163.5	166.3	165.7	165.4	149.2	153.3	165.4	163.4
Employee benefits	43.5	38.4	38.0	37.2	40.6	38.4	35.1	35.1
Net occupancy	40.6	43.2	47.0	51.6	42.1	44.1	44.0	48.3
Equipment	34.6	34.1	32.3	36.5	33.6	32.8	34.1	36.8
Other	128.8	134.4	143.4	172.8	121.0	116.4	114.8	126.0
Total noninterest expense	411.0	416.4	426.4	463.5	386.5	385.0	393.4	409.6
INCOME BEFORE INCOME TAX EXPENSE	265.9	384.1	277.0	268.2	234.0	253.7	253.5	259.6
Income tax expense	106.1	151.7	114.4	111.5	92.5	106.3	99.8	101.1
NET INCOME	$ 159.8	$ 232.4	$ 162.6	$ 156.7	$ 141.5	$ 147.4	$ 153.7	$ 158.5
NET INCOME APPLICABLE TO COMMON STOCK	$ 153.3	$ 225.8	$ 156.0	$ 149.7	$ 134.5	$ 140.1	$ 147.1	$ 151.9
PER COMMON SHARE								
Net income	$ 3.04	$ 4.40	$ 3.03	$ 2.91	$ 2.56	$ 2.68	$ 2.83	$ 2.95
Dividends declared	$ .90	$ 1.00	$ 1.00	$ 1.00	$ .75	$ .75	$ .90	$ .90
Average common shares outstanding	50.4	51.3	51.4	51.4	52.6	52.3	52.0	51.5

AVERAGE BALANCES, YIELDS AND RATES PAID (TAXABLE-EQUIVALENT BASIS)—QUARTERLY

(in millions)	Quarter ended December 31, 1990			Quarter ended September 30, 1990			Quarter ended December 31, 1989		
	Average balance	Yields/ rates	Interest income/ expense	Average balance	Yields/ rates	Interest income/ expense	Average balance	Yields/ rates	Interest income/ expense
EARNING ASSETS									
Investment securities:									
U.S. Treasury securities	$ 260	6.76%	$ 4.4	$ 360	6.72%	$ 6.1	$ 364	6.83%	$ 6.3
Securities of other U.S. government agencies and corporations	948	8.22	19.5	975	8.86	21.6	1,696	8.16	34.6
Obligations of states and political subdivisions	54	7.09	1.0	57	7.09	1.0	67	7.44	1.2
Other securities	259	10.18	6.6	228	9.84	5.6	299	9.86	7.4
Total investment securities	1,521	8.26	31.5	1,620	8.46	34.3	2,426	8.15	49.5
Loans:									
Commercial, financial and agricultural	14,294	10.89	392.2	14,323	10.92	394.5	14,594	11.52	423.7
Real estate 1-4 family first mortgage	8,775	10.46	229.6	8,140	10.50	213.7	7,177	10.54	189.3
Other real estate mortgage (1)	8,554	10.63	229.1	6,826	10.65	183.1	5,993	10.77	162.6
Real estate construction (1)	3,612	10.87	99.0	4,648	10.74	125.8	4,283	11.45	123.6
Consumer	9,485	12.93	307.2	9,036	12.93	292.7	7,891	13.23	261.5
Lease financing	1,159	10.65	30.9	1,147	10.77	30.9	1,221	12.02	36.7
Foreign	10	5.99	.2	17	5.64	.2	72	10.13	1.8
Total loans	45,889	11.17	1,288.2	44,137	11.19	1,240.9	41,231	11.57	1,199.2
Other	77	8.72	1.7	53	8.39	1.1	45	7.96	.9
Total earning assets	$47,487	11.07	1,321.4	$45,810	11.09	1,276.3	$43,702	11.38	1,249.6
FUNDING SOURCES									
Interest-bearing liabilities:									
Deposits:									
Interest-bearing checking	$ 3,965	3.96	39.6	$ 3,804	3.93	37.7	$ 3,646	3.92	36.0
Savings deposits	3,444	5.04	43.7	3,447	5.02	43.6	3,797	4.98	47.6
Market rate savings	10,441	6.16	162.1	9,989	6.17	155.3	8,619	6.63	143.9
Savings certificates	12,928	7.61	247.9	11,906	7.73	231.9	10,688	8.01	215.8
Certificates of deposit	424	7.92	8.5	437	9.09	10.0	404	8.98	9.1
Other time deposits	187	8.25	3.9	194	8.34	4.1	146	8.82	3.3
Deposits in foreign offices	255	8.86	5.7	252	8.89	5.7	263	8.99	6.0
Total interest-bearing deposits	31,644	6.41	511.4	30,029	6.45	488.3	27,563	6.65	461.7
Short-term borrowings:									
Federal funds borrowed and repurchase agreements	5,064	7.49	95.5	4,778	7.91	95.3	4,139	8.65	90.2
Commercial paper	2,279	7.69	44.2	2,448	7.88	48.6	3,171	8.69	69.5
Other	66	7.60	1.3	133	8.04	2.7	90	5.89	1.3
Total short-term borrowings	7,409	7.55	141.0	7,359	7.90	146.6	7,400	8.63	161.0
Senior debt	550	8.91	12.3	590	9.10	13.4	731	9.10	16.6
Subordinated debt	1,885	8.01	38.0	1,871	8.06	38.1	1,868	8.80	41.5
Total interest-bearing liabilities	41,488	6.72	702.7	39,849	6.83	686.4	37,562	7.19	680.8
Portion of noninterest-bearing funding sources	5,999	—	—	5,961	—	—	6,140	—	—
Total funding sources	$47,487	5.87	702.7	$45,810	5.95	686.4	$43,702	6.18	680.8
Net interest margin and net interest income on a taxable-equivalent basis		5.20%	$ 618.7		5.14%	$ 589.9		5.20%	$ 568.8
NONINTEREST-EARNING ASSETS									
Cash and due from banks	$ 2,609			$ 2,561			$ 2,824		
Other	3,000			2,777			2,366		
Total noninterest-earning assets	$ 5,609			$ 5,338			$ 5,190		
NONINTEREST-BEARING FUNDING SOURCES									
Deposits	$ 7,249			$ 7,046			$ 7,381		
Other liabilities	1,046			1,025			1,111		
Preferred stockholders' equity	405			405			405		
Common stockholders' equity	2,908			2,823			2,433		
Noninterest-bearing funding sources used to fund earning assets	(5,999)			(5,961)			(6,140)		
Net noninterest-bearing funding sources	$ 5,609			$ 5,338			$ 5,190		
TOTAL ASSETS	$53,096			$51,148			$48,892		

The average prime rate of the Bank was 10.00% for the quarters ended December 31 and September 30, 1990 and 10.50% for the quarter ended December 31, 1989. The average three-month London Interbank Offered Rate (LIBOR) was 8.09%, 8.18% and 8.62% for the quarters ended December 31, 1990, September 30, 1990 and December 31, 1989, respectively.

(1) During the fourth quarter of 1990, loans were reclassified from the real estate construction loan category to the other real estate mortgage loan category so that the real estate construction loan category consists solely of properties where construction is not complete. Prior period balances have not been reclassified as complete information is not available.

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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 16, 1991, at 420 Montgomery Street San Francisco, California

FORM 10-K

Readers wishing more detailed information about Wells Fargo & Company may obtain copies of the Company's Form 10-K at no charge upon request from:

Wells Fargo & Company
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MAC 0163-029
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San Francisco, California 94163
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WELLS FARGO & COMPANY

420 Montgomery Street
San Francisco
California 94163
(415) 477-1000