

Eye on Operations

Wells Fargo Bancorp is a diversified financial services company, offering retail and wholesale banking products, loans, mortgages, insurance, and investment products. It expanded its geographic footprint to 23 states through its merger with Norwest Bancorp in 1998. John Stumpf is the leading candidate to succeed Dick Kovacevich as chief executive officer. John Stumpf is a 25-year veteran with Wells Fargo and based on the company's past success, he isn't likely to radically change the business strategy. Wells Fargo is one of the top ten corporate contributors (in dollar terms and in volunteer hours) to non-profit organizations including Habitat for Humanity, Million Trees-Los Angeles, and Mesa Arizona Public Schools.

Key Statistics

Average deposit growth was up 7% in 2006 in the retail-banking segment, driven by a 5% increase in consumer checking accounts and a 4% growth in business checking accounts. Non-interest income increased 5% or \$497 million due to double-digit growth in debit and credit card fees, trust and investment fees and customer service fees. Wholesale lending net income rose 17% to \$2.1 billion in 2006. Non-interest income rose 15% due to acquisitions of fee-generating businesses such as Secured Capital, Reilly Mortgage, Barrington Associates and Evergreen Funding. While total revenue decreased by 15% in the Home Mortgage segment, it increased by 12% in all other business lines. Non-interest expense was \$20.7 billion in 2006, up 9% from \$19 billion in 2005, primarily due to continued investments in new stores and additional sales and service-related team members.

Past Performance

The financial results for the latest fiscal year ending December 31, 2006 are the envy of most competitor banks:

- Wells Fargo opened 109 regional banking stores in 2006 and will open 100 new stores in 2007
- Diluted earnings per share, a record \$2.49, up 11 percent
- Net income, a record \$8.5 billion, up 11 percent
- Revenue, a record \$35.7 billion—the most important measure of success in the financial industry—rose 8 percent, up 12 percent in businesses other than Well Fargo Home Mortgage.
- Return on equity was 19.65 percent and return on assets was 1.75 percent

A Rebalancing Act

Most financial institutions were hoping that the Federal Reserve would lower interest rates in the second half of 2007 but hopes are fading, as inflation remains stubbornly high. Wells Fargo hasn't been impacted nearly as much as the other money center banks by the inverted yield curve. This is because it has pre-funded such items as charitable contributions. Two years ago, it rebalanced its fixed income portfolio by selling the lowest yielding securities and retiring some of its highest cost debt. In the fourth quarter 2006, it called in its trust preferred securities and replaced them with lower cost debt, which should boost earnings by \$320 million over the next twenty years.

Credit Quality

Non-performing assets jumped \$316 million from the previous quarter to 0.76% of average loans, versus 0.49% at year-end 2005. Management explained that two-thirds of the increase was in repossessed autos and in residential real estate loans that, because of government insurance, have relatively low loss potential. In commercial loans, management noted limited exposure to land, real estate construction, and condo conversion projects. Going forward, Wells Fargo will tighten its risk management practices and focus on loan portfolio diversification. Historically, the Company has a low level of net charge-offs and nonperforming loans. Wells Fargo is expected to maintain a high credit quality regardless of any worsening in the U.S. economy.

The company's cross-selling strategy set records for the sixth consecutive year. One in five retail banking households purchased more than eight products from Wells Fargo. Wells Fargo continues to target the Internet to sell more products, whether to current customers or as an account acquisition tool. The company has 8.5 million active Internet customers, up 20% in the last year. Almost 70% of wholesale customers bank online.

Moody's upgraded Wells Fargo's debt rating status to Aaa in 2003 and Standard & Poor's followed suit by upgrading Wells Fargo to AAA status in February 2007. Wells Fargo can now distinguish itself as being the *only* U.S. bank with a triple-A rating from the two most respected rating agencies.

Analyst Estimates

The average rating of the twenty-six analysts who follow the Company is a buy. The five-year projected growth rate of 10.5% by Yahoo (Thomson Financial) is realistic in my opinion. Reuters and Standard & Poor's reported the same growth projection of 10.5%.

Judgments On the SSG

I used the SSG Preferred Procedure to calculate a growth projection of 11%. I used a sales growth rate of 10%, pretax profit margin of 37.4%, and shares outstanding of 3.37 billion to calculate earnings per share of \$4.16.

I used the five-year average high and low P/Es of 15.5 and 12.5. The relative value of Well Fargo shares is 100%.

The Bottom Line

At 25/50/25 zoning and a current price of \$34.40, Wells Fargo has an upside potential of 3.4 to 1 with a buy below price of \$35.40. The projected annual return (PAR) is 14% and the total return is 16%.

Wells Fargo trades at a forward P/E of 12.9 or roughly a 9% discount to its 10-year median, which is still well above its peer average of 11.5. A discounted cash flow model suggests a fair value of \$38 for Wells Fargo, which is 6% above the current market valuation.

Conclusion

Wells Fargo holds Value Line's highest rank for safety. It is recommended for investors seeking a high rate of return for a low degree of risk. The prospects for future increases in the dividend payout are very good. I recommend Wells Fargo as a core financial holding for our club portfolio.

For further reading:

2006 Annual Report and 10K

Argus Stock Report 1/16/07

Prudential Analyst Report Michael Mayo 1/31/07

Standard & Poor's Outlook 3/21/07

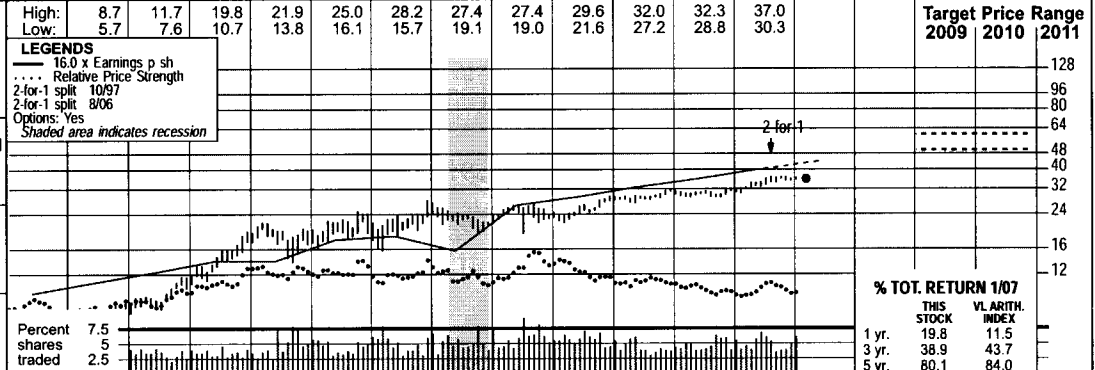
Value Line Stock Report

4th Quarter 2006 Earnings Call Transcript

WELLS FARGO NYSE-WFC

RECENT PRICE **35.87** P/E RATIO **13.6** (Trailing: 14.3; Median: 16.0) RELATIVE P/E RATIO **0.71** DIV'D YLD **3.1%** VALUE LINE

TIMELINESS 3 Lowered 2/20/07
SAFETY 1 Raised 2/28/03
TECHNICAL 3 Lowered 12/15/06
BETA .85 (1.00 = Market)



2009-11 PROJECTIONS

Price	Gain	Ann'l Total Return
High 60	(+65%)	16%
Low 50	(+40%)	11%

Insider Decisions

M	A	M	J	J	A	S	O	N
0	1	0	0	0	0	0	0	1
to Buy	0	1	0	0	0	0	0	1
Options	2	4	5	0	6	2	0	2
to Sell	0	0	1	1	2	1	0	1

Institutional Decisions

1Q2006	2Q2006	3Q2006
to Buy 460	459	442
to Sell 548	546	566
Hld's(%) 228044	222942	132313829

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC. 09-11	
.34	.37	.43	.53	.60	.68	.77	.88	.88	1.12	1.17	.99	1.66	1.83	2.05	2.25	2.50	2.75	Earnings per sh ^{AB}	3.75
.11	.12	.14	.16	.19	.23	.26	.31	.31	.40	.45	.50	.55	.75	.93	1.00	1.08	1.12	Div'ds Decl'd per sh ^C	1.28
1.88	2.16	2.43	2.76	2.70	3.55	3.98	4.50	6.17	6.72	7.61	7.77	8.67	9.86	10.83	11.61	13.60	15.25	Book Value per sh	21.90
809.76	1041.3	1120.9	1168.7	1236.6	1411.0	1474.8	1517.2	3288.1	3253.7	3429.3	3472.8	3472.8	3472.8	3472.8	3472.8	3368.0	3360.00	Common Shs Outst'g ^D	3360.00
7.1	9.9	11.2	11.9	10.4	10.4	12.3	16.6	21.5	18.2	18.2	23.4	14.7	13.9	14.3	13.5	13.6	13.6	Avg Ann'l P/E Ratio	15.0
.53	.63	.68	.70	.68	.70	.77	.96	1.12	1.04	1.18	1.20	.80	.79	.76	.72	.72	.72	Relative P/E Ratio	1.00
4.4%	3.3%	2.8%	2.6%	3.1%	3.2%	2.8%	2.1%	1.6%	1.9%	2.1%	2.2%	2.3%	3.0%	3.2%	3.3%	3.2%	3.2%	Avg Ann'l Div'd Yield	2.3%

CAPITAL STRUCTURE as of 9/30/06
 LT Debt \$8409.1 mill. Due in 5 Yrs \$54697 mill.
 LT Interest \$2962 mill.

Pension Assets-12/05 \$4.94 bill. Oblig. \$4.32 bill.

Pfd Stock \$465.0 mill. Pfd Div'd \$4.0 mill.

Common Stock 3,375,964,759 shs. as of 10/31/06 (adjusted for the 2-for-1 stock split paid 8/4/06)

2004	2005	9/30/06	Total Assets (\$mill)	640000
283824	306966	303692	Loans (\$mill)	420000
5020	5306	4079	Net Interest Inc (\$mill)	25920
33717	41834	52635	Loan Loss Prov'n (\$mill)	3200
---	---	---	Noninterest Inc (\$mill)	20080
105288	127635	123005	Noninterest Exp (\$mill)	22400
---	---	---	Net Profit (\$mill)	12740
---	---	---	Income Tax Rate	38.0%
---	---	---	Return on Total Assets	2.00%
---	---	---	Long-Term Debt (\$mill)	80000
---	---	---	Shr. Equity (\$mill)	73950
---	---	---	Shr. Eq. to Total Assets	11.5%
---	---	---	Loans to Tot Assets	65.5%
---	---	---	Return on Shr. Equity	17.0%
---	---	---	Retained to Com Eq	11.5%
---	---	---	All Div'ds to Net Prof	34%

MARKET CAP: \$121.0 billion (Large Cap)

ASSETS	2004	2005	9/30/06
Loans	283824	306966	303692
Funds Sold	5020	5306	4079
Securities	33717	41834	52635
Other Earning	---	---	---
Other	105288	127635	123005

LIABILITIES(\$mill.)	2004	2005	9/30/06
Deposits	274858	314450	314319
Funds Borrowed	21962	23892	13800
Long-Term Debt	73580	79668	84091
Shr. Equity	37866	40660	44862
Other	19583	23070	26369
Total	427849	481741	483441
Loan Loss Resrv.	3762	3871	3799

ANNUAL RATES	Past 10 Yrs.	Past Est'd '03-'05	to '09-'11
of change (per sh)	10 Yrs.	5 Yrs.	10 Yrs.
Loans	12.5%	16.5%	10.5%
Earnings	13.0%	14.0%	11.0%
Dividends	16.5%	18.5%	6.0%
Book Value	13.5%	9.5%	12.5%
Total Assets	10.0%	12.5%	8.0%

Wells Fargo continues to progress nicely. In 2006 the bank's earnings rose 11% year over year, to a record \$8.5 billion, as loans inched up 3%. Fueling the gains has been Wells' increased emphasis on cross-selling its products within its consumer and commercial businesses. Also, growth was aided by greater expansion initiatives, which include the opening of new branches, a larger sales staff, more investments in technology, and a widening in the product and service lineup.

We project a 10% bottom-line advance in 2007. The bank should continue to increase its earning assets at a steady rate through modest loan growth. Stronger demand for consumer and commercial loans, along with higher credit and debit card fees, and greater sales of consumer finance and home mortgage products will probably be the primary drivers of the earnings growth we foresee this year. It should also be noted, that while many of Wells' peers have been hurt over the past year by the inverted yield curve, the bank has been able to maintain a healthy spread between loans and deposits. A repositioning of the balance sheet and investment portfolio to take advantage of rising interest rates has helped, too.

We think Wells Fargo will perform solidly over the 3- to 5-year horizon. In the years ahead, the bank will likely focus more on risk management and loan portfolio diversification. We believe this is especially necessary as it increases its exposure in the subprime lending market. Historically, though, Wells has maintained a low level of net charge-offs and nonperforming assets. Therefore, Wells will probably be able to sustain its healthy credit quality even with modest deterioration in the economic landscape.

These shares have gradually risen in price over the years and are currently ranked to mirror the year-ahead markets. Furthermore, this selection offers above-average appreciation potential over the 2009-2011 stretch. Wells Fargo's stock also holds our highest rank for Safety, possesses an attractive dividend, and prospects for increases in the payout are good. As such, the true appeal of the equity lies in its total-return possibilities and its relatively low degree of risk.

Randy Shrikishun February 23, 2007

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31
2003	202067	211498	227951	249182
2004	260325	265791	275528	283824
2005	286805	297964	292303	306966
2006	302831	296771	303692	315352
2007	322000	326000	332000	340000

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.44	.45	.46	.48	1.83
2004	.52	.50	.51	.52	2.05
2005	.54	.56	.58	.57	2.25
2006	.60	.62	.64	.64	2.50
2007	.67	.68	.69	.71	2.75

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.15	.15	.225	.225	.75
2004	.225	.225	.24	.24	.93
2005	.24	.24	.26	.26	1.00
2006	.26	.26	.28	.28	1.08
2007					

(A) Historical figures prior to '98 are for Norwest alone. (B) Based on average shares until 1989; diluted from 1990. Excludes nonrecurring gains (loss): '92, (\$0.06); '98, (\$0.29). Next earnings report due mid-April. (C) Dividends historically paid in early-March, June, September, December. (D) In mill., adj. for stock splits.

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Company's Financial Strength	A+
Stock's Price Stability	100
Price Growth Persistence	75
Earnings Predictability	75



Stock Comparison Guide

Prepared by Ssostar

Date 04/02/2007

See Chapter 15 of the *Investors Manual* for complete instructions.

NAME OF COMPANY

GROWTH COMPARISONS

(From Section 1 of the BetterInvesting Stock Selection Guide)

		BANK OF AM BAC	JPMORGAN C JPM	U S BANCOR USB	WELLS FARG WFC
4	(1) Historical % of Sales Growth	12.3 %	10.3 %	34.7 %	16.0 %
5	(2) Projected % of Sales Growth	10.0 %	10.0 %	10.0 %	10.0 %
4	(3) Historical % of Earnings Per Share Growth	10.8 %	1.3 %	14.4 %	13.5 %
5	(4) Projected % of Earnings Per Share Growth	10.0 %	10.0 %	10.0 %	11.0 %

MANAGEMENT COMPARISONS

(From Section 2 of the BetterInvesting Stock Selection Guide)

5	(5) % Profit Margin Before Taxes (Average for last 5 Years)	(2A) Trend	30.3 DOWN	16.7 UP	51.3 UP	37.4 EVEN
4	(6) % Earned on Equity (Average for last 5 Years)	(2B) Trend	17.4 DOWN	9.9 EVEN	20.9 UP	18.4 EVEN
	(7) % of Common Owned by Management		NONE	NONE	NONE	NONE

PRICE COMPARISONS

(From Section 3-5 of the BetterInvesting Stock Selection Guide)

0	(8) Estimated Total Earnings Per Share For Next 5 Years		30.64	18.20	19.31	17.07
	(9) Price Range Over Last 5 Years	High (3A) Low (3B)	27.00~55.10	15.30~57.30	16.10~36.90	20.80~37.00
	(10) Present Price		51.02	48.38	34.97	34.43
0	Price Earnings Ratio Range Last 5 Years	(11) Highest (3D)	12.90	34.50	15.50	16.50
0		(12) Average High (3D7)	12.10	20.10	14.10	15.50
0		(13) Average (3-8)	10.80	15.80	12.30	14.00
0		(14) Average Low (3E7)	9.40	11.40	10.40	12.50
0		(15) Lowest (3E)	9.00	6.10	8.80	11.80
3	(16) Current Price Earnings Ratio	(3-9)	10.90	12.60	13.60	14.00
	Estimated Price Zones	(17) Lower-Buy (4C2)	41.13~54.55	32.92~42.67	24.50~36.55	25.70~35.40
		(18) Middle-Maybe (4C3)	54.55~81.38	42.67~62.16	36.55~60.65	35.40~54.80
		(19) Upper-Sell (4C4)	81.38~94.80	62.16~71.90	60.65~72.70	54.80~64.50
0	(20) Present Price Range	(4C5)	-Buy-	-Hold-	-Buy-	-Buy-
3	(21) Upside Downside Ratio	(4D)	4.43	1.52	3.60	3.44
0	(22) Current Yield	(5A)	4.39	2.81	4.58	3.25
5	(23) Projected Average Return	(5C)	14.21	8.58	14.43	14.04

OTHER COMPARISONS

	(24) Number of Common Shares Outstanding		4,458.15	3,461.70	1,764.71	3,377.15
0	(25) Potential Dilution from Debentures, Warrants, Options		None	None	None	None
0	(26) Percent Payout	(3G7)	44.00	60.20	46.00	41.40
5	(27) Relative Value		100.9 %	79.7 %	110.6 %	100.0 %
5	(28) Debt/Capital Ratio		79.0 %	76.0 %	75.0 %	69.0 %
	(29) Date of Source Material		1/24/2007	1/24/2007	3/30/2007	2/9/2007
	(30) Where Traded		NYSE	NYSE	NYSE	NYSE



Stock Selection Guide®

The most widely used aid to good investment judgment

Company WELLS FARGO & CO Date 03/30/07

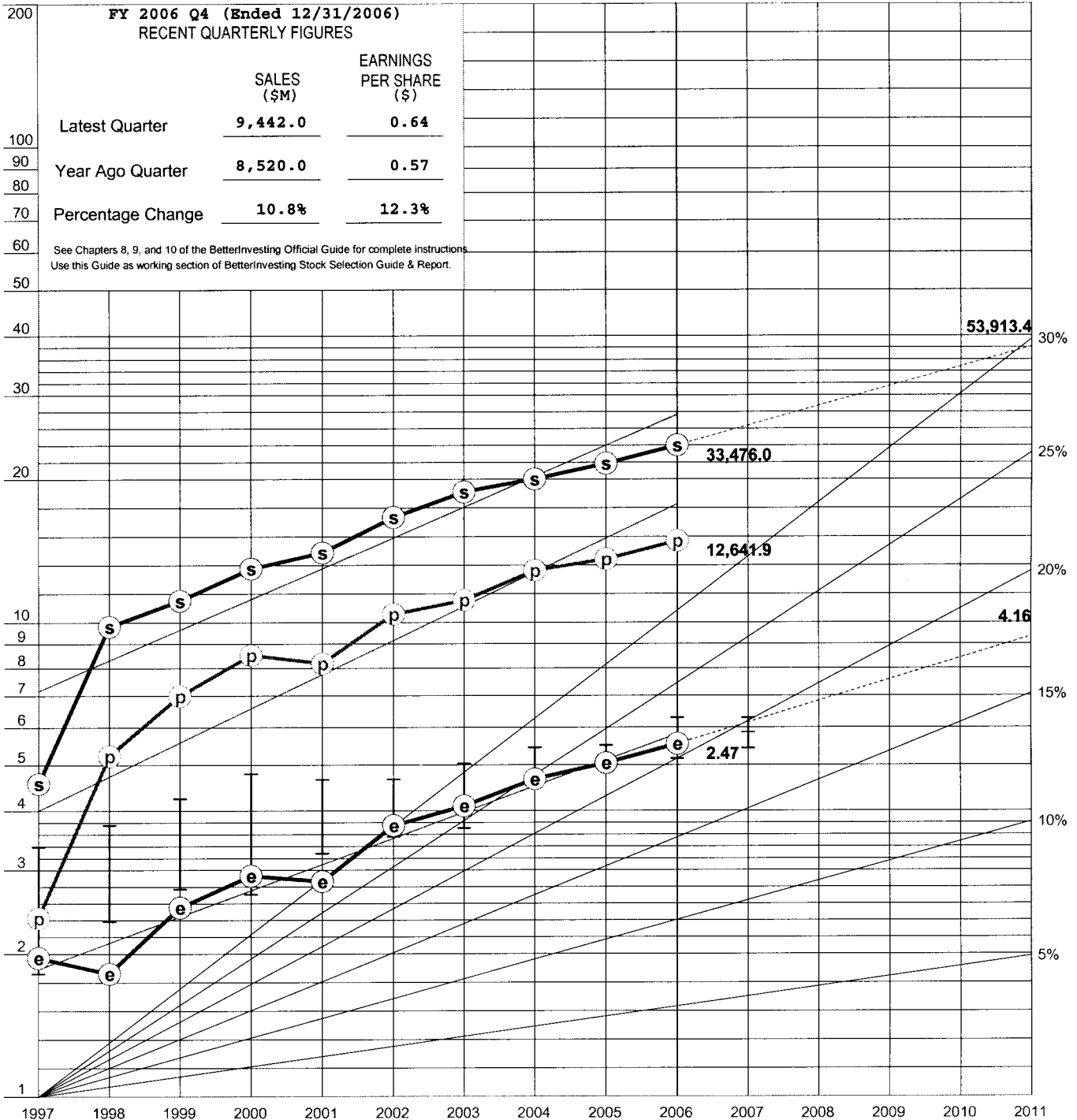
Prepared by Ssostar Data taken from NAIC Data

Where traded NYSE Major product/service Diversified

CAPITALIZATION -- Outstanding Amounts		Reference	
Preferred (\$M)	-27.0	% Insiders	% Institution
Common (M Shares)	3,377.2	0.0	0.0
Debt (\$M)	99,974.0	% to Tot.Cap.	68.5 % Potential Dil.
			None

1 VISUAL ANALYSIS of Sales, Earnings and Price

WFC



- (1) Historical Sales Growth 16.0 % (3) Historical Earnings Per Share Growth 13.5 %
 (2) Estimated Future Sales Growth 10.0 % (4) Estimated Future Earnings Per Share Growth 11.0 %

2 EVALUATING MANAGEMENT

Company **WELLS FARGO & CO**

(WFC)

03/30/07

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	LAST 5 YEAR AVG.	TREND	
												UP	DOWN
A % Pre-tax Profit on Sales (Net Before Taxes + Sales)	31.2	31.9	37.7	39.3	34.9	37.4	35.4	38.5	37.7	37.8	37.4	EVEN	
B % Earned on Equity (E/S + Book Value)	19.4	13.1	16.7	17.1	15.8	18.5	18.0	18.6	18.6	18.2	18.4	EVEN	

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

Year	PRESENT PRICE		HIGH THIS YEAR				LOW THIS YEAR		31.885	
	A	B	C	D	E	F	G	H		
	PRICE	PRICE	Earnings Per Share	Price Earnings Ratio	Price Earnings Ratio	Dividend Per Share	% Payout	% High Yield		
	HIGH	LOW		HIGH A = C	LOW B = C		F + C X 100	F + B X 100		
1 2002	27.4	20.8	1.66	16.5	12.5	0.550	33.1	2.6		
2 2003	29.6	21.6	1.83	16.2	11.8	0.750	41.1	3.5		
3 2004	32.0	27.2	2.08	15.4	13.1	0.930	44.7	3.4		
4 2005	32.4	28.8	2.25	14.4	12.8	1.000	44.4	3.5		
5 2006	37.0	30.3	2.47	15.0	12.3	1.080	43.7	3.6		
6 TOTAL		128.7		77.5	62.5		207.0			
7 AVERAGE		25.7		15.5	12.5		41.4			
8 AVERAGE PRICE EARNINGS RATIO	14.0		9 CURRENT PRICE EARNINGS RATIO		14.0					

4 Proj. P/E [12.61] Based on Next 4 qtr. EPS [2.06] Current P/E Based on Last 4 qtr. EPS [2.46] EVALUATING RISK and REWARD over the next 5 years PEG=115

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E 15.5 X Estimate High Earnings/Share 4.16 = Forecast High Price \$ 64.5
(3D7 as adj.) (4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E 12.5 X Estimated Low Earnings/Share 2.46 = \$ 30.8
(3E7 as adj.)

(b) Avg. Low Price of Last 5 Years = 25.7
(3B7)

(c) Recent Severe Market Low Price = 28.8

(d) Price Dividend Will Support $\frac{\text{Present Divd.}}{\text{High Yield (H)}}$ = $\frac{1.120}{0.036}$ = 31.4

Selected Estimate Low Price = \$ 25.7
(4B1)

C ZONING

64.5 High Forecast Price Minus 25.7 Low Forecast Price Equals 38.8 Range. 1/3 of Range = 9.7
(4A1) (4B1) (C) (4CD)

(4C2) Lower 1/3 = 25.7 to 35.4 (Buy) Note: Ranges changed to 25%/50%/25%

(4C3) Middle 1/3 = 35.4 to 54.8 (Maybe)

(4C4) Upper 1/3 = 54.8 to 64.5 (4A1) (Sell)

Present Market Price of 34.430 is in the Buy Range
(4C5)

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1) 64.5 Minus Present Price 34.430
Present Price 34.430 Minus Low Price (4B1) 25.7 = $\frac{30.1}{8.7}$ = $\frac{3.4}{1}$ To 1
(4D)

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price (4A1) 64.5
Present Market Price 34.430 = $(\frac{1.873}{1}) \times 100 = (\frac{187.3}{100}) - 100 = \frac{87.3}{100}$ % Appreciation
(4E)

Relative Value: 100.0% Proj. Relative Value: 90.1%

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend \$ 1.120
Present Price of Stock \$ 34.430 = $\frac{0.033}{1} \times 100 = \frac{3.3}{100}$ Present Yield or % Returned on Purchase Price
(5A)

B AVERAGE YIELD OVER NEXT 5 YEARS
Avg. Earnings Per Share Next 5 Years 3.38 X Avg. % Payout (3G7) 41.4 = 139.9 = 4.1 %
(5B)

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential (4E) <u>87.3</u>		P.A.R.	Tot. Ret.
<u>5</u>	<u>17.5</u> %	Average Yield	<u>3.0</u> %
Average Yield (5B) <u>4.1</u> %		Annual Appreciation	<u>11.1</u> %
Average Total Annual Return Over the Next 5 Years (5C) <u>21.6</u> %		% Compd Ann Rate of Ret	<u>14.0</u> %
			<u>16.0</u> %