

Lucas Barton  
 (713) 906-3891  
[lucasbarton81@yahoo.com](mailto:lucasbarton81@yahoo.com)

John Harvin  
 (832) 651-5299  
[johnandrewharvin@yahoo.com](mailto:johnandrewharvin@yahoo.com)

Price (April 1, 2003) \$46.30  
 Price Target \$67.20  
 52-Week Low \$41.50  
 52-Week High \$54.84

**Company Profile**

Wells Fargo & Company is a diversified financial services company organized as a bank holding and financial holding company. Wells Fargo has three operating segments: Community Banking, Wholesale Banking and Wells Fargo Financial.

Source: Multex

## The Wells Fargo Wagon is Acomin' Down the Street and We Need to Get On!

**Recommendation: Buy**

- Last year, Wells' business mix and risk profile has outperformed competitors and, with a continued diversity in earnings, Wells will outgrow competitors.
- Wells is constantly improving its mastery of the cross-sell. By constantly implementing the methods of its' best performing banks nationwide, Wells has increased its cross-sell ratio to 4+ per household and can boost a newly-acquired banks' ratio within 3-5 years.
- Wells has historically employed stronger underwriting standards than its competitors and continues to do so in efforts to keep credit quality high.
- Wells' strong mortgage services will allow it to realize solid revenue in early 2003. Then, as mortgage services begin to decline, Wells will continue to create more revenue than competitors.
- **Our Bet:** Wells Fargo will lead the post-war market rebound and generate quality earnings and solid growth in the long-term through excellent management, mastery of the cross-sell, and tremendous business execution.

Stock Price Over the Last 12 Months



Source: Yahoo! Finance

DCF Valuation \$70.95  
 Div. Disc. Valuation \$62.70  
 Comparable P/B Valuation \$30.73  
 Comparable P/E Valuation \$38.11  
 Comparable P/S Valuation \$31.82  
 Comparable PEG Valuation \$43.81

**Selected Financial Data**

	Wells Fargo
Shares Outstanding	1,680,064,000
Market Cap.	\$76,787,000,000
EPS (ttm)	\$3.16
LT Growth Rate	12.29%

	Wells Fargo	Comparables*	Industry	S&P 500
P/E	12.86	10.46	14.85	22.55
P/B	2.61	1.71	1.99	4.27
P/S	4.18	2.84	3.28	2.96
ROE	18.90%	14.08%	15.44%	18.53%
Beta	0.81	-	0.95	1.00
PEG	1.06	0.99	1.07	1.38

\*Comparable data calculated with March 19, 2003 values (see pg. 11)

Source: Bloomberg and Multex

## **About Wells Fargo**

### **History**

Norwest, established during the Great Depression, is the predecessor to Wells Fargo. During the late 1990s, bank mergers became numerous: Bank One merged with First Chicago, NationsBank merged with BankAmerica to form Bank of America. In 1998, Norwest offered to merge with Wells Fargo. Even though the resulting company was largely Norwest, the Wells Fargo name was assumed.

### **Current**

Wells Fargo and Company is a diversified financial corporation and is the fifth largest bank in the United States. Operating approximately 3,000 bank branches in two dozen western and midwestern states, more than 750 home mortgage stores throughout the country, and about another 1,200 consumer finance offices in the US, Canada, Latin America, and the Pacific Islands, Wells Fargo has an extensive distribution network for its many financial products and services, which include (but are not limited to) retail and business banking, investment management, venture capital investment, international trade activities, and mortgage services. In addition, the 2001 purchase of Acordia, of the ten largest insurance brokers in the world, has allowed Wells Fargo to enter the insurance industry and add further diversity to its offerings.

The firm also boasts the industry's leading Internet site, offering online banking and brokerage services. Wells continues to adopt and adapt to new technology, striving to find a more efficient way to do business.

Since the merger, approximately 50 firms have been purchased and there has been no decline in the rate of acquisition.

*Wells Fargo Chairman and CEO Dick Kovacevich*

*"Given the number of long-time companies and once-popular brands that are struggling or no longer in existence today, Wells Fargo has shown a remarkable ability to reinvent itself to respond to customers' changing needs. From stagecoaches that went five miles an hour to Internet banking that's done at 30,000 miles per second, Wells Fargo has continually adapted new technology and a better way of doing business to save customers time and money."*

## **Industry Outlook:**

### **Credit Stability**

- Credit quality looks to be stabilizing overall. Commercial credit is slowly recovering albeit some troubles with large corporate credits and slight deterioration in consumer credit.
- Some troublesome categories of loans remain: energy, airline, telecom, auto, and construction.
  - With the increasing number of airlines filing for bankruptcy, no relief is foreseeable for airline loan portfolios; Fleet Boston, Bank of America, and UnionBankCal have the largest exposure to airline loans, as a percentage of equity.
  - Increasing company bankruptcy and corporate downsizing has made real estate loan portfolios riskier. As a percentage of equity, Sun Trust, US Bancorp, and UnionBankCal have the largest three exposures.

### **Disclosure**

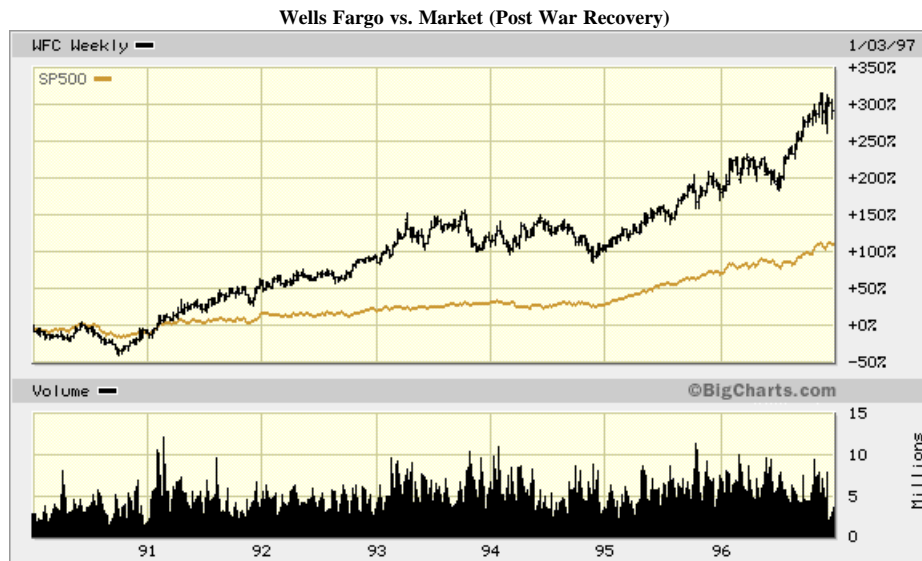
- FIN 46
  - Financial Interpretation Number 46 (FIN 46 – "Consolidation of Variable Interest Entities") was issued on January 12, 2003. It deals with Off-Balance Sheet Assets, Liabilities, and Obligations and gives guidance for determining which entities should consolidate the respective assets and liabilities associated with the obligations.
  - FIN 46 will have a significant impact on the use of *synthetic leases*. *Synthetic leases* are when a corporation finds a lender who uses an independent leasing entity to finance new construction or a new purchase. The leasing entity holds the title and leases it back to the corporation through short-term financing, meaning the corporation pays periodic interest payments and a large payment due at the end. During the lease term, the corporation using the building accounts for interest payments and property depreciation as expenses for taxes. However, for accounting purposes, the interest payments are considered rent as per a standard operating lease, keeping the property and debt off the balance sheet.
  - By June 15, 2003, corporations must be in full compliance with FIN 46 in their financial statements.
- Pension Costs
  - As average returns have declined, bank assumptions for long-term returns have also declined. The SEC has also intervened to help lower expected returns, now requiring that companies justify to it any long-term return assumptions over 9%.
  - In 2002, companies ranged from under-funded to over-funded, with respect to their pension plans. National City ranked highest, having an over-funded its pension plan by 16%; Fifth Third ranked last, under-funding its pension plan by 27%.
  - As retirement costs rise and returns fall, higher pension costs may eat into earnings to a larger degree, however, these pension costs will be small as a percentage of earnings in 2003.

### **Mortgage Strength**

- Over the first two quarters of 2003, mortgage banking services will be a solid source of revenue. As expected, banks with a large exposure to mortgage banking will benefit the most, while trust banks will have trouble equaling mortgage revenues. In addition, Midwest banks have become cautious toward mortgage activities and, as a result, many have had their earnings estimates decreased (e.g. KeyCorp, Comerica).

## War In Iraq

- The war in Iraq paved the way for a temporary rally in Wall Street. Many predicted a quick and easy war with little concern. After news emerged that Iraqi forces were putting up more of a fight than expected, the markets dipped into the red four out of five days in a row. High volatility throughout the entire war will likely continue due to our progress in Iraq. The continuous media coverage during the war is the largest contributor to this increased volatility. It seems that any sign of impeded progress weighs negatively on the market and any positive news bodes well for the market. These events are to be expected during a war of this nature and we feel that overall confidence will not be regained until the war is over or nearing an end.
- Historically financial companies have been the frontrunners in a post-war economic recovery. The 5 years subsequent to the end of the Persian Gulf War, the S&P 500 averaged a 14.08% return per year, whereas the S&P 500 Bank Index averaged 26.84%. During this time, Wells Fargo outperformed both indices returning an average of 28.84% per year. We believe this out-performance will also occur following the current war in Iraq. Although many financial companies may seem riskier given the current credit conditions, Wells Fargo's exceptional credit rating (A+, Aa2), its emergence as the nations leading mortgage lender, and its excellent management team give it a strong position for growth during the recovering market. Once a clear end for the war in Iraq is on the horizon, we feel that the financial sector will see great recovery with Wells Fargo leading the way.

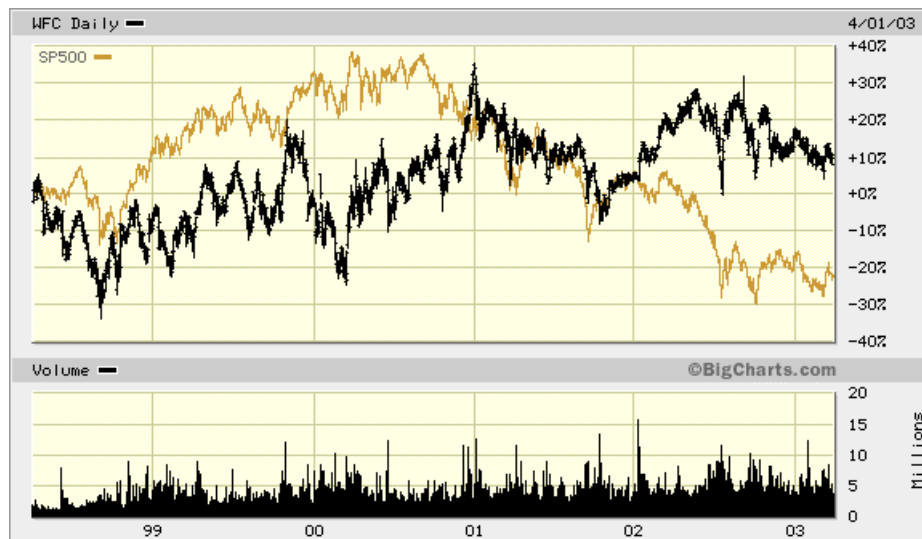


Average Gain % Year Post War	
WFC	28.84%
S&P 500	14.08%
S&P 500 Bank	26.84%

Sources: Morgan Stanley, Goldman Sachs, ValueLine, Bloomberg, Merrill Lynch

## Industry Performance Relative to Market Conditions

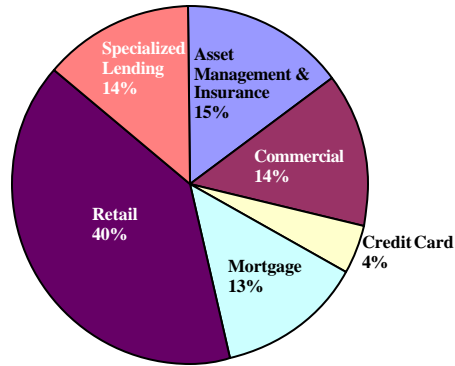
- Historically the banking industry has outperformed the market in bearish years and slightly underperformed the market in bullish years. This is largely due to the fact that during economic uncertainty investors are much more likely to take their money out of the market and put it into banks that will pay a lower but safer rate of return. This trend has held true for the economic boom leading up to the 21<sup>st</sup> century and the bearish economy we are presently in. This fact in combination with the above discussion regarding the financials sector performance during a post war recovery present an attractive buying opportunity for Wells Fargo. One argument may be to simply put our money in line with the market if we are expecting a booming economy after the war. We disagree with this outlook however b/c it is not likely that a bullish economy similar to the 1990's will occur after this war. We see a much more gradual recovery where money will eventually be put back into the market. This plays right into the hands of Wells Fargo. They will be propelled upward during a post war recovery with confidence being regained in the industry. Once a bearish economy has ended typically the financials sector is the first to see investor confidence regained. We feel that if even one of these events (an end to the war, or a gradual economic turnaround) occurs which we see as very likely, Wells Fargo will lead the way given their current "readiness" for growth. This growth will likely come from Wells Fargo's ability to generate online business given that they are the first to implement many new areas of business on the internet.



Sources: Bloomberg

## **Business Strategy and Outlook:**

### **Diversified Earnings Mix**



### **Market Share Increases and Cross-Sell Growth**

The success of Wells' management can be measured by market share and cross-sell gains achieved in key divisions, such as mortgage banking, retail lending, deposit taking, commercial banking, and insurance.

Wells' bankers tend to have high involvement with the customer when an account or loan is opened. With this strong relationship, Wells has focused on cross-selling many products and this cross-selling strategy has proved very successful:

- Deposit services and mortgage services have been highly cross-sellable products, as evidenced by an increase in market share in mortgages from 9% a year ago to 13% currently. Wells' home equity market share has also increased to 3.4%, from 2.9% last year. These gains in mortgage and home equity market share are reflective of Wells' extensive distribution network and an active hiring of mortgage specialists. Wells has also gained market share in deposit services despite not being very competitive in pricing. This further reflects Wells' distribution network, product branding, and sales/marketing efforts.
- Wells uses a commercial electronic office (CEO) to centrally store data about commercial customers' cash positions, employee pension plans, loans, and so forth. The CEO is technologically ahead of Wells' competitors and has allowed for increasing product penetration. The CEO not only allows for efficient management of information, but also maximizes the potential for additional cross-selling.
- New initiatives are focused on improving the cross-selling strategy, with respect to credit cards and asset management services. Accordingly, Wells is restructuring management to better support cross-sell trends.

Wells' overall cross-sell ratio is currently 4+ products per household, with more advanced banks averaging 4.5 to 5.5. This ratio well above competitors ratios and is effectively passed on to newly-acquired banks, which tend to have ratios between 1.5 and 2.0. To accomplish this, management establishes training, incentives, and metrics. Metrics track key quantitative statistics about banker performance and objectives. Through training, employees are made wholly familiar with the products they will be selling. Customer profiling is used to flag a customer's three most-likely-to-be-purchased products so that the selling process can be more efficient and successful.

As you can see, management has implemented a cross-sell-based system that has been extremely effective and successfully implemented in all newly acquired banks. Furthermore, Wells openly encourages sharing of the best selling strategies across the entire franchise and will implement the practices of the best-performing banks on a nationwide basis.

### **Mortgage Revenue**

In 2002, Wells became the number one mortgage company in the industry thanks to the cross-sell, extensive distribution network, and significant market share increases. Many analysts see mortgage declining in late 2003, but Wells business plan and execution leads us to believe that it will not be hit hard by any decrease in mortgage originations or refinancings.

### **Credit Stability**

Wells has historically kept stricter underwriting standards than its competitors. During the late 1990s when the market grew rapidly and credit standards declined, Wells kept its' commercial and sub-prime consumer finance loans growth under that of its' industry. Thus, when the market went to hell, Wells was far less hurt than its' competitors. With the present economic uncertainty, Wells has positioned itself to be stronger than its competitors if the market declines and to realize quality earnings should the market grow. This has been done by keeping credit quality stable:

- Although Wells has had great growth in the home equity markets, management remains highly comfortable with its underwriting standards.
- The commercial real estate market looks to be stabilizing in many of Wells' markets and last year saw Wells employ stronger underwriting standards. Although vacancy rate continue to increase in Denver, San Francisco, and San Jose/Silicon Valley, the worst has already been absorbed. As a result, Wells expects credit trends to hold stable with the possibility of a few problem properties/regions.

Wells has clearly used stronger underwriting standards than the industry and will continue to do so. Credit stability is further enhanced by the fact that about 30% of Wells' reserves are unallocated, providing a further cushion to any economic declines.

### **FIN 46 Impact**

Wells Fargo is well prepared to deal with the implementation of FIN 46. Wells stated that it has \$1.2 billion in assets, held by special purpose entities, which must be consolidated. This is a small amount with respect to Wells' total assets, which are approximately \$350 billion.

Wells also disclosed that the maximum loss from these special purpose entities is \$45 million, or \$0.02 per share. This maximum loss assumes the unlikely event that Wells would dissolve all of the special purpose entities.

So, it is safe to say that FIN 46 will have minimal to no effect on Wells.

### **Pension Plan**

At the end of 2002, Wells has under-funded its pension plan by \$559 million. To close this gap and fund the pension plan fully would cost Wells approximately \$0.21 in EPS. Also, Wells' benefits expenses increased by \$150 million in 2002, which corresponds to about \$0.06 per share.

The pension plan dilemma represents a major weakness in Wells Fargo. Although the remedy of this situation is unclear, we believe that the management has shown enough good judgment in the past that a high-quality solution is readily conceivable.

### Current Mortgage Services Rights Disclosure

In 2002, Wells realized a \$1.1 billion impairment on its mortgage servicing rights. This \$1.1 billion represents a third of the total \$3.3 billion in impairments Wells has realized against its mortgage servicing rights.

Although this sounds bad, Wells is the only company in its industry to take a large impairment on its mortgage servicing rights; they are conservatively valuing these rights and *seem to be the only company in the industry to do so*. This means that some banks may be realizing these impairments in the future, meaning stock price drops. Wells has already realized them and so their stock price has already taken the hit; furthermore, approximately \$2.2 billion of these impairments could be recovered, adding \$0.82 to EPS.

### Online Banking: Positioned for Growth

Wells Fargo is the frontrunner in the transition into online banking and online financial services. Wells has recently implemented many online services that will ensure existing customer satisfaction and provide the opportunity to gain significant "online market share." In an ongoing study that focuses strictly on the online banking business, Wells Fargo is consistently ranked number one for the accuracy of their transactions, the timeliness of their transactions and the overall quality of their online banking services.

In addition to the retail side of banking and bill paying, Wells Fargo has implemented a new and improved online loan approval process. This system will allow any business or individual to access the status of their potential loan at any time. This vastly improves the lines of communication between the bank and the client which are vital elements in a bank's long term success.

An even more advanced system has recently been implemented which is the first of its kind. Wells Fargo can now improve its international business with a new online service. This system will allow Wells Fargo to quote international customers in their home currency without having to worry about exchange rates. This system essentially allows Wells Fargo to quote a foreign customer, say from Japan, in dollars from the United States, and when it is received in Japan all the information will be in Yen the home currency of the customer. The quoted rates will eliminate exchange rate risk and make the transaction easier for both parties.

### Current Trading Data:

<b>Wells Fargo Corp.</b> NYSE: WFC		P/E	Market Cap
		14.24	77.787B
		PEG	Div/Share
		1.04	\$1.20
Close	Change	EPS (ttm)	Yield
\$46.30	+1.31 (+2.91%)	\$3.16	2.67
Day's Range	1-Yr Target Est	EPS Est	Div Date
45.01 – 46.40	\$56.90	\$3.64	Mar 1
52-Week Range	Volume	Average Volume	Ex-Div Date
\$41.50 – 54.84	6,198,100	4,649,772	Feb 5

Sources: Goldman Sachs, Merrill Lynch, Morgan Stanley, Bloomberg, Hoovers, BigCharts.co

## Valuation Reconciliation

Our valuations show Wells in a few different quantitative lights: undervalued, overvalued, and close-to-correctly valued.

DCF Valuation	\$70.95
Div. Disc. Valuation	\$62.70
Comparable P/B Valuation	\$30.73
Comparable P/E Valuation	\$38.11
Comparable P/S Valuation	\$31.82
Comparable PEG Valuation	\$43.81

The P/E, P/B, and P/S comparable valuations state Wells as overvalued. These estimates, however, don't take into account Wells' excellent management and incredible growth potential. The PEG comparable values Wells pretty accurately, but still at a premium. This valuation takes into account Wells stated growth expectations, but still does not account for the excellent management of Wells' officers.

The Dividend Discount Model values Wells at \$62.70. We cite this as our price target because the Dividend Discount Model is an accurate valuation technique with banks and other financial services companies.

Our Discounted Cash Flows valuation puts Wells at \$70.92. This makes Wells look extremely undervalued, but the calculation is so sensitive to the terminal growth rate that we do not put much weight into the method for this particular company.

**Valuations Explanations  
and  
Financial Statements**

### Comparable Valuations

	Wells Fargo	Bank One	Bank of Amer.	Wachovia	JP Morgan	Wamu	Fleet Boston	U.S. Bancorp	Average
	WFC	ONE	BAC	WB	JPM	WM	FBF	USB	
Price	\$46.86	\$35.60	\$68.94	\$35.09	\$23.22	\$34.99	\$24.03	\$20.25	\$34.59
Shares Outstanding	1678.98	1160.14	1502.37	1345.44	1998.70	939.46	1050.03	1916.96	1,416.16
EPS (Est.)	\$3.644	\$3.062	\$6.182	\$3.002	\$2.149	\$4.340	\$2.432	\$1.985	\$3.31
Interest Income (\$M)	\$18,832.00	\$13,935.00	\$32,161.00	\$15,586.00	\$25,284.00	\$14,247.00	\$10,102.00	\$9,553.70	\$17,266.96
Market Cap. (\$M)	\$78,677.18	\$41,300.840	\$103,573.30	\$47,211.41	\$46,409.81	\$32,871.58	\$25,232.22	\$38,818.36	\$47,916.79
Book Value (\$M)	\$30,171.34	\$22,367.42	\$50,314.34	\$31,806.15	\$41,293.14	\$20,038.60	\$16,569.47	\$18,096.06	\$28,640.74
ROE	18.90%	15.45%	18.73%	11.77%	3.96%	22.76%	6.89%	19.03%	
<b>P/S Ratio</b>	<b>4.18</b>	<b>2.96</b>	<b>3.22</b>	<b>3.03</b>	<b>1.84</b>	<b>2.31</b>	<b>2.50</b>	<b>2.58</b>	<b>2.84</b>
<b>P/E Ratio</b>	<b>12.86</b>	<b>11.63</b>	<b>11.15</b>	<b>11.69</b>	<b>10.81</b>	<b>8.06</b>	<b>9.88</b>	<b>11.99</b>	<b>10.46</b>
<b>P/B Ratio</b>	<b>2.61</b>	<b>1.85</b>	<b>2.06</b>	<b>1.48</b>	<b>1.12</b>	<b>1.64</b>	<b>1.52</b>	<b>2.20</b>	<b>1.71</b>
LT Growth	12.18	10.27	9.38	9.77	10.15	12.53	10.18	10.30	10.60
PEG	1.06	1.13	1.19	1.20	1.06	0.64	0.97	1.16	0.99

#### P/S Valuation:

$$\text{WFC Sales per Share} \times \text{Comparable Average P/S} =$$

$$2.84 \times (\$18,832.00 / 1,678.98) = \mathbf{\$31.82}$$

#### P/E Valuation:

$$\text{WFC Earnings per Share} \times \text{Comparable Average P/E} =$$

$$10.46 \times (\$3.644) = \mathbf{\$38.12}$$

#### P/B Valuation:

$$\text{WFC Book per Share} \times \text{Comparable Average P/B} =$$

$$1.71 \times (\$30,171.34 / 1,678.98) = \mathbf{\$30.73}$$

#### PEG Valuation:

$$\text{WFC Growth} \times \text{WFC Earnings per Share} \times \text{Comparable Average PEG} =$$

$$1.03 \times 12.18 \times 3.644 = \mathbf{\$45.72}$$

Valuations	
<b>P/S</b>	<b>\$31.82</b>
<b>P/E</b>	<b>\$38.12</b>
<b>P/B</b>	<b>\$30.73</b>
<b>PEG</b>	<b>\$43.81</b>

Sources: Bloomberg; NUMBERS ARE MARCH 19, 2003 VALUES

## Discounted Free Cash Flows Valuation

### Cash Flow Statement

	2002	2001	2000	1999
Net Income	\$5,434,000,000.00	\$3,423,000,000.00	\$4,026,000,000.00	\$4,012,000,000.00
Depr, amort, prov loan loss	\$5,228,000,000.00	\$4,741,000,000.00	\$3,119,000,000.00	\$3,075,000,000.00
Other non-cash adj	(\$2,702,000,000.00)	(\$629,000,000.00)	(\$2,265,000,000.00)	(\$819,000,000.00)
Change in non-cash wc	(\$21,938,000,000.00)	(\$18,761,000,000.00)	(\$3,995,000,000.00)	\$10,007,000,000.00
Cash Flow from Oper Activities	(\$13,978,000,000.00)	(\$11,226,000,000.00)	\$885,000,000.00	\$16,275,000,000.00

Average of '99 and '00 Change in WC \$3,006,000,000.00

When finding our expected FCF's, instead of taking the current 2002 data, we replaced the 2001 and 2002 items: "Non cash change in WC" with the averages of the two previous years.

We felt that 2001 and 2002 did not accurately represent Well's current condition and the large cash outflows in WC were atypical of Well's usual activity.

	2002	2001	2000	1999
Net Income	\$5,434,000,000.00	\$3,423,000,000.00	\$4,026,000,000.00	\$4,012,000,000.00
Depr, amort, prov loan loss	\$5,228,000,000.00	\$4,741,000,000.00	\$3,119,000,000.00	\$3,075,000,000.00
Other non-cash adj	(\$2,702,000,000.00)	(\$629,000,000.00)	(\$2,265,000,000.00)	(\$819,000,000.00)
Change in non-cash wc	\$3,006,000,000.00	\$3,006,000,000.00	(\$3,995,000,000.00)	\$10,007,000,000.00
Cash Flow from Oper Activities	\$10,966,000,000.00	\$10,541,000,000.00	\$885,000,000.00	\$16,275,000,000.00

### Discounted Free Cash Flows Valuation (cont'd)

Year	2002	2001	2000	1999	1998
Net Cash From Operating Act.	\$10,966,000,000.00	\$10,541,000,000.00	\$885,000,000.00	\$13,450,000,000.00	(\$5,160,000,000.00)
Interest Income (Other Income)	\$18,832,000,000.00	\$12,220,000,000.00	\$14,409,000,000.00	\$10,968,000,000.00	\$8,358,000,000.00
After Tax Interest Income	\$12,139,107,200.00	\$7,877,012,000.00	\$9,288,041,400.00	\$7,069,972,800.00	\$5,387,566,800.00
Interest Expense	\$3,977,000,000.00	\$6,741,000,000.00	\$7,860,000,000.00	\$5,020,000,000.00	\$5,065,000,000.00
After Tax Interest Expense	\$2,563,574,200.00	\$4,345,248,600.00	\$5,066,556,000.00	\$3,235,892,000.00	\$3,264,899,000.00
Net Cash From Investing Act.	(\$12,955,000,000.00)	(\$17,633,000,000.00)	(\$16,084,000,000.00)	(\$20,250,000,000.00)	(\$7,034,000,000.00)

Assumption Table	
Tax Rate	35.54%
Beta	0.81
5 year growth rate	11.00%
Stock Price	44.99
Shares Outstanding	1,680,064,000
Bond Spread	0.91%
Risk Free Rate	1.50%
Terminal Growth Rate	3.50%
Market Risk Premium	6.50%

WACC Calculations	
MV Equity	\$75,586,079,360
MV Debt	\$83,651,000,000
Equity Weight	48.600%
Equity Return	6.765%
Debt Weight	51.400%
Debt Return	1.980%
<b>WACC</b>	<b>3.94381%</b>
1+WACC	1.039438123

	2002 Actual	2003	2004	2005	2006	2007	Terminal Value
FCF Estimations	\$574,574,200.00	\$637,777,362.00	\$707,932,871.82	\$785,805,487.72	\$872,244,091.37	\$968,190,941.42	\$242,150,097,218.63

<b>Intrinsic Value of Firm</b>	<b>\$202,858,554,297.38</b>
Interest Bearing Liabilities	83,651,000,000.00
Shares Outstanding	1,680,064,000
<b>Intrinsic Value 2</b>	<b>\$70.95</b>
<b>Over/Undervalued</b>	<b>Undervalued</b>

Source for Financial Information: Yahoo! Finance

## Dividend Discount Model Valuation

### 2-Stage Dividend Valuation

15 years															
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012					
	1.238	1.394	1.569	1.767	1.989	2.239	2.521	2.838	3.195	3.597					
											10 year perp Value	3.708			
10 years															
2002 Dividend	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1.1	1.238	1.394	1.569	1.767	1.989	2.239	2.521	2.838	3.195	3.597	4.049	4.558	5.131	5.777	6.503
											12 year perp. Value	4.718			
5 years															
2002 Dividend	2003	2004	2005	2006	2007										
1.100	1.238	1.394	1.569	1.767	1.989	2.051									
5 Yr. DDM 2-Stage			10 Yr. DDM 2-Stage			12 Yr. DDM 2-Stage			15 Yr. DDM 2-Stage						
40.18			48.87			53.90			85.34						

**Price Target 62.70**

The target price from the DDM was found by taking the average value of a 5, 10, 12, and 15 year 2-Stage Dividend Discount Model. After the dividend was grown at 12.58% (the 18 year historical average), the dividends were assumed to grow at 2.2% indefinitely. This scenario better represents Well's current situation given that the borrowed money they are paying dividends with now will eventually have to be repaid in the future, therefore reducing the return on dividends in future periods.

**Price Target: \$62.70**

## Financial Statements

### Income Statement (in thousands)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Interest Income	\$18,832.00	\$19,201.00	\$18,725.00
Interest Expense	\$3,977.00	\$6,741.00	\$7,860.00
Net Interest Income	\$14,855.00	\$12,460.00	\$10,865.00
Provision for Loan Losses	\$1,733.00	\$1,780.00	\$1,329.00
<i>Net Interest Income after Provision</i>	<i>\$13,122.00</i>	<i>\$10,680.00</i>	<i>\$9,536.00</i>
Trading Gain (Loss)	(\$15.00)	(\$1,132.00)	\$1,221.00
Commission and Fee (Loss)	\$8,974.00	\$8,042.00	\$6,606.00
Other Operating Expenses	\$679.00	\$831.00	\$1,016.00
Non-Interest Expense	\$13,909.00	\$12,782.00	\$11,888.00
Operating Income (Loss)	\$8,851.00	\$5,639.00	\$6,491.00
<i>Net Non-Operating Losses (Gain)</i>	<i>(\$3.00)</i>	<i>\$160.00</i>	<i>(\$58.00)</i>
Income Tax Expense	\$3,144.00	\$2,056.00	\$2,523.00
Income Before Extraordinary Items	\$5,710.00	\$3,423.00	\$4,026.00
Extraordinary (Gain) Loss, After-Tax	\$276.00	\$0.00	\$0.00
<b>Net Income</b>	<b><u>\$5,434.00</u></b>	<b><u>\$3,423.00</u></b>	<b><u>\$4,026.00</u></b>
Diluted EPS Continued Operations	\$3.16	\$1.97	\$2.33

Income Statement Source: Bloomberg

### Cash Flow Statement (in thousands)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net Income (Loss)	\$5,434.00	\$3,423.00	\$4,026.00
Depr., Amort., Prov. for Loan Loss	\$5,228.00	\$4,741.00	\$3,119.00
Other Non-Cash Adjustments	(\$2,702.00)	(\$629.00)	(\$2,265.00)
Change in Non-Cash Working Capital	(\$21,938.00)	(\$18,761.00)	(\$3,995.00)
<i>Cashflow from Operating Activities</i>	<i>(\$13,978.00)</i>	<i>(\$11,226.00)</i>	<i>\$885.00</i>
Net Capital Expenditures	\$	\$	\$
Decrease in Investments	\$21,547.00	\$26,316.00	\$29,995.00
Increase in Investments	(\$7,261.00)	(\$29,053.00)	(\$19,301.00)
Other Investing Activities	(\$3,926.00)	(\$1,882.00)	(\$5,880.00)
<i>Cashflow from Investing Activities</i>	<i>(\$12,955.00)</i>	<i>(\$17,633.00)</i>	<i>(\$16,084.00)</i>
Dividends Paid	(\$1,877.00)	(\$1,724.00)	(\$1,586.00)
Increase (Decrease) Short-term Borrowing	(\$5,224.00)	\$8,793.00	(\$3,511.00)
Increase: Long-term Borrowing	\$22,161.00	\$16,158.00	\$15,544.00
Decrease: Long-term Borrowing	(\$10,902.00)	(\$10,625.00)	(\$9,849.00)
Increase Capital Stock	\$578.00	\$484.00	\$422.00
Decrease Capital Stock	(\$2,033.00)	(\$1,960.00)	(\$3,238.00)
Increase (Decrease) Deposits	\$25,050.00	\$17,707.00	\$20,745.00
<i>Cashflow from Financing Activities</i>	<i>\$27,785.00</i>	<i>(\$28,849.00)</i>	<i>18,059.00</i>
<b>Change In Cash</b>	<b><u>\$852.00</u></b>	<b><u>(\$10.00)</u></b>	<b><u>\$2,860.00</u></b>

Cash Flow Statement Source: Bloomberg

**Financial Statements (cont'd)****Balance Sheet** (in thousands)

	<u>2002</u>	<u>2001</u>
Cash and Bank Balance	\$17,820.00	\$16,968.00
Federal Funds and Resale Ag	\$3,174.00	\$2,530.00
Investment Sale and Trad	\$85,766.00	\$75,458.00
Commercial Loans	\$82,319.00	\$81,759.00
Consumer Loans	\$106,074.00	\$81,320.00
Other Loans	\$8,241.00	\$9,420.00
Total Loans	\$196,634.00	\$172,499.00
Allow – Loan Loss	\$3,862.00	\$3,761.00
Net Loans	\$192,772.00	\$168,738.00
Net Fixed Assets	\$3,688.00	\$3,549.00
Other Assets	\$46,039.00	\$10,326.00
<i>Total Assets</i>	<i>\$349,259.00</i>	<i>\$307,569.00</i>
Foreign Loans	\$1,911.00	\$1,598.00
Real Estate Loans	\$105,382.00	\$93,732.00
Large Deposits	\$24,857.00	\$10,559.00
Non-Performing Assets	\$1,697.00	\$1,813.00
Risk Based Cap	\$32,000.00	\$27,300.00
Demand Deposits	\$74,094.00	\$65,362.00
Savings Deposits	\$101,731.00	\$94,479.00
Time Deposits	\$41,091.00	\$30,425.00
Total Deposits	\$216,916.00	\$187,266.00
Short-term Borrowings	\$47,102.00	\$47,897.00
Other Short-term Liabilities	\$18,334.00	\$16,777.00
Long-term Borrowings	\$36,549.00	\$28,415.00
<i>Total Liabilities</i>	<i>\$318,901.00</i>	<i>\$280,355.00</i>
Preferred Equity	\$61.00	\$64.00
Share Cap and APIC	\$12,392.00	\$12,330.00
Retained Earnings	\$17,905.00	\$14,820.00
Shareholder Equity	\$30,358.00	\$27,214.00
<i>Total Liabilities and Equity</i>	<i>\$349,259.00</i>	<i>\$307,569.00</i>
Shares Outstanding	\$1,685.91	\$1,695.49

Balance Sheet Source: Bloomberg