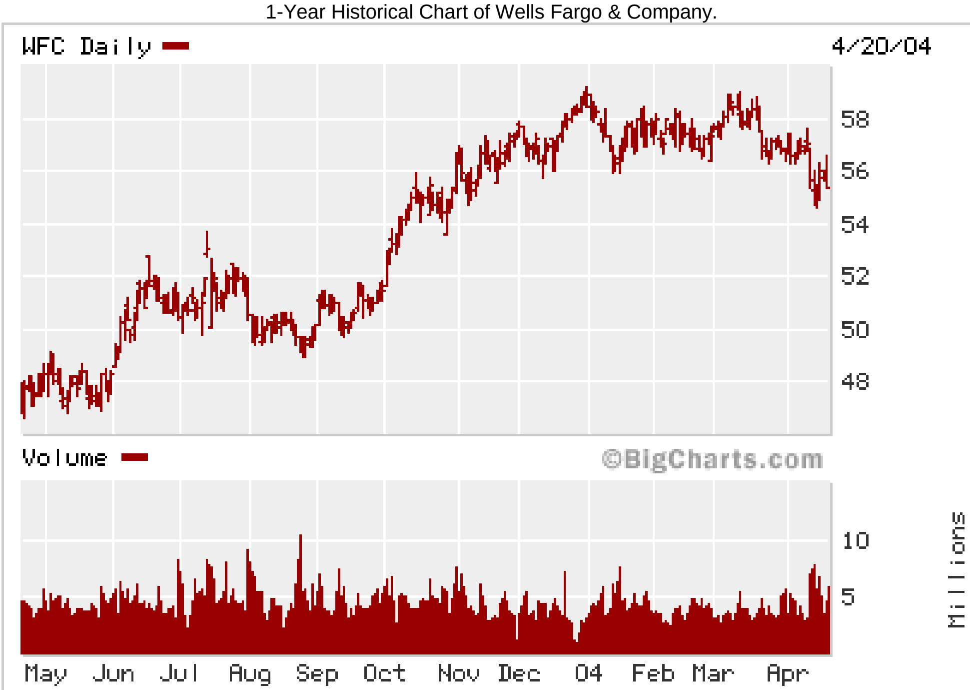
SMIF Investment Research
Wells Fargo & Company (WFC)

Last Trade :**55.36**	**Adam Bak**
Day's Range: 55.36 - 56.62	Vshot702@aol.com
52wk Range: 46.62 - 59.18	**William Harrington**
Volume: 5,792,500	Bws96maximum@aol.com
Avg Vol (3m):3,966,681	**Kevin Leach**
Market Cap 94.07B	Junior8168@aol.com
P/E (ttm):15.16	**Peter Attanasio**
EPS (ttm):3.65	Stacks97@aol.com
Div & Yield: 1.80 (3.22%)	

1-Year Historical Chart of Wells Fargo & Company.



- Our analysis reveals that Wells Fargo & Company is currently undervalued at $55.36, April 21, 2004.
- We used a Dividend Discount Model to determine an intrinsic value of $64.33.
- In our relative valuation, we found a low target price for a limit order in which we can take advantage of a near-future short-term overreaction in the market, due to worries of rising interest rates.
- Wells Fargo & Company is an ideal stock for long term growth. Earnings are growing at a 10-year compound annual rate of 13 percent. This proves the company can perform under several different stages of the economic cycle, regardless of fluctuating interest rates.

Recommendation: 250 Shares @ Market Price, 250 Shares @ Limit Order Price of $52.53

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HISTORY

In 1852, Henry Wells and William Fargo founded a bank in the gold rush port of San Francisco called Wells, Fargo & Co. to serve the western states of the United States of America. The company offered banking, and express, which meant they would buy gold and give out paper drafts and sell gold very quickly as well as other valuables. In the booming economy of the 1850’s, Wells Fargo gained a reputation of trust and responsibility. In the 1860’s they earned fame by opening the overland stagecoach line. In 1866 they combined all the major western stagecoach lines and ran over 3,000 miles of territory. After the transcontinental railroad was completed in 1869, Wells Fargo used the rails to expand its network nationwide and became the first nationwide express company. But in 1918, the government took over the rails and Wells Fargo was left with only one bank in San Francisco.

In 1905, Wells Fargo & Co Bank split from their express unit. In the following years, the began to serve as a commercial bank in San Francisco and with sound management they made it through the depression, WWII, and could still meet all their customers needs. In 1960s prosperity, Wells Fargo became a northern California regional bank with branch offices everywhere people lived and played, from the coast to the mountains. In the 1980s Wells Fargo expanded into a statewide bank and became the seventh largest bank in the nation — and launched its online service. In the 1990s Wells Fargo returned to its historic territory throughout the Western, Midwestern and Eastern states.

In 1995, Wells Fargo made an offer for First Interstate (which, along with BankAmerica and Transamerica, traced its roots to Peter Giannini's Bank of Italy, founded in 1904). The offer was rebuffed, and Wells Fargo took its battle to the stockholders, who approved it. The deal closed in 1996, triggering branch closings, layoffs, and the sale of First Interstate's Wyoming and Montana subsidiaries.

In 1998 Wells Fargo merged with Norwest Financial (a company that had become a conventional bank holding company along with diversifying into mortgage banking and consumer finance). During this time Wells Fargo was the #2 bank in California and had more than 1,900 branches in the western US. The bank's business lines included retail and business banking, investment services, real estate lending, consumer finance, and mortgage banking. Wells Fargo also offered international trade financing through its Wells Fargo HSBC Trade Bank joint venture.

In 1999, three Wells Fargo mortgage subsidiaries formed a joint venture with The First American Corp. to provide title insurance, appraisal services, and escrow closings. The bank agreed to sell almost all mortgages it originates to Freddie Mac in exchange for a streamlined approval process. Also in 1999 Wells Fargo bought a stake in Navidec and its auto sales unit, DriveOff.com. The bank also bought First Place Financial (of New Mexico). In 2000 it bought banks in Alaska, California, Michigan, Nebraska, and Utah; student loan writer Servus Financial; securities brokerage firm Ragen McKenzie, and leasing firm Charter Financial.

On the technology front, Wells teamed with eBay to develop a consumer-to-consumer online payment system and invested in BusinessBots, a software maker focused on business-to-business e-commerce. It bought mortgage-servicing portfolios from First Union, GE Capital, and Bingham Financial, boosting its servicing portfolio over the $400 billion mark.

Wells Fargo's 2001 purchase of Acordia cemented its status as one of the largest insurance brokers in the banking industry. The firm also ranks among the market leaders in online banking and online brokerage services. Specialized services include wholesale banking, asset-based lending, institutional asset management and corporate trust, and private banking.
Also within that year Wells Fargo acquired H. D. Vest, Inc. with their brokerage and investment advisory divisions, which manage a network of some 6,000 tax professionals who offer asset management services and sell insurance to individuals and businesses within the Dallas area.

Since the purchase of HD Vest Inc. Wells Fargo & Co. has acquired companies such as CarFinance America Inc., H & R Phillips, FAS Holdings, Nelson Capital Management, Pate Insurance Agency, and Sunrock Capital Corp.

Acordia, Inc. has acquired in 2003 Wisenberg Insurance and Risk Management, the assets of McDermott Brokerage, Goodritz-Emanuel Insurance and Malenas Insurance Agency.

Finally on November 3, 2003, Wells Fargo & Co. completed its acquisition of Pacific Northwest Bancorp (PNWB) the holding company for Pacific Northwest Bank, which increased Wells Fargo presence in western and central Washington and in the Seattle area by 760 employees, 57 banking locations and $2.9 billion in assets. PNWB focused on business lending, with commercial mortgages accounting for almost 40% of its loans receivable and commercial operating loans accounting for more than 30%. Subsidiary Pacific Northwest Insurance Agency offered insurance, and Pacific Northwest Financial Services sold investment products.

RECENT NEWS

- NEW YORK, March 17 (Reuters) - Wells Fargo & Co. (WFC) sold $5.5 billion of global notes on Wednesday, the biggest debt issue ever from the fifth-largest U.S. bank, in a move to take advantage of low borrowing rates to fund growth
- September 25, 2003 Moody's upgraded Wells Fargo Bank long term rating to AAA.

COMPANY SNAPSHOT

Wells Fargo & Company (NYSE:WFC) is a diversified financial services company providing banking, insurance, investments, mortgage and consumer finance. Our corporate headquarters is in San Francisco, but they're decentralized so all Wells Fargo "convenience points" (including stores, regional commercial banking centers, ATMs, *Phone Bank*SM centers, internet) are headquarters for satisfying all their customers' financial needs and helping them succeed financially.

Assets: $388 billion
Rank in assets among U.S. peers: 5th
Market value of stock: $100 billion
Rank by market value among U.S. peers: 3rd
Team members: 140,000 (one of U.S.'s 40 largest private employers)

Customers: 23 million
Stores: 5,900
***Fortune* 500 rank by revenue:** 46th

Wells Fargo Achievement in 2003:

• Earnings per share – a record $3.65, up 10%.

• Net income – a record $6.2 billion, up 9%.

• Return on equity – 19.4 percent; return on assets 1.64%.

• For the second consecutive year – their 12% revenue growth was among the best of their peers, following their 13% growth in 2002.

• Nonperforming assets and net charge-offs, as a percent of loans, declined from 0.88% in 2002 to 0.66% in 2003 and from 0.96% in 2002 to 0.81% in 2003, respectively.

• Their allowance for loan losses continued to provide more than two times coverage of both their nonperforming loans and our net charge-offs.

• Core product sales in Community Banking were up 11%.

• Wells Fargo set another industry record for mortgage originations, $470 billion. In the past three years they've originated more than $1 trillion in home mortgages. The company continued to be #1 in mortgage lending to people of color and low-to-moderate income home buyers. In California, the nation's largest housing market, they're #1 in mortgages for homebuyers who are Asian-American, Hispanic, African-American and Native American.

• Wholesale Banking net income was up 17%, the fifth consecutive year of record earnings.

COMPANY OVERVIEW

Wells Fargo & Company is a $388 billion diversified financial services company providing banking, insurance, investments, mortgage banking and consumer finance through banking stores, the internet and other distribution channels to consumers, businesses and institutions in all 50 states of the U.S. and in other countries. The company ranked fifth in assets and third in market value of our common stock among U.S. bank holding companies. It has three lines of business: Community Banking, Wholesale Banking and Wells Fargo Financial.

The Community Banking Group offers a complete line of diversified financial products and services to consumers and small businesses with annual sales generally up to $10 million in which the owner generally is the financial decision maker. Community Banking also offers investment management and other services to retail customers and high net worth individuals, insurance, securities brokerage and insurance through affiliates and venture capital financing. These products and services include *Wells Fargo Funds*®, a family of mutual funds, as well as personal trust, employee benefits trust and agency assets. Loan products include lines of credit, equity lines and loans, equipment and transportation (auto, recreational vehicle and marine) loans, education loans, origination and purchase of residential mortgage loans and servicing of mortgage loans and credit cards. Other credit products and financial services available to small businesses and their owners include receivables and inventory financing, equipment leases, real estate financing, Small Business Administration financing, venture capital financing, cash management, payroll services, retirement plans, medical savings accounts and credit and debit card processing. Consumer and business deposit products include checking accounts, savings deposits, market rate accounts, Individual Retirement Accounts (IRAs), time deposits and debit cards. Community Banking serves customers through a wide range of channels, which include traditional banking stores, in-store banking centers, business centers and ATMs. Also, *PhoneBank*SM centers and the National Business Banking Center provide 24-hour telephone service. Online banking services include single sign-on to online banking, bill pay and brokerage, as well as online banking for small business.

The Wholesale Banking Group serves businesses across the United States with annual sales also generally in excess of $10 million. Wholesale Banking provides a complete line of commercial, corporate and real estate banking products and services. These include traditional commercial loans and lines of credit, letters of credit, asset-based lending, equipment leasing, mezzanine financing, high-yield debt, international trade facilities, foreign exchange services, treasury management, investment management, institutional fixed income and equity sales, online/electronic products, insurance brokerage services and investment banking services. Wholesale Banking includes the majority ownership interest in the Wells Fargo HSBC Trade Bank, which provides trade financing, letters of credit and collection services and is sometimes supported by the Export-Import Bank of the United States (a public agency of the United States offering export finance support for American-made products). Wholesale Banking also supports the commercial real estate market with products and services such as construction loans for commercial and residential development, land acquisition and development loans, secured and unsecured lines of credit, interim financing arrangements for completed structures, rehabilitation loans, affordable housing loans and letters of credit, permanent loans for securitization, commercial real estate loan servicing and real estate and mortgage brokerage services.

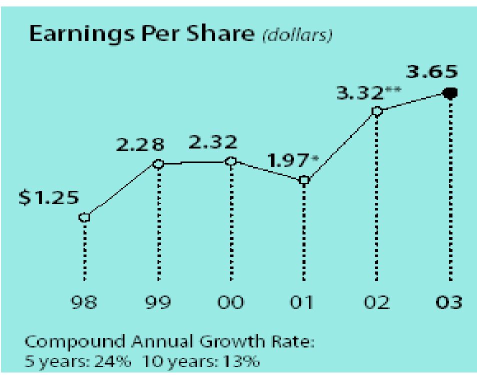
Wells Fargo Financial includes consumer finance and auto finance operations. Consumer finance operations make direct consumer and real estate loans to individuals and purchase sales finance contracts from retail merchants from offices throughout the United States, Canada and in the Caribbean. Automobile finance operations specialize in purchasing sales finance contracts directly from automobile dealers and making loans secured by automobiles in the United States and Puerto Rico. Wells Fargo Financial also provides credit cards and lease and other commercial financing.

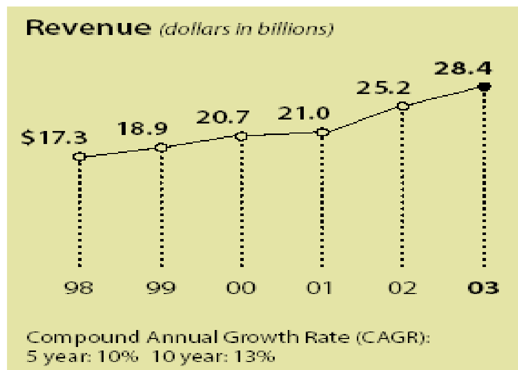
In 2003 Wells Fargo achieved record revenue of over $28 billion and diluted earnings per share of $3.65, double-digit increases from 2002. Their growth in earnings per share was driven by revenue growth. The companies' primary sources of earnings are driven by lending and deposit taking activities, which generate net interest income, and providing financial services that generate fee income. Their corporate vision is to satisfy all the financial needs of their customers, help them succeed financially, be recognized as the premier financial services company in our markets and be one of America's great companies. Their primary strategy to achieve this vision is to increase the number of products they provide to their customers and to focus on providing each customer with all of the financial products that fulfill their needs. Their cross-sell strategy and diversified business model facilitates growth in strong and weak economic cycles, as they can grow by expanding the number of products their current customers have with them. Their goal is eight products per customer, which is currently half of the estimated potential demand.

Wells Fargo core products grew in 2003:

- Average loans grew by 22%;
- Average core deposits grew by 12%;
- Mortgage loan originations increased 41% to $470 billion, an industry record;
- Assets managed and administered were up 13%; and
- They processed more than one billion electronic deposit transactions, up 18%.

Wells Fargo delivers superior value to their customers thus earning more of their business and growing revenue, profit and stock price which enables the company to continue delivering superior value for their stockholders. Thanks to the continued strength and consistency of the financial performance the quarterly common stock dividend increased in 2003 by 50% to 45 cents a share. The company targets a dividend payout ratio at 40 to 50% of earnings. Wells Fargo total return to shareholders for 2003, including reinvested dividends, was 29.4%. The past ten years, both the revenue and earnings per share have grown at an annual compound rate of 13%. The companies annualized total stockholders' return during that period was 19.93% compared with 11.05% for the S&P 500 and 15.25% for the S&P banking index.





Wells Fargo assess interest rate risk by comparing their most likely earnings plan over a twelve-month period with various earnings models using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, if they assume a gradual increase of 375 basis points in the federal funds rate, estimated earnings would be less than 1% below our most likely earnings plan for 2004. The company uses exchange-traded and over-the-counter interest rate derivatives to hedge their interest rate exposure.

Wells Fargo is also subject to a number of risks, including credit, liquidity and interest rate risks which are dealt with effectively. The company manages credit and liquidity risk by selling or securitizing most of the mortgage loans they originate They manage both risks by hedging the impact of interest rates on the value of the mortgage servicing rights using derivatives, combined with the "natural hedge" provided by the origination and servicing components of the mortgage business.

MORE ON WELLS FARGO USE OF DERIVATIVES

The use of derivatives helps minimize significant unplanned fluctuations in earnings, fair values of assets and liabilities, and cash flows caused by interest rate volatility. This approach involves modifying the reprising characteristics of certain assets and liabilities so that changes in interest rates do not have a significant adverse effect on the net interest margin and cash flows. As a result of interest rate fluctuations, hedged assets and liabilities will gain or lose market value. In a fair value hedging strategy, the effect of this unrealized gain or loss will generally be offset by income or loss on the derivatives linked to the hedged assets and liabilities. In a cash flow hedging strategy, Wells Fargo manages the variability of cash payments due to interest rate fluctuations by the effective use of derivatives linked to hedged assets and liabilities. The company uses derivatives as part of their interest rate risk management, including interest rate swaps and floors, interest rate futures and forward contracts, and options. They also offer various derivatives, including interest rate, commodity, equity, credit and foreign exchange contracts, to their customers but usually offset their exposure from such contracts by purchasing other financial contracts.

The customer accommodations and any offsetting financial contracts are treated as free-standing derivatives. Free-standing derivatives also include derivatives Wells Fargo enters into for risk management that do not otherwise qualify for hedge accounting. To a lesser extent, they take positions based on market expectations or to benefit from price differentials between financial instruments and markets.

By using derivatives, Wells Fargo is exposed to credit risk if counterparties to financial instruments do not perform as expected. If the counterparty fails to perform, their credit risk is equal to the fair value gain in a derivative contract. Wells Fargo minimizes credit risk through credit approvals, limits and monitoring procedures. They also enter into transactions only with counterparties that carry high quality credit ratings, and obtain collateral where appropriate to reduce risk.

OPERATING SEGMENT FINANCIAL RESULTS

Wells Fargo lines of business for management reporting consist of Community Banking, Wholesale Banking and Wells Fargo Financial. Here is a summary of each.

Community Banking's net income increased 7% to $4.4 billion in 2003 from $4.1 billion in 2002. Revenue increased 12% from 2002. Net interest income increased to $11.5 billion in 2003 from $10.4 billion in 2002, or 11%, due primarily to growth in average consumer loans, mortgages held for sale and deposits. Average loans grew 30% and average core deposits grew 11% from 2002. The provision for loan losses increased $27 million, or 3%, for 2003. Noninterest income for 2003 increased by $1.1 billion, or 14%, over 2002 primarily due to increased mortgage banking income, consumer loan fees, deposit service charges and gains from equity investments. Noninterest expense increased by $2.0 billion, or 18%, in 2003 over 2002 due primarily to increased mortgage origination activity and certain actions taken in 2003.

Wholesale Banking's net income increased 17% to $1.4 billion in 2003 from $1.2 billion in 2002, before the effect of change in accounting principle. Net interest income was $2.2 billion in 2003 and $2.3 billion in 2002. Noninterest income increased $450 million to $2.8 billion in 2003 compared with 2002. The increase was primarily due to higher income in asset based lending, insurance brokerage, commercial mortgage originations, derivatives and real estate brokerage. Noninterest expense increased to $2.6 billion in 2003, compared with $2.4 billion for the prior year. The increase was largely due to higher personnel expense, due to an increase in benefit costs and team members, and higher minority interest expense in partnership earnings within asset-based lending.

Wells Fargo Financials net income increased 25% to $451 million in 2003 from $360 million, before the effect of change in accounting principle, in 2002, due to lower funding costs combined with growth in real estate secured and auto loans. Due to growth in loans, the provision for loan losses increased by $82 million in 2003. Noninterest income increased $24 million, or 7%, from 2002 to 2003, predominantly due to increased loan and credit card fee income of $15 million and a decrease in losses on sales of investment securities of $6 million. Noninterest expense increased $244 million, or 22%, in 2003 from 2002, primarily due to increases in employee compensation and benefits and other costs relating to business expansion and acquisition.

COMPETITIVE ADVANTAGE

Diversification is the key to lowering risk and Wells Fargo does exactly that. As a financial services company, much more than a bank, Wells Fargo provides a customer with the main core products (checking, mortgage, investments and insurance) which then lead them to many more. The company is involved in so many different businesses that a loss in one will be equaled out by a gain in another therefore never sustaining an overall loss. Besides having this kind of advantage, the company fells that their most important competitive advantage is their work force. Their diverse teams of 140,000 of the most talented people simply care more about their customers, communities and each other than Wells Fargo competitors care about theirs.

Wells Fargo Bank, N.A. is the only U.S. bank rated **"AAA"** by Moody's Investor Services, the highest possible rating, which allows it to obtain the lowest interest rates when it has to borrow money. Moody's cited Wells Fargo's strong retail and middle-market banking franchise, good earnings diversity by product and geography, consistently robust core earnings, solid risk management, conservative credit culture, core deposit growth, highly focused sales culture, and good corporate governance.

Wells Fargo believes revenue growth is the single-most important measure of long-term success in the financial services industry. Adjusted for risk, it's the most effective way to measure the strength of a company's customer relationships, the value of financial advice provided, the quality of its customer service, the competitiveness of its products, its needs-based selling skills, and its ability to earn all of a customer's business.

Return on Equity is the best way to measure how effectively a company puts a stockholder's investment in the company to work on the shareholder's behalf. It's the profit a company generates in cents for every $1 invested in the company. The past ten years the average ROE for our industry was 13.99 cents for every dollar of stockholders' equity. Wells Fargo's ROE for that same period was 16.74 cents.

Wells Fargo has the second largest share of deposits in the United States even though it operates banks in less than half the states. Since 2000 their core deposits have risen 34%. The company is among the top three in deposit market share in 17 of their 23 banking states. Also at year-end 2003 Wells Fargo is the nation's largest mortgage and home equity lender.

Only two other "banks" in the U.S., and only three in the world, have total market value larger than Wells Fargo. Only about 20 other Fortune 100 companies now rank ahead of Wells Fargo in the market value of their stock including only three companies in the diversified financial services industry. The market value of Wells Fargo stock has increased 46 percent in just the past four years. It's higher than more than half the companies that make up the Dow Jones average of 30 industrials and higher than more than 30 of the companies that rank ahead of Wells Fargo in the Fortune 100.

Wells Fargo is also one of the top 10 Corporate Americas largest givers. Last year the company contributed $83 million to nonprofit organizations, including the $17 million contributed by team members to United Way and Community Support campaigns. In the past ten years $32 million was contributed to affordable housing initiatives by Wells Fargo Foundation, as well as over 1,300 habitat homes built and renovated by Wells Fargo volunteers.

INDUSTRY OVERVIEW

Standard & Poor's believes that the U.S. commercial banking industry is at a point of inflection. In our view, the operating environment for commercial banks is in a state of transition, and operating conditions in the next six to 12 months will likely diverge from those of the recent past. Accelerating growth in gross domestic product (GDP) and rising intermediate and long-term rates presage a pickup in commercial loan growth demand and higher short-term interest rates, in contrast to the strong consumer loan demand and declining short-term rates of the recent past.

We believe such an environment would be favorable for banks with a commercial focus and particularly for larger capitalization banks, which in aggregate appear to have put many of their regulatory, corporate governance, and credit-quality issues behind them. Starting in 2002, commercial banks began repositioning their balance sheets to prepare for a reversal of monetary policy. Anticipating that the Federal Reserve would increase short-term rates, the banks elected to forgo short-term profits in favor of longer-term benefits. As a result, most commercial banks in our universe currently have asset-sensitive balance sheets and should therefore see their net interest margins widen when short-term interest rates rise.

Although we do not think a change in the direction of monetary policy is imminent, we believe short-term interest rates have bottomed and do not expect an increase before this year's Presidential election. Long-term interest rates are already pointing in the direction of higher rates overall, as the economy appears to be firing on more cylinders than it was in 2003.

During this phase of change in earnings drivers, we are likely to see varied financial performance within the commercial banking sector. Companies most likely to outperform are those with competitive advantages, diversified revenue streams, and records of consistent earnings growth.

The earnings growth of consumer finance companies also looks favorable. We expect the group to post solid results for 2004 and the overall demand for credit should remain strong. Standard & Poor's currently expects that the Fed will raise its federal funds rate to 2.0% by the end of the 2004. It also expects inflation to remain low in 2004 at a projected 1.6%. Overall, we are looking forward to the combination of a favorable interest rate environment, low inflation, and a strengthening economy to benefit the industry.

Inflation remains low, and price pressures are largely absent from the economy. Although the recent softness in the labor markets may encourage the Fed to delay any increases in interest rates for a while longer, the Fed has reminded the markets that sooner or later interest rates will go up. The stock market slid in mid-March on a combination of fears that it had risen too far too fast and the response to the terrorist attacks in Madrid.

CURRENT ENVIRONMENT

Following several major scandals, ethics has become a major topic of concern, especially in the banking industry where trust is a financial institution's most important asset. Starting off with the Enron where JP Morgan Chase & Co and Citigroup Inc agreed to pay $286 million to settle charges that they helped Enron hide billions of dollars in debt from investors. Then the New York Attorney General Eliot Spitzer alleged that Bank of America let hedge fund Canary Capital Partners LLC conduct "late trading". This involves trading mutual funds after hours at stale prices, enabling traders to make profits and avoid losses in ways ordinary investors cannot. Since then the industry is calling for a strong, clear and specific code of ethics for financial institutions to prevent similar incidents in the future that could lead to erosion of trust in the banking industry. Also the US regulators have drawn a clear line separating research from investment banking activities. Separation of research and investment banking activities was also addressed in the Sarbanes-Oxley Act of 2002, which prohibits investment banking firms from punishing research analysts who issue negative reports on firm clients. The US approach of imposing a strict separation between research and investment banking is a measure to ensure the independence of securities research.

Globally, the popularity of personal computers and the advent of the internet presented an opportunity for the banking industry. Banks view online banking as an opportunity to attract and retain new customers while helping to eliminate costly paper handling and teller interactions. In the US, the number of online banking subscribers has been growing consistently. The state of California recorded the largest increase of customers using online banking in 2002, followed by Florida and Texas. According to Bank of America, more than 2.6 million of its customers pay their bills online which is the highest in the US industry. In the future, fully functional online banking will become as commonplace as ATMs as more banks succeed online and more customers use their sites.

US banking giants have increased their credit card fees. Higher credit card fees are fueling the banking industry's profitability. From 1998 until August 2003, late payment fees have increased

56% on average, according to the industry leading online publisher of information pertaining to all types of payment cards, CardWeb.com. Now, they average $31.05, and the credit card debt is nearly $9,000 per card-carrying household. Fee income is simply rising because more card holders pay their bills late.

Consumers remain the primary source of strength for the economy but the level of consumer debt is increasing and the number of personal bankruptcies reached an all-time high during the 12 months ending June 30, 2003. There were 1.61 million filings, up 30% over the previous year. The rise was largely due to the temptation of very low interest rates and the ready availability of loans of all types. Despite the increasing debt, the level of credit quality has remained strong and sound risk management practices have maintained solid bank performance in the US.

INDUSTRY PROFILE

The banking industry has been and will continue to be in a very interesting stage where size, speed and quantity matters most to customers. Larger corporations are produced by mergers and acquisitions, faster transactions via ATMs and the Internet, and more products, such as insurance and securities are now available. With the ratification of the Gramm-Leach-Bliley Act (GLBA) in 1999, the US joined countries in Europe and Asia in allowing banks to expand beyond their traditional roles of collecting deposits and writing loans to include investment and insurance products. This has changed the face of banking and led to the creation of financial services holding companies where the banking, insurance and investment worlds came together to form one large financial services holding companies. (The largest of these companies can be seen in the chart below). This has led to the creation of Citigroup, the largest bank by assets in the world and one of the first truly global commercial bank. In 2001 J.P. Morgan Chase was formed when venerable bank Chase Manhattan bought investment bank J.P. Morgan, hoping to capitalize on Chase's corporate lending clout to lure large companies as advisory clients. In addition, the law eased restrictions on foreign firms' expansion in the US; Swiss bank Credit Suisse gobbled up US brokerages First Boston (renamed Credit Suisse First Boston) and Donaldson, Lufkin, and Jenrette, which is now Credit Suisse First Boston (USA).

LARGEST U.S. BANK HOLDING COMPANIES
(Ranked by total assets, as of June 30, 2003)

	TOTAL ASSETS (MIL. $)		
COMPANY	6/30/2002	6/30/2003	% CHG.
1. Citigroup	1,083,306	1,187,035	9.6
2. J.P. Morgan Chase	740,546	802,603	8.4
3. Bank of America	638,448	769,179	20.5
4. Wells Fargo	314,802	369,645	17.4
5. Wachovia	324,679	364,285	12.2
6. Bank One	270,343	299,463	10.8
7. FleetBoston Financial	191,040	197,128	3.2
8. U.S. Bancorp	172,956	194,899	12.7
9. National City	99,131	123,392	24.5
10. SunTrust Banks	107,988	120,857	11.9
11. Bank of New York	80,805	99,604	23.3
12. Fifth Third Bancorp	74,923	88,265	17.8
13. KeyCorp	82,777	85,479	3.3
14. State Street	80,328	83,102	3.5
15. BB&T	76,333	80,445	5.4
16. PNC Financial Svcs Grp	66,913	67,262	0.5
17. Comerica	50,583	58,727	16.1
18. SouthTrust	48,430	51,708	6.8
19. M&T Bank	31,708	50,399	58.9
20. Regions Financial Corp	46,146	49,548	7.4
21. Charter One Financial	39,391	44,135	12.0
22. AmSouth Bancorp	38,499	43,784	13.7
23. UnionBanCal	36,137	42,669	18.1
24. Northern Trust	37,801	39,071	3.4
25. Mellon Financial	33,866	38,944	15.0

Source: SNL Financial.

Below we can see the top leaders in market capitalization as well as the top financial services companies in five year long term growth.

Leaders in Market Capitalization (2004)		Billions
1	Citigroup Inc [C]	$262.7
2	Bank of America Corp [BAC]	$163.0
3	HSBC Holdings PLC [HBC]	$162.9
4	Wells Fargo & Co [WFC]	$93.9
5	JP Morgan Chase & Co [JPM]	$80.8
6	Wachovia Corp (Charlotte) [WB]	$58.7
7	Barclays PLC [BCS]	$58.1
8	Bank One Corp [ONE]	$57.7
9	Banco Santander Central Hispano SA [STD]	$52.9

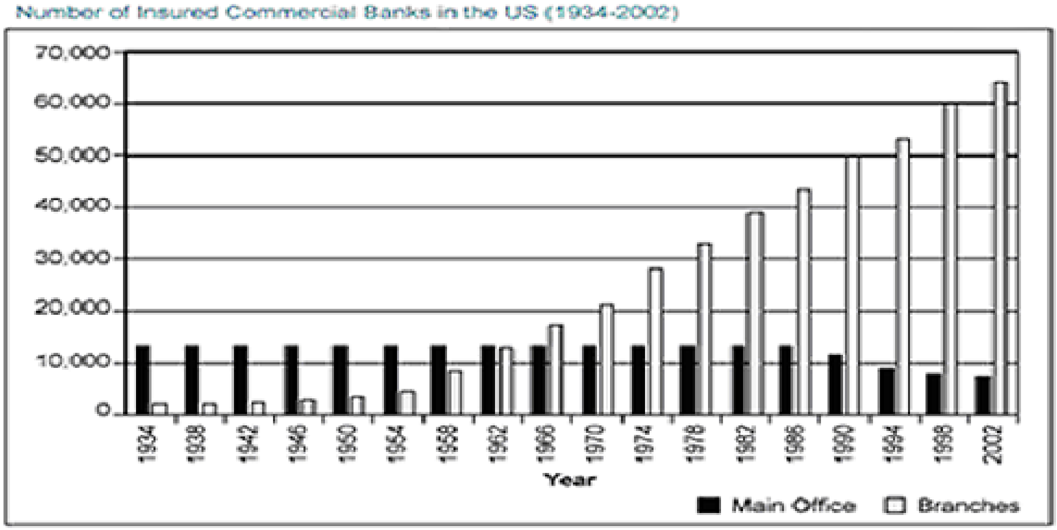
Source: Yahoo Finance

Leaders in Long-Term Growth Rate (5 yr)	%
1 Banco Bilbao Vizcaya Argentaria SA [BBV]	18.00%
2 Banco Santander Central Hispano SA [STD]	18.00%
3 HSBC Holdings PLC [HBC]	13.20%
4 Citigroup Inc [C]	12.00%
5 Wells Fargo & Co [WFC]	12.00%
6 Bank of New York Company Inc, The [BK]	12.00%
7 ABN AMRO Holding NV [ABN]	11.70%
8 Bank of America Corp [BAC]	10.00%
9 JP Morgan Chase & Co [JPM]	10.00%

Source: Yahoo Finance

Despite the heavy investment by banks in online banking, customers also demand the convenience of neighborhood branches and drive-up windows. Below we can see how branch banking has grown across the country.

Number of Insured Commercial Banks in the US (1934-2002)

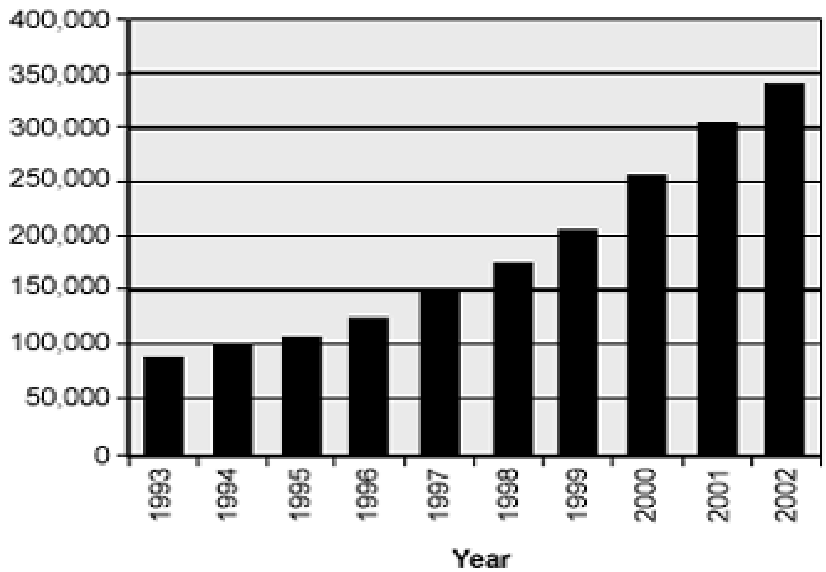


Source: American Bankers Association

Technology is having a tremendous impact on the banking industry in the US. Many routine bank services that once required a teller, such as making a withdrawal or deposit are now available through ATMs that allow people to access their accounts 24 hours a day. Further, debit cards and "smart cards" instantaneously deduct money from an account when the card is swiped across a machine at a store's cash register. Electronic banking by phone or computer allows customers to pay bills and transfer money from one account to another. Finally, the availability and growing use of credit scoring software allows loans to be approved in minutes, rather than days, thus making lending departments more efficient. Many of the new ATMs will have bilingual voice capabilities and the rollout is expected to be complete by the end of 2005. The addition of Spanish to Talking ATMs expands the banking capabilities of the Hispanic members of the visually impaired community and others who have difficulty reading the ATM screen. Below you can see how the growth of ATM's has expanded within the past years and currently it will definitely continue to do so. Up until 2002 the top owner of ATM machines was the Bank of America with 12,000, followed by American Express with 7,400, and third Wells Fargo with 6,488 ATM's.

Total US ATM Machines (1993-2002)

Year	Number of ATM Machines
1993	94,822
1994	112,755
1995	122,706
1996	139,134
1997	165,000
1998	187,000
1999	227,000
2000	273,000
2001	324,000
2002	352,000



Source: American Bankers Association

The diversified financial services industry comprises a range of consumer and commercially oriented companies that offer a wide variety of products and services, including various lending products (such as home equity loans and credit cards), insurance, and securities and investment products. Within this broad description, however, further distinctions can be made. Companies that are classified as diversified financial services companies tend to be either large financial conglomerates or unique companies that do not fit neatly into another industry grouping.

As for consumer finance companies, these are often compared with banks, and in many respects operate like banking institutions. They record interest income and fees from loan products, establish reserves for potential loan defaults, and generally compete with each other to market interest-sensitive lending products. However, consumer finance companies are frequently less regulated than banks and can be more flexible in their product offerings.

INDUSTRY TRENDS

Diversified financial services firms and consumer finance companies alike are in a period of consolidation and globalization. In general, the leading consumer finance companies have seen healthy growth in receivables and in their credit and charge card businesses, despite generally weak economic conditions.

In past years, consumer finance companies became accustomed to a generally favorable economic backdrop of stable inflation, healthy job creation, and consumer willingness to spend. Even during the recent period of economic malaise, low interest rates and fairly healthy consumer spending supported credit demand. This environment spurred significant growth in lending portfolios.

Loan portfolios for many of the industry’s strong players have seen double-digit annual growth, on average, over the past five years, according to company reports. Lending programs for products that were traditionally the mainstay of commercial banks, particularly thrifts, boosted financial services companies’ growth in finance receivables. Over the past decade, consumer finance companies have progressed from lending for household items such as furniture and large appliances, to financing swimming pools and cars and providing home equity loans. Lately they’ve branched out even further and are lending in diverse segments such as boats, motor homes, and personal aircraft financing.

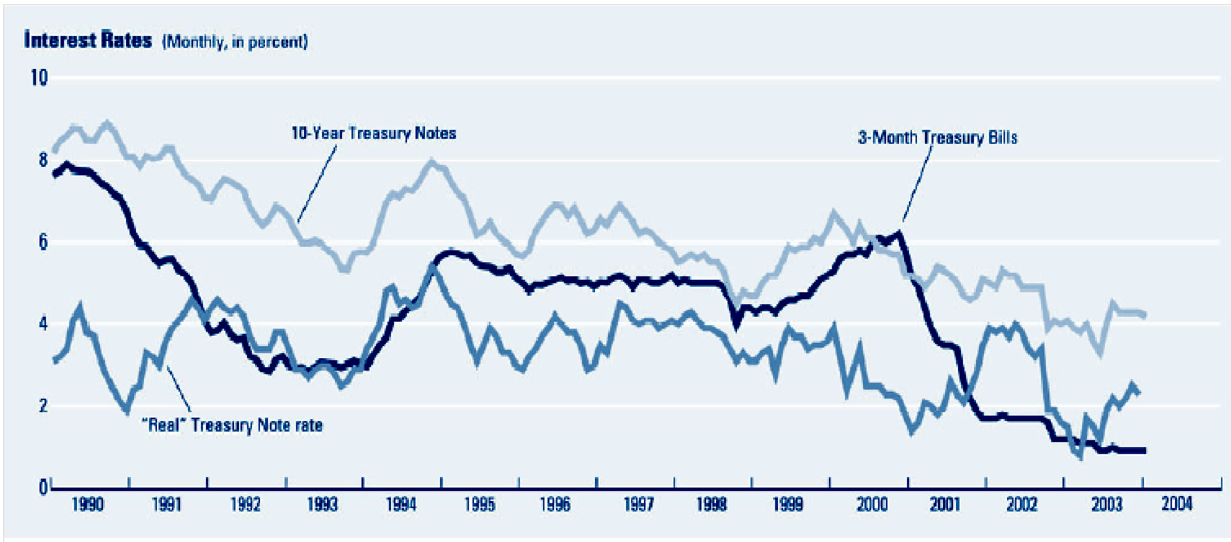
Companies engaged in the credit card lending business have enjoyed substantial earnings and receivables growth over the past decade, much of which has come from increasing usage of general-purpose credit cards rather than cash and checks. Credit cards are no longer used just for emergency purposes or for the occasional spending spree. Credit card issuers continue to tailor their offerings to individual tastes and spending habits as a means of drawing in new accounts. This can be seen in the onslaught of prestigious gold and platinum cards, which allow higher spending limits, offering cash-back bonuses. Efficiency and easy of use of credit cards online along with numerous reward programs also have contributed to their growth.

In recent years, the entire financial services industry has undergone rapid consolidation. Reasons for this trend include the easing of regulatory barriers, the search for profit sources, the customer’s desire for the convenience of one-stop shopping, and the industry’s inherent economies of scale.

Banks have also been consolidating among themselves. In Japan, Dai-Ichi Kangyo Bank, Fuji Bank, and Industrial Bank of Japan merged to form Mizuho in 2001, at the time eclipsing Deutsche Bank as the world's largest bank by assets. The same year First Union bought venerable regional bank Wachovia to create the fourth-largest bank in the US. Another wave of monster mergers emerged in 2004, as Bank of America, owner of the largest consumer branch network in the US, announced it would buy FleetBoston, and J.P. Morgan Chase purchase of BANK ONE.

We believe that major acquisitions will continue within the industry especially if the market remains strong because more and more small and medium-size regional banks will be absorbed by larger domestic or foreign banks. Consolidation will also increase because banks will be able to leverage their distribution channels by offering a wide array of financial products, thereby making them financially stronger and reducing their operating costs. They may also find it easier and less expensive to access capital. Large banks are likely to have the resources to take advantage of growth opportunities in international markets since the domestic markets are being saturated with competitors.

Interest rates are the key macroeconomic indicators of the financial services industry's overall performance. They affect the profitability of diversified financial services and consumer finance companies by influencing the demand for credit, the cost of funds, and the amount of charge-offs. In a falling interest rate environment, the cost of borrowing is reduced, so demand for the industry's products rises. As interest rates fall, the cost of the funds that companies use to make loans also falls and lending spreads tend to widen. Finally, low interest rates typically fuel economic growth and thus job growth, and lower unemployment rates often tend to result in higher credit quality. The falling interest rates will also increase securities underwriting activity and can generate market-to-market gains in fixed-income trading portfolios. In a rising interest rate environment the opposite will occur.



On Thursday, March 18, Fed funds were trading at 1.0%, three-month T-bills were at 0.92%, and the 10-year Treasury note was priced to yield 3.76%. In the foreign exchange markets, the dollar was at $1.235 per euro, and the yen was at 106.76 to the dollar.

The Fed's rate hike is likely to be postponed until after the election, unless employment growth accelerates sharply.

Source: Mergent.com

The banking world is highly concerned with Federal Reserve policy and its influence on interest rates. Bank analysts watch both short-term and long-term rates, as well as the relationship between the short and long markets, which can be graphed as the "yield curve"

Short-term rates, generally represented by the discount rate (the rate charged by Federal Reserve banks when they extend credit to depository institutions) or by the federal funds rate (the rate charged among commercial banks for overnight lending), are controlled by Federal Reserve Board policy. Strong economic conditions and/or employment activity, which can generate shortages in both labor and goods and can fuel higher inflation, may lead the Fed to raise interest rates.

Although long-term rates (as represented by the yield on 30-year bonds) are subject to the same economic factors that influence short-term rates, they are controlled by market forces rather than by the Federal Reserve Board. Because market forces make them react more swiftly to daily economic developments, changes in long-term rates often precede those in short-term rates, and thus can be viewed as a leading indicator.
When long-term rates decline but short-term rates do not, it may mean that economic growth is falling or that unemployment is rising. In these circumstances, the Fed may decide to lower interest rates to stimulate the economy. Conversely, when long-term rates have risen but short-term rates have not, the Fed may raise interest rates.

The banking industry has enjoyed improved health over the past several years, as evidenced by declines in bankruptcies and problem institutions. As of June 30, 2003, the FDIC classified 113 commercial banks, with combined assets of $31 billion, as “problem institutions” as having financial, operational, or managerial weaknesses that threatened their viability. In contrast, 247 banks with $33 billion in assets were classified as problem institutions at year-end 1994. The decline in the total number of U.S. banks in the late 1980s and early 1990s reflected not only industry mergers, but also a relatively high level of bank failures. Domestic bank failures totaled 221 in 1988, 206 in 1989, 159 in 1990, 108 in 1991, and 100 in 1992. However, the number dwindled to 42 in 1993, 11 in 1994, and just six in 1995. The first quarter of 1994 was a milestone for the industry: for the first quarter in 16 years, not a single commercial bank failed. The low failure numbers have continued in recent years. Five banks failed in 1996, followed by one in 1997, three in 1998, seven in 1999, six in 2000, three in 2001, and 10 in 2002. In the first six months of 2003, two commercial banks failed with total assets $1.1 billion. Structural changes among FDIC-insured banks in the first half of 2003 also included the issuance of 47 new bank charters, compared with 42 in the first six months of 2002 and 91 in full-year 2002.

INDUSTRY OUTLOOK

The outlook for the commercial banking industry calls for moderate earnings growth over the next six to 12 months. The economy is improving and we expect GDP growth to accelerate. In addition, the treasury yield curve is normal and steep enough to allow for an eventual stabilization of net interest margins. We believe net interest margins will stabilize early this year and, combined with improving commercial loan demand, will lead to progressively stronger net interest income as the year progresses. S&P expect net interest income to advance 4% in 2004.

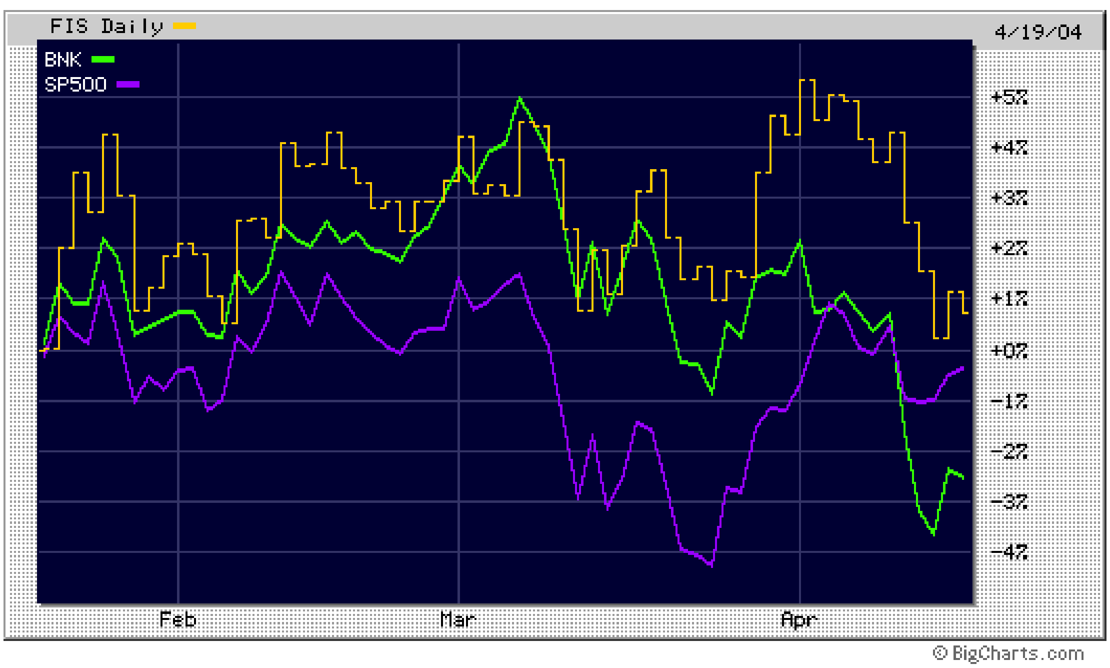
Credit quality trends have been encouraging in recent quarters; we expect continued improvement, which should result in declining provisioning requirements in the quarters ahead. The S&P expects the commercial loan growth to accelerate rapidly this year.

Fee income should remain strong and continue to increase, although the contributions of various fee income sources are likely to change. Growth in deposit fees should progressively return to normalized levels during 2004, while fees from activities related to equity markets should show meaningful and immediate improvement in the next few quarters. Banks' emphasis on developing sources of nondeposit-related fee income, such as fiduciary and asset management fees, insurance commissions, and security brokerage commissions, should continue to support fee income growth. The S&P model assumes total fee income growth of 10% in 2004. Also operating expenses are projected to increase 6% in 2004, in line with recent historical experience.

According to the Standard & Poor's findings the earnings outlook for consumer finance companies looks favorable. The earnings growth of consumer finance companies looks favorable. We expect the group to post solid results for 2004 and the overall demand for credit should remain strong. S & P currently expects that the Fed will raise its federal funds rate to 2.0% by the end of 2004. It also expects inflation to remain low in 2004 at a projected 1.6%. Overall, we are looking forward to the combination of a favorable interest rate environment, low inflation, and a strengthening economy to benefit the industry.

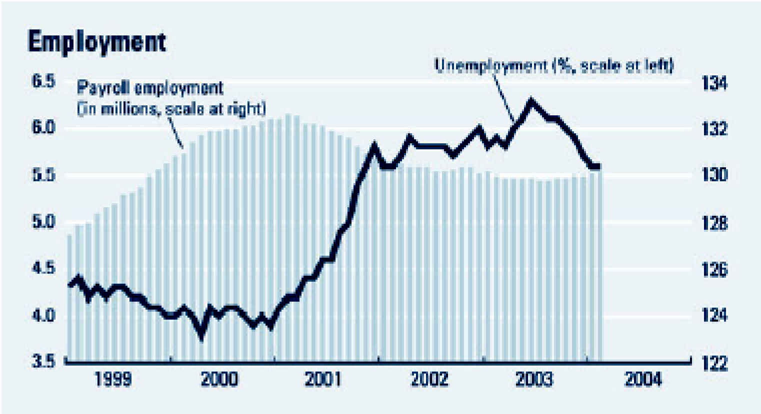
In recent years, the banking industry in the US has been revolutionized by technological improvements in the use of computer and data processing equipment. The percentage of electronic transactions has more than doubled since 1995, and is expected to double again by 2005. Internet banking has become more prominent, as both large and small banks offer Web sites where customers can access accounts and buy financial products.

Performance of the Banking and Diversified industry verses the S&P500 index can be seen in the two charts shown on this page. In the above chart you can see that all three of these are moving right along each other in the past year. Below is a closer look over the past three month period. As we can see, the diversified financial industry which Wells Fargo is in is above the S&P500 and has for the most part always exceeded it. The banking industry which Wells Fargo is also a part of has just recently gone below the S&P500 due to the news that interest rates will rise in the near future. These two industries along with the S&P500 Index have been on a continuous upward trend and that will most definitely continue in the years to come.



Weak job growth continues. Payroll employment has risen for six consecutive months, but by a total of only 364,000, and remains down 2.4 million from its March 2001 peak of 132,507,000. On the other hand, the unemployment rate has dropped from 6.3% in June 2003 to 5.6%, its 45-year average, in the first two months of 2004. This disconnect with the payroll data does not reflect dropouts from the labor force. The labor force participation rate has declined, to a low of 65.9% in December 2003 from 67.3% at its peak in February 2001, but that decline is only somewhat higher than usual in a recession. Moreover, the drop is from a record high. The February 2004 participation rate (66.0%) exactly matches the low hit in August 1993, coming out of the last recession.

The US economy is recovering strongly from the recent recession, at least in everything except employment growth as we can see in the chart below. Real GDP growth was 2.4% in 2002, up from 0.3% in 2001. It rose to 3.1% in 2003 and is expected to rise 4.6% in 2004. However, the strength of the real economy is being lost in the worries about the lack of growth in payroll employment.



According to the US Department of Labor, between 2000 and 2010, total employment growth in the US banking industry is expected to continue to be affected by the combined effects of technology, deregulation, mergers, and population growth. The department forecasts an overall decline in office and administrative support jobs, but this is expected to be offset by growth in professional, managerial, and sales jobs. Although a decline in employment is expected, job opportunities should be plentiful, particularly among tellers and other administrative support staff. Even though many banks will open more branches
in areas in which the population is growing, fewer employees are expected to be hired due to the widespread automation of many banking services. Advances in technology should continue to have a major impact on employment in the banking industry. As a result, demand for computer specialist would grow as more banks make their services available electronically and eliminate much of the paperwork involved in many banking transactions. Other technological improvements, such as digital imaging and computer networking, is expected to negatively affect employment of the "back-office" clerical workers who process checks and other bank statements. However, employment of customer service representatives is expected to increase as banks hire more of these workers to work at phone centers and sell banking products to branch customers.

REGULATION

The regulatory framework is intended to protect depositors, federal deposit insurance funds and the banking system as a whole. As a bank holding company, Wells Fargo & Company is subject to regulation under the BHC Act and to inspection, examination and supervision by the Board of Governors of the Federal Reserve Board (FRB). The company's national subsidiary banks are subject to regulation and examination primarily by the Office of the Comptroller of Currency (OCC) and also by the Federal Deposit Insurance Corporation (FDIC) and the FRB. The state-chartered banks are subject to primary federal regulation and examination by the FDIC and are regulated and examined by their respective state banking departments. The company's brokerage subsidiaries are regulated by the Securities and Exchange Commission (SEC), the National Association of Securities Dealers, Inc. and state security regulators. The insurance subsidiaries are subject to regulation by applicable state insurance regulatory agencies. Finally, the company's nonblank subsidiaries are subject to regulation by the FRB, and other applicable federal and state agencies.

Wells Fargo & Company became a financial holding company on March 13, 2000. Because of this, if any of its subsidiary banks ceases to be well capitalized according to applicable regulatory standards, the FRB may order the company to divest the subsidiary bank. Also if any of its subsidiary banks receive a rating under the Community

Reinvestment Act of 1977 of less than satisfactory, the company will be prohibited from engaging in new activities or acquiring companies other than bank holding companies and banks or savings associations until the rating is raised to satisfactory or better.

If Wells Fargo & Co. decides to acquire a bank, the federal bank regulators will have to approve it. They will consider the effect of the acquisition on competition, the public benefits expected to be received from the acquisition, the projected capital rations and levels on a post-acquisition basis, and the acquiring institution's record of addressing the credit needs of the communities it serves. The federal bank regulatory agencies also have the authority to prohibit Wells Fargo & Company's subsidiary banks from engaging in unsafe or unsound practices in conducting their business, such as the payment of dividends.

The subsidiary banks are subject to restrictions under federal law that limit the transfer of funds or other items of value form such subsidiaries to the parent company and its nonblank subsidiaries in what they call "covered transactions." These include loans and other extensions of credit, investment and asset purchases, as well as certain other transactions involving the transfer of value from a subsidiary bank to an affiliate. Unless an exemption applies, covered transactions by a subsidiary bank with a single affiliate are limited to 10% of the subsidiary bank's capital and surplus[1].

The Company and each of its subsidiary banks are further subject to various regulatory capital adequacy requirements administered by the Federal Reserve Board and the OCC. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required that the federal regulatory agencies adopt regulations defining five capital tiers for banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements[2].

FRB, FDIC, and OCC rules also require Wells Fargo to incorporate market and interest rate risk components into its regulatory capital computations. Under the market risk requirements, capital allocated to support the amount of market risk related to a financial institution's ongoing trading activities[1].

Since the September 11, 2001 attacks, the war on terrorism has significantly changed the regulatory environment in the US banking sector. The Financial Crimes Enforcement Network (FinCEN) is one of the US Government's primary agencies overseeing and implementing policies to prevent and detect money laundering and other financial crimes. Information sharing, analysis and networking are the key tools in preventing, detecting, and prosecuting financial crime. To meet new challenges, develop new ways to share information between law information and financial institutions and to enable financial institutions to share information, FinCEN developed a new system. A combination of email and fax can quickly transmit names of suspects to financial institutions and get back reports of matches within days.

The regulations, requiring financial institutions to respond to such queries where the Government has credible evidence of money laundering or terrorist financing, became active in late September 2002[3].

NEW FEDERAL GUIDELINES IMPLEMENTED

In July 2002, the Federal Financial Institutions Examination Council (FFIEC), a group comprising U.S. financial regulators (including the Federal Reserve and the Office of the Comptroller of the Currency), released a draft of its proposed guidance for credit card issuers. The proposal addressed disparities in the quality of account management practices and in the application of existing guidance, which had the potential increase institutions' credit risk profiles to imprudent levels. The FFIEC was also concerned that inconsistent application of accounting and regulatory guidance could affect the transparency and comparability of financial reporting for all institutions engaged in credit card lending. Through early 2003, many individuals were apprehensive about investing in credit card companies because of the increased regulatory oversight, which they saw as a threat to earnings growth potential.

However, those fears eased in January 2003, when the FFIEC released its final guidelines. Less onerous than some had feared, the guidelines contained provisions relating to accrued interest and fees, loan loss allowances, allowances for over-limit accounts and workout programs, as well as recovery practices. They should help to standardize management practices concerning credit lines, accounts that exceed their credit limits, and workout and forbearance periods. (A workout is when a lender agrees to accept less than is owed on a debt as full payment, a practice that may include forbearance. Forbearance is a period during which a creditor temporarily permits a debtor to suspend or reduce payment.) Credit card companies publicly welcomed the increased guidance.

Standard & Poor's regards the regulatory scrutiny and guidelines as positive developments likely to reduce the incidence of failures. In addition, a more standardized reporting approach should allow investors to differentiate among the various credit card issuers.

RISKS

The company's business and earnings are affected significantly by the fiscal and monetary policies of the federal government and its agencies. Especially the policies of the Federal Reserve Board, which regulate the supply of money and credit in the US, affect it greatly. The methods that the FRB uses affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits.

Wells Fargo operates in a highly competitive industry that could become even more competitive as a result of legislative, regulatory changes and continued consolidation. Banks, securities firms and insurance companies now can merge by creating a "financial holding company," which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Recently, a number of foreign banks have acquired financial services companies in the United States, further increasing competition in the U.S. market.

Various legislations, including proposals to change the financial institution regulatory system, are from time to time introduced in Congress. This legislation may change banking statutes and the operating environment of the company and in substantial and unpredictable ways. If enacted, this legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, and other financial institutions which Wells Fargo holds. The company cannot predict whether any of this potential legislation will be enacted and, if enacted, the effect that it would have on the companies business, results of operations or financial conditions.

The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties. Recently we see a growth in online banking. This convenience of processing all your bank transactions online makes it more appealing then going to the bank. But as competition gets tighter companies such as Wells Fargo will be forced to offer a higher quality service with greater rewards, which will benefit the customer and increase business growth.

Online scams have hit US banking giants, with perpetrators using new tactics to steal customer information and identities. "Phishing" is what they call this scam in which thieves send consumer's e-mails that appear to come from major corporations and encourage the recipient to reveal personal information, asking for their names, social security number, account number or ATM pin for the purpose of informing them about changes in their company's policy. Other e-mails have directed customers to fake company website to try to get their information there.

This has become an increasing threat for banks and e-commerce businesses in recent months. According to the Federal Trade Commission, there were 102,517 consumer complaints about Internet scams in 2002, an increase of almost 100% since 2001. The cost of identity theft is staggering with the FTC estimating that identity theft cost consumers $60 billion over the last five years. Wells Fargo has been one of the companies that were affected by this and now it has embarked on an extensive customer education outreach program. In addition to warnings on their Web site, the company plans to introduce "statement stuffers," advertising and public service announcements. On its Web site the week of March 18th, Wells Fargo rolled out an expanded center dedicated to providing information regarding online fraud.

Wells Fargo business and earnings are also affected by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, credit and liquidity risk, foreign exchange risk, equity price risk, commodity price risk, inflation, monetary supply, fluctuations in both debt and equity capital markets, and the strength of the U.S. economy and the local economies in which Wells Fargo operates. For example, an economic downturn, an increase in unemployment, or other events that effect household and/or corporate incomes could decrease the demand for loan and non-loan products and services and increase the number of customers who fail to pay interest or principal on their loans. Geopolitical conditions can also affect their earnings. Acts or threats of terrorism, actions taken by the U.S. or other governments in response to acts or threats of terrorism and/or military conflicts, could affect business and economic conditions in the U.S. and abroad. The terrorist attacks in 2001, for example, caused an immediate decrease in air travel, which affected the airline industry, lodging, gaming and tourism.

MANAGEMENT

RICHARD KOVACEVICH President and CEO

Richard Kovacevich became President and Chief Executive Officer of Wells Fargo & Company on November 2, 1998, with the merger involving Norwest Corporation and Wells Fargo & Company, and became Chairman in April, 2001. He was named Norwest's CEO in 1993 and Chairman in 1995, after serving as President and COO since 1989. He joined Norwest in March 1986 as Vice Chairman and COO and head of the Banking Group.

Before joining Norwest Corporation, he was group executive and member of the policy committee of Citicorp. He began his business career at General Mills as a planner, and then moved to mergers and acquisitions and to division manager.

He is a graduate of Stanford University, where he received his M.B.A. and earned his bachelor's and master's degrees in industrial engineering.

He is a member of the Board of Directors of Cargill Inc., Target Corporation, San Francisco Committee on JOBS, a member of the Board of Governors of the San Francisco Symphony, a member of the Board of Trustees of the San Francisco Museum of Modern Art, a member of the Board of Trustees of the California Institute of Technology, a member of the National Infrastructure Advisory Committee (cyber security) and Chairman of the California Business Roundtable. He was president of The Financial Services Roundtable and Vice Chairman of the

American Bankers Council.

Awards: 2003 Stanford Business School Alumni Association's Arbuckle Award
2003 American Banker Banker of the Year Award
2001 USC's Marshall School of Business Award for Business Excellence

HOWARD ATKINS Executive VP and CFO

Howard Atkins, Executive Vice President and Chief Financial Officer, is responsible for Wells Fargo's financial management functions, including controllers, management reporting and analysis, tax management, treasury, and investor relations.

Before joining Wells Fargo in 2001, he was Executive Vice President and Chief Financial Officer of New York Life Insurance Company, responsible for financial management and information technology.

Before joining New York Life in 1996, he was Chief Financial Officer at Midlantic Corporation before its merger with PNCBank Corp. He helped design and oversee

Midlantic's financial restructuring, taking the company from near bankruptcy to one with among the best operating margins, productivity levels, and capital ratios in commercial banking in the United States at that time.

He also spent 17 years at Chase Manhattan Bank, where he rose to Corporate Treasurer. During his tenure at Chase, he was responsible for asset liability management, capital planning, funding and investments, and interest rate insurance products. He spent four years in Europe with responsibility for Chase's foreign exchange and capital markets business.

He is a member of the American Banker CFO Advisory Board, Financial Executives Institute, Corporate Executive Board's Working Council for Chief Financial Executives, and the American Council of Life Insurers (ACLI) Chief Financial Officers Planning Group. He also is the director of the Asian Art Museum in San Francisco.

He received a B.S. degree in mathematics from City College, New York, and his master's degree in economics from Ohio State University.

RICHARD LEVY Senior Vice President and Controller

Richard Levy is Senior Vice President and Controller for Wells Fargo & Company. He is responsible for overseeing all of the company's financial processes and systems, including the general ledger, accounting policy, SEC and regulatory reporting, accounts payable, bank and parent company accounting, and for ensuring the company's financial disclosures are in compliance with the financial provisions of the Sarbanes-Oxley Act.

Rich joined Wells Fargo as Controller in 2002 and has over 25 years of combined public accounting and financial services industry experience. Prior to joining Wells Fargo, he was

Senior Vice President and Controller for New York Life Insurance Co. Previously, he was a partner with Coopers & Lybrand, where he headed the firms' national tax practice for financial institutions. Before joining Coopers & Lybrand, he was a Senior Vice President at Midlantic Corporation, a New Jersey-based regional bank holding company where he was responsible for all the tax and accounting. Prior to 1983, he was a senior accountant with Deloitte & Touche, New York.

Rich is an accounting graduate of Pennsylvania State University and received his master's degree in taxation from Pace University's Lubin School of Graduate Studies. He is also a certified public accountant.

JOHN STUMPF Executive VP of Community Banking

John Stumpf is Group Executive Vice President of Community Banking which includes Regional Banking, Diversified Products, Private Client Services, Internet Services, Consumer Deposits and Diverse Growth Segments. He oversees 59,000 team members who serve more than 10 million customers across North America.

A 21-year veteran of the company, John assumed his current role in May 2002. From 2000 to 2002, he was Group EVP of Western Banking: Arizona, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, Washington and Wyoming. He became Group EVP of Southwestern Banking with responsibility for Arizona, New Mexico, and Texas in 1998 after the Wells Fargo-Norwest merger.

He joined the former Norwest Corporation in 1982 as SVP and Chief Credit Officer for Norwest Bank. He held a number of management positions at Norwest Bank Minneapolis and Norwest Bank Minnesota before assuming responsibility for Norwest Bank Arizona in 1989. He was named Regional President of Norwest Bank Colorado in 1990 before becoming head of Norwest Bank Texas in 1994.

He serves on the Board of Directors of Visa U.S.A., Inovant, the San Francisco Zoological Society and the Bay Area chapter of Junior Achievement. He also is Treasurer for the Bay Area Council.

A Minnesota native, he earned his bachelor's degree in accounting from St. Cloud University and a master's degree in finance from the University of Minnesota.

CARRIE TOLSTEDT Executive VP of Regional Banking

Carrie Tolstedt is responsible for Wells Fargo's Regional Banking Group: 23 states, $170 billion in assets, 42,500 team members, 3,000 banking stores, and 10 million retail banking customers, including 1.1 million small business and business banking households.

She began her career at United Bank of Denver in the credit training program and became a corporate banking officer. In 1986, she joined Norwest Bank Nebraska. She was a vice president in Corporate Banking, a vice president in Loan Administration managing credit process review, problem loan administration and credit training, and senior vice president managing Downtown Omaha Retail banking, Nebraska's sales development and marketing. In 1995, she joined FirstMerit Corporation, a $10 billion bank-holding company based in Akron, Ohio, as SVP of Corporate Retail including marketing and communications, product development, sales development and market research. In 1996, she became President and CEO of FirstMerit's Citizens National Bank and Peoples

National Bank, and also was an EVP of FirstMerit Corporation.

In May 1998, she rejoined Norwest Corporation. In December of 1998, she became regional president for Central California for Wells Fargo & Company after the merger of Norwest Corporation and Wells Fargo and was named a Group EVP in 2001. She was responsible for Wells Fargo's California Community & Border Banking Group. She also was responsible for Wells Fargo & Company's Customer Strategies Group, which includes Consumer Deposits, Distribution Strategies, Sales and Customer Development, and Diverse Growth Segments.

She graduated from the University of Nebraska with a B.S. degree in business administration and completed the Pacific Coast Banking School, University of Washington.

She serves on the Board of Directors of Consumer Bankers Association, California Chamber of Commerce, The Community College Foundation, and University of Nebraska Alumni Association

WEBB EDWARDS Executive VP of Technology and Operations
President of Wells Fargo Services Company

Webb Edwards directs Wells Fargo Services Company (WFSC), the technology and operations subsidiary of Wells Fargo & Company. He is responsible for the project management office, infrastructure technology operations (network, LAN/desktop, data center, information security, and risk), application development, payment systems, retail phone banks, payment operations for wholesale and retail, consumer loan operations, internal customer service delivery, enterprise technology, and data architecture.

Before the 1998 Norwest-Wells Fargo merger, he was Executive Vice President of Norwest Corporation and President for Norwest Services, Inc. He joined Norwest in 1995, after serving as Executive Vice President and General Manager of Information Services for First Interstate Bancorp from 1984 until 1995.

He attended Stonier Graduate School of Banking, University of Tennessee Executive Management School, and the Harvard Business School's Executive Education Program. Edwards did his graduate and post-graduate work in economics and finance at Middle Tennessee State University.

Edwards is a native of Tennessee.

MANAGEMENT’S VISION AND STRATEGY

- Wells Fargo’s management team’s vision is to satisfy all of its customers banking needs, help their customers be more successful financially, and be recognized one of America’s great companies.
- Wells Fargo has an implemented cross-sell strategy, which expands the number of products a customer has with Wells Fargo, by educating them on how to successfully use these products to their advantage. This strategy not only brings in more business, but also diversifies the businesses that Wells Fargo is involved with. Therefore, minimizing the risk of economic cycles on the business, and making the company strong through both strong and weak economic cycles.
- The normal customer at Wells Fargo has an estimated four products that they use. Wells Fargo’s management’s goal is to equip these customers with an average of eight products utilized.

PORTER METHOD OF COMPETITIVE FORCES

- Threat of New Entrants- Within the industry of Financial Services and Banking, it is very important to derive business from your existing customers, as well as developing new business relationships. Out of all Wells Fargo’s business, 80 percent is generated from existing customers. With this being said existing customers along with new ones have to be actively pursued and accommodated in order to have a successful business. If customers do not feel confident in their relationship with their bank, there are a plethora of companies ready and willing to accept new business. However, these banking competitors face pretty hefty barriers to entry within this industry including:

    - ➢ Economies of Scale- Larger corporations, such as Wells Fargo, have a much stronger chance to survive in this highly competitive industry. Wells Fargo is actively pursuing buy outs and takeovers of smaller companies, in order to allow them less competition. Wells Fargo is currently ranked fourth largest within the banking industry, and through acquisitions this company will likely remain entrenched within the top five for many years to come.

    - ➢ Distribution Channels- In this era of the time is money attitude, the consumer of a bank needs to achieve quick, easy, and quality access. Wells Fargo achieves this successfully with over 6200 ATM machines and it’s online and phone banking options. Last year Wells Fargo serviced 250 million phone banking calls, as well as, 418 million online banking sessions.

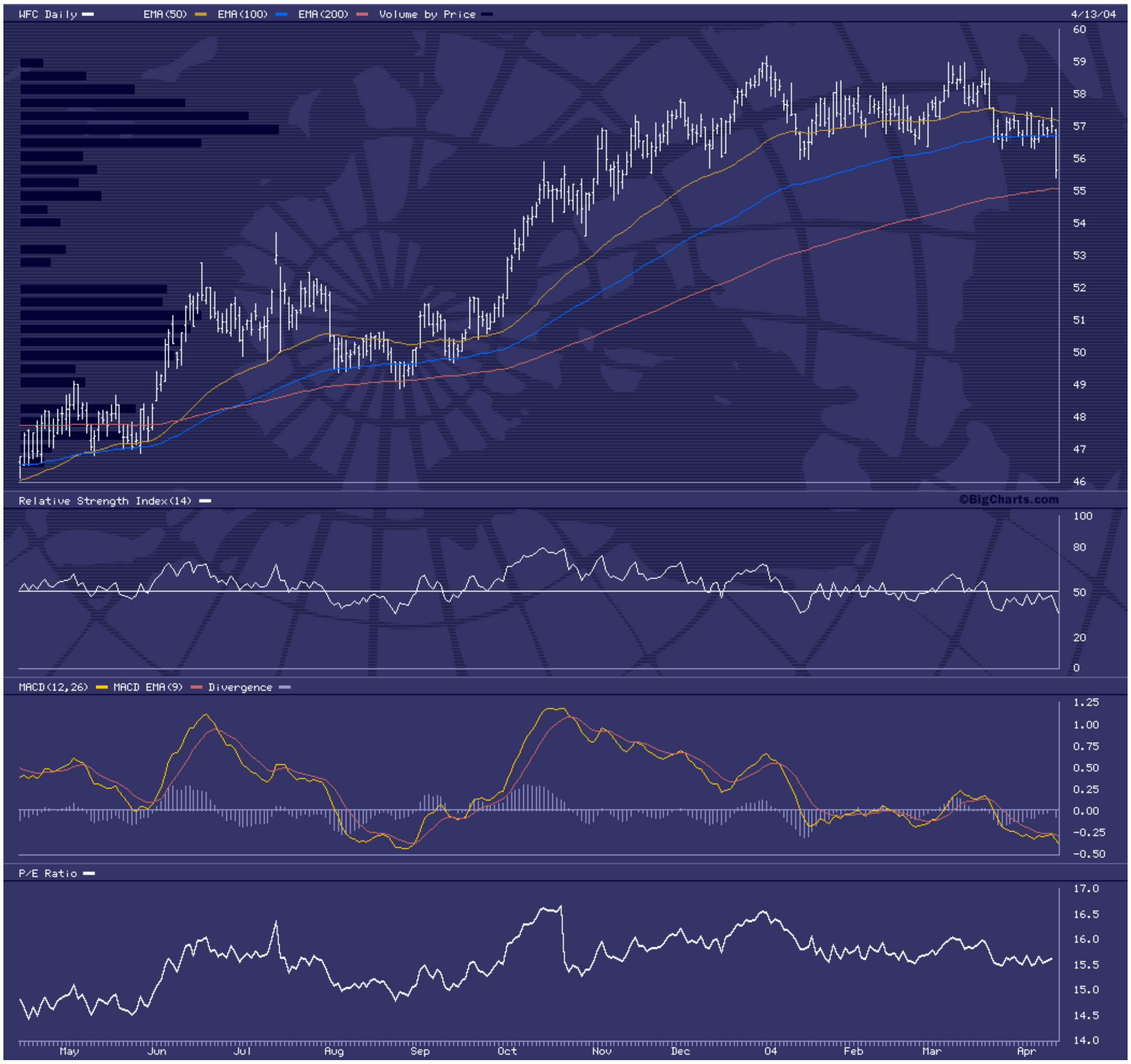
- Rivalry- This concept of Porter’s theory is quite strong within the banking industry. Every bank keeps a very close eye on their competitors, while they try to outpace their competitors into new markets. Wells Fargo has a very aggressive initiative in the western continental United States, within the past year Wells Fargo have erected branches to service the lower to middle class including the first new bank in South Central Los Angeles in over five years.

- Threat of Substitute Products or Services- In banking there's always the risk that a customer will decide to move their accounts to a competitive bank. Wells Fargo's exposure to this risk is no different from the rest of the banking community. However, Wells Fargo offers over 90 different types of banking solutions to everyone from the everyday consumer to the large cap enterprise. Not all of Wells Fargo's solutions are right for every consumer; however, a lot of them can be compatible for all of its customers. This extensive offering of so many different banking solutions allows one customer to have all of their banking business run through one institution. From mortgages to car loans to checking accounts Wells Fargo can accommodate all of its customers needs.

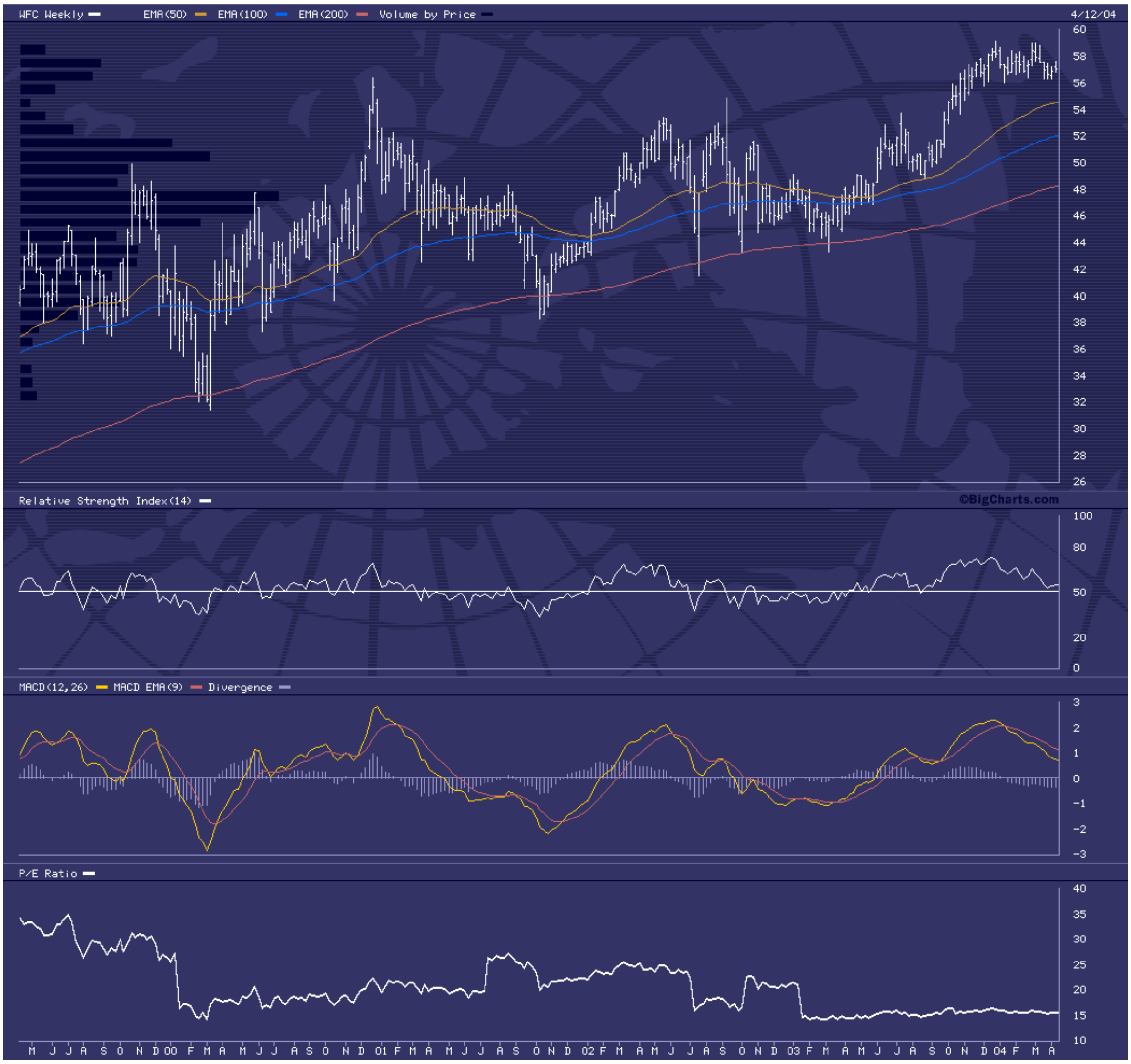
- Bargaining Power of Buyers- Wells Fargo delivers easy access to their customers. In the banking industry a consumer demands easy and affective access to their banking services. Wells Fargo realizes this by offering online and phone service that gives the clients direct access to their accounts.

- Bargaining Power of the Suppliers- Customers in the banking industry want to do business with a bank they can trust. This trust is very important when laying the foundation for a successful business relationship. Wells Fargo earns the trust of their customers by offering their customers financial literacy programs. These educational programs allow their customers to become more versatile business people, therefore, allowing them to utilize more of Wells Fargo's businesses.

TECHNICAL ANALYSIS



Upon looking at the one year chart of Wells Fargo (WFC) we are able to appreciate a significant growth of the company's stock price within the past year. We attribute a lot of this growth to the fact that interest rates have been at an historic low over the year, therefore making the idea of refinancing very attractive. Over the past couple of weeks we can see the stock pull back a bit, due to the speculation heard all over Wall Street that interest rates are due to rise and rise sooner then expected. This revelation gave the stock a major jolt, sending down below its 50 and 100 day exponential moving averages. This could be taken as a potential investor as a good sign, due to the fact that when the stock was this low earlier in the year (mid August '03), it bounced off of the 200 day moving average and posted the bulk of its gain for the year. Another key aspect that we draw our attention to is the RSI indicator, the stock is swiftly moving toward the general over sold position of negative 20. Again, with the knowledge that this company is an enormous bank with a lot of its interest rate risk hedged, this could be a golden opportunity to enter into an investment.



Upon looking at the five year chart, we see a general upward trend. This trend allows us to see that the stock operates on an ebb and flow or head and shoulders basis, but the general movement of the stock over time is upward. We again look at the relative strength indicator and see that over the five year period the stock is trading pretty much where it should be and is neither overbought nor oversold. Along with the RSI, the

MACD is also positive in regard to the past five years. These two factors, as well as the movement in the stock price, allows us to comfortably say when looking at this chart that the stock is very strong and is moving on an upward trend. The past couple of weeks have brought the stock back to Earth a bit, however, as we can examine from past movements the stock moves on a consistent ebb and flow basis. We are experiencing a dip, but once again we contend that this dip is a perfect opportunity to buy.

INVESTMENT DRIVERS

Here are a number of factors that can drive the stock price of Wells Fargo and Company.

- With the improving economy and unemployment rate should lead to an increase in household income which will increase the demand for loans and non-loan products and decrease the number of customers who fail to pay interest or principal on there loans.

- Consistent Revenue and Earnings Growth- Over the past ten years, both revenue and earnings has grown at a compound rate of 13 percent. In 2003, even in a challenging economy, revenue grew 12 percent. Similar growth in the future should help the stock price to maintain a long term uptrend.

- Wells Fargo regularly explores opportunities to acquire financial institutions and other financial service providers, although they do not typically do not comment publicly on a possible acquisition until they have signed a definite agreement.

- Increasing average business banking customer product usage- The average business banking customer has only 2.5 products with Wells Fargo. There goal in business backing is to double revenue in five years, get to five products per customer, be the primary provider for all their financial needs (business and personal) and be known as the best business bank in every one of their markets.

- Private Client Services- The company is also looking to increase the number of PCS customers, which is currently only three percent of the 12 million households in there 23 banking states.

- Two years ago, Wells Fargo became the first major bank in the United States to partner with the Mexican government to accept the matricula card as primary form of identification for opening a bank account. The number of accounts they've opened as a result has surpassed 300,000. They have opened an average of more than 700 accounts a day for Mexican nationals using the matricula, a seven-fold increase over a two year-period.

LIQUIDITY RATIOS

	2001	2002	2003	BAC	USB	WM	Industry	Market
Operating Margin	45.40%	45.10%	40.50%	53.10%	38.79%	18.72%		
Net profit Margin	12.70%	19.10%	19.50%	22.10%	25.60%	21.50%	18.30%	7%
ROA	1.11%	1.69%	1.64%	1.47%	1.96%	0.19%	1.20%	2.20%
ROE	12.58%	18.81%	19.36%	22.53%	19.28%	2.65%	17.40%	13.70%

Operating Margin – Wells Fargo's operating margin has been relatively stable over time but saw a small drop last year. It is higher then the industry average of 28% and is also higher then two of its largest competitors U.S. Bancorp and Washington Mutual. They are slightly lower then the industry leader, Bank of America.

Net Profit Margin – Wells Fargo's net profit margin saw a big jump in 2002 and increased slightly in 2003. It is much higher then the market average and just above the industry average of 18.3%. Wells Fargo is also catching up with its competitors Bank of America, U.S. Bancorp and Washington Mutual.

Return on Assets – Wells Fargo is a steadily growing company, which is shown by their return on assets, which has grown by about a half a percent since 2001. They are better then the industry and most of its competitors. They are lower in this category then the market.

Return on Equity – This number has grown over the last three years for Wells Fargo. They beat Washington Mutual and U. S. Bancorp in this category. Bank of America beats Wells Fargo in this category. Wells Fargo beats both the industry and the market in this category.

DUPONT ANALYSIS

ROE	Net profit Margin	Asset Turnover	Equity Multiplier	
0.179929792	0.195031447	0.082001454	11.250631	2003
0.179227547	0.185930336	0.083694877	11.51743131	2002
0.125339899	0.12304307	0.090132621	11.30186669	2001

The Dupont analysis shows us that the Return on Equity has increased over the past three years due in a large part to its large increase in net profit margin. This increase in net profit margin largely offset the slight decrease in asset turnover while equity multiplier remained constant. If the net profit margin continues its upward trend, while everything else remains constant, there should be a steady stream of growth for the return on equity.

LIQUIDITY/FINANCIAL HEALTH

	2001	2002	2003	BAC	USB	WM	Industry	S&P
Current Ratio	0.27	0.2	0.19	0.37	0.4	0.27	-	1.6
Leverage Ratio	-	-	11.3	15.4	9.8	13.9	14	6.1
Debt/Equity	1.33	0.25	1.85	1.57	1.76	1.36	1.52	1.21
Interest coverage	-	-	3.8	2.6	3.7	2.3	2.3	3.1

Current Ratio – Over the past three years, this has steadily declined for Wells Fargo. They are lower then most of their competitors in this field. This can be attributed to the fact that most of their income comes from long term agreements. They are also considerably lower then the S & P 500 but that is the nature of the banking business.

Leverage Ratio - The leverage ratio for Wells Fargo is lower then Washington Mutual and Bank of America largely because most of their business is either mortgages or consumer banking which gives them large amounts of deposits. Therefore they don't have to leverage as much. But this ratio isn't as low as U. S. Bancorp. They have also bested the industry in this category. But they have a much higher leverage ratio then the market but that goes along with the business.

Debt to Equity – Over the past three years, their debt to equity has dropped and increased greatly. But over a three-year period it is a small increase. They have a greater debt to equity ratio then their competitors, the industry, and the market but this is due in large part to the greatest part of their investments within the mortgage sector.

Interest Coverage – This is the part of Wells Fargo that is the most exciting. Interest coverage is the amount of times your can cover your interest expense and this is 3.8 times. This is higher then all of its competitors, the industry, and the market.

MARKET VALUE

	2001	2002	2003	BAC	USB	WM	Industry	Market
P/E Ratio	-	-	15.6	11.4	13.8	9.8	14.7	23.6
PEG Ratio (5 yr expected)	-	-	1.13	1.12	1.23	0.82	-	-
Price/Book	-	-	2.82	2.45	2.66	1.82	2.1	3.15
EPS	1.97	3.16	3.65	7.13	1.93	4.22	-	-
Revenue Growth	-3%	6%	10%	5%	-6%	-6%	-	-

P/E Ratio – Wells Fargo P/E ratio is in line with the market but higher then its three competitors while it is lower then the market.

PEG Ratio – Wells Fargo PEG ratio is right in line with its competitors. While beating Washington Mutual and being lower then U. S. Bancorp, it is about the same as Bank of America.

Price to Book Ratio – While this is higher then all of its competitors and the industry, it is still lower then the market which is an attractive feature.

Earnings Per Share – Although this isn't as large as Bank of America and Washington Mutual, this figure has steadily grown over the past three years, and should continue to grow with the excellent management at Wells Fargo.

Revenue Growth – This is another attractive feature of Wells Fargo. Only during a period of recession did the revenue of Wells Fargo shrink. Plus, last year unlike the rest of its competitors, it saw a double digits revenue growth. U.S. Bancorp and Washington Mutual saw its revenue decrease in size by six percent. Bank of America only increased by five percent. All of this happened while Wells Fargo grew by ten percent, which is double its nearest competitor.

KEY BANKING RATIOS

	1999	2000	2001	2002	2003	BAC	WB
Reserve for Loan Losses/ Total Loans	2.58%	2.36%	2.23%	2.02%	1.56%	1.66%	1.51%
Avg Total Equity/Avg. Total Assets		9.81%	9.26%	8.76%	8.79%	6.83%	8.09%
Efficiency Ratio (noninterest income/ total revenue	58.80%	60.03%	65.75%	58.26%	60.55%	43.35%	38.38%
Net Interest Margin (interest income- interest expenses/average earning assets)	5.55%	4.08%	5.51%	9.84%	14.35%	2.18%	6.50%
Leverage Ratio	10.72%	11.76%	11.74%	13.55%	16.41%	10.23%	9.16%

Reserve for Loan Losses/Total Loans – This ratio indicates the bank's exposure to bad loans. Wells Fargo's ratio is higher then their competitors' ratios, demonstrating that Wells Fargo holds more of a percentage aside for bad loans then it's rivals. However, this ratio has been shrinking during the past five years signifying that Wells Fargo has the problem under control, and they are taking measures to minimize the risk of bad loans.

Average Total Equity/ Average Total Assets – This ratio allows us to see the percentage of total equity is made up of actual assets. Wells Fargo's percentage is higher then both of its competitors showing us that more of their equity is made up of actual assets.

Efficiency Ratio - Its purpose is to evaluate the overhead structure of a financial institution. The efficiency ratio gives us a measure of how effectively a bank is operating. Efficiency is usually a decent measure of profitability. As we can see with Wells Fargo, the efficiency of the company is far greater than its competitors. The slight drop off from 2001 to 2002 is due to Wells Fargo's exposure to technology stocks within its portfolio during the sharp decline of tech stocks. However, after this one time problem was resolved we see that the efficiency trends upward once again indicating that the company is still very efficient in managing overhead.

Net Interest Margin – This ratio is very similar to net profit margin in the banking industry. We see that Wells Fargo’s margin is very strong compared to its competitors. The sharp increase in the past two years is due greatly to interest rates being held at historic lows by the fed.

Leverage Ratio – This ratio measure how much a firm is leveraged against long term debt. This ratio shows that Wells Fargo has a greater leverage against long term debt then its competitors.

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