

V.I.M.COR  
BUY RECOMMENDATION

FIRST UNION		FTU		\$ 31.375		YIELD	
52 WK PRICE RANGE		DIV	YIELD	EPS		AVERAGE DAILY VOLUME MILL \$	
				2000	LATEST 12 MO	2001	2002
\$23.50-38.87	\$ 0.94	3.00 %	\$3.33	\$ 0.30	\$ 2.97	\$ 2.72	\$ 14.121
		P/E:	9.42 x	104.6x	10.6 x	11.5 x	
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EPS COMPOUND GROWTH RATE							
VAL MODEL	P/E LEAST	PAST 5 YRS.	LATEST QUARTER	THIS YEAR	NEXT YEAR	NEXT 5 YRS.	
52.0 %	NA x	-0.5 %	-15.8 %	10.8%	-8.4 %	9.6 %	

**BASIS OF RECOMMENDATION**

Considered a Money Center bank holding company, FTU has undergone some tough times lately. FTU has historically grown earnings by buying other banks and reducing staff and overhead, but in with current market conditions this is no longer possible. This factor, along with the recent retirement of the former President Crutchfield, tends to make FTU a candidate for takeover itself (target takeover price range: 2x-2.5x book value of \$17.28 giving a price of approximately \$35-43.20/share). If a takeover does not occur, given the current dividend yield of 3% and an expected stock price recovery, the valuation model predicts a total return of above 50%.

**POSITIVES**

- Bank has above market yield, even after cutting dividend by ½.
- Retirement of Crutchfield enhances possibility of a takeover

**NEGATIVES**

- FTU is a large bank... there are few banks or companies that may able to purchase FTU.
- Dividend cut has hurt income potential, but the stock has reacted favorably to the cut.

ANALYST	DATE OF STOCK PRICE	SPX PRICE THAT DATE	DATE OF THIS REPORT
Gary Vassalotti	January 5, 2000	\$ 1,298.35	January 9, 2001

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# FIRST UNION BANK

First Union Corporation provides commercial and retail banking and trust services through full-service banking offices in Connecticut, Delaware, Florida, Georgia, Maryland, New Jersey, New York, North Carolina, Pennsylvania, South Carolina, Tennessee, Virginia and Washington, D.C. The Company also provides various other financial services, including mortgage banking, credit card, investment banking, investment advisory, home equity lending, asset-based lending, leasing, insurance, international and securities brokerage services, through other subsidiaries. First Union's operations are divided into five business segments encompassing more than 60 product and service units. These segments include Capital Markets, Capital Management, Consumer, Commercial and Treasury/Nonbank. Revenues for the fiscal year ended December 31, 1999 were \$15.2 billion, compared with \$15 billion the previous fiscal year. For the nine months ended 9/30/200, total interest income rose 21% to \$13.27 billion. Net interest income after loan loss provision fell 3% to \$4.82 billion. Net loss totaled \$507 million vs. an income of \$2.38 billion. Results reflect a higher provision for loan losses and \$2.16 billion in goodwill impairment and other special charges.

## Capital Markets

The Company's Capital Markets products and services are designed to provide a full range of capital raising, market making and financial advisory services to meet the needs of corporate and institutional clients. The Company provides full execution including corporate finance, equity research, merger and acquisition advisory services, and debt and equity financing in 18 industry specializations. Its large General Bank franchise provides a strong platform for the delivery of Capital Markets products and services to meet client needs. The Company's relationship coverage begins in its East Coast banking markets, and it extends nationwide through industry expertise in automotive, banking, building and forest products, business and consumer services, defense, aerospace and technical services, diversified manufacturing, energy, furnishings and textiles, healthcare, insurance, media, real estate, retail and consumer products, specialty finance, technology, telecommunications, utilities and private equity groups. In addition, its International unit continues to develop and utilize strong correspondent banking relationships overseas.

Capital Markets has five lines of business comprised of Investment Banking, Real Estate Finance, Traditional Banking, Commercial Leasing and Rail and International. Investment Banking includes merger and acquisition advisory services; merchant banking; loan syndication; investment grade debt; high yield debt; equity sales, trading, research and underwriting; fixed income sales and trading; municipal sales, trading and underwriting; fixed income and equity derivatives; foreign exchange; and asset securitization. Real Estate Finance comprises primarily commercial real estate finance, structured product servicing and affordable housing investments. Traditional Banking encompasses corporate lending activities for corporate clients with annual sales greater than \$100 million and asset-based lending. Commercial Leasing and Rail includes operating, finance and leveraged leasing, and the nation's second-largest general-purpose railcar leasing operation. The International segment's mission is to meet the trade finance and foreign exchange needs of its domestic customers and correspondent financial institutions around the world, and to provide commercial banking products to financial institutions and corporate clients overseas.

## Capital Management

Through the Capital Management Group (CMG), the Company has created a growing, diversified trust, investment management and brokerage organization, with products and services that provide the link between traditional banking and investing for retail and institutional customers. CMG is organized into five major lines of business: Retail Brokerage and Insurance Services, Trust Services, Mutual Funds, CAP Account and Private Client Banking. CMG offers a full line of investment products and services distributed through multiple channels, including its national retail brokerage branch network, full-service retail financial centers in its East Coast marketplace and its online brokerage. Capital Management products and services primarily generate fee income.

Retail Brokerage and Insurance Services provides individuals with access to a wide array of financial products and services, ranging from stocks, bonds, mutual funds, private equity funds and annuities to retirement, trust and estate planning and tax and investment strategies for insurance and risk management. The Trust Services business encompasses personal trust, corporate trust and benefit services, and institutional trust services. Assets in the First Union-advised Evergreen mutual funds may be purchased through First Union's financial centers, retail brokerage offices, the online brokerage, First Union Direct, trust services offices and through third party broker-dealers. The CAP Account is an asset management product that enables its customers to manage their securities trading and banking activities in a single, consolidated account. Private Client Banking provides high net worth retail clients with a single point of access to First Union's investment products, mortgages, personal loans, trusts, financial planning, brokerage services and other products and services.

## Consumer

The Company's retail delivery strategy is premised on building lifetime customer relationships by providing a full range of superior products, flexible delivery and quality customer service across all channels. Its multiple channels, including retail financial centers, direct telephone bank, call centers, ATMs and the Internet, are fully integrated, enabling customers to have a single view of their accounts. The Consumer segment includes First Union Mortgage (FUMC), its mortgage origination and servicing business; Home Equity, encompassing First Union Home Equity Bank (FUHEB) and Retail Branch Products, mortgage loans, installment loans and the various consumer deposit products, with the exception of the CAP Account.

FTU has recently sold off its Credit Card Servicing unit, and closed The Money Store (at a substantial loss). The money store was closed despite an offer on the table to purchase the company because the accounting charge taken would have been greater with the cash sale. This is strange thinking, closing something instead of selling it, typifies management of this bank.

## Commercial

The Commercial segment is divided into four lines of business: Small Business Banking, which represents only the lending done through its Small Business Banking Division (SBBD); Lending, which is all other commercial lending within its state delivery network and loans to small businesses originated within its state delivery network rather than through SBBD; Real Estate Banking, which is lending by its specialized real estate bankers; and Cash Management and Deposit Services. Small Business Administration (SBA) lending, which is primarily generated through The Money Store, is included in the Consumer segment.

## Treasury/Nonbank Segment

The Treasury/Nonbank segment includes management of its securities portfolios, its overall funding requirements and its asset and liability management functions. The Treasury/Nonbank segment also contains the goodwill asset and the associated funding cost; certain nonrecurring revenue items discussed in Fee and Other Income; certain expenses that are not allocated to the business segments, including goodwill amortization; and corporate charges.

## Management

FTU is not the best-managed bank in the industry. Having had first hand experience with this company, I can say they have a myopic point of view in many business areas.... If the idea or product was not invented at First Union, it will eventually be closed or run by personnel who have been with the company many years even if they do not understand the new product. Although this is a large negative for FTU, the compelling valuation of the stock at current levels, plus the possibility of being a takeover candidate and the resulting pressure on management to get the stock price to higher levels helps to diminish this negative aspect.

## Pros:

- FTU is a large money center bank, with a broad market penetration over several states. The bank is financially sound, if poorly managed, and will eventually have a turnaround in its stock price. Until then, you receive an above market yield.
- Bank is an attractive takeover candidate at these levels for a larger financial company, including many insurance companies.

## Cons:

- FTU is not a well-managed bank. It has historically grown earnings by buying other institutions and firing a large portion of the staff, and there are not many banks left to buy that are large enough to contribute to earnings from this practice.
- The size of FTU narrows the list of potential acquirers.

Portions of this report are from sources believed to be reliable. Some data retrieved from Marketguide via Yahoo.com VIMCOR valuation model is copyright Vassalotti Investment Management Corp.

**VIMCOR VALUATION MODEL**

Ticker	Name	Price
TU	FIRST UNION	31.380

Attribute
Yield

Institutional Ownership	47.0%
Debt/Equity	245.0%

P/E			P/BK			P/CF			Dividends		Price/Sales		
Low	High	Current	Low	High	Current	Low	High	Current	Dollars	Yield	Low	High	Current
11.74	18.20	104.6	2.28	3.53	1.82	8.70	13.47	6.90	0.94	3.00%	1.62	2.52	1.62

Historical Earnings		Estimated Earnings (FFO for Reits)								Dividend Growth		
1st Qtr	Ltst 12 Mths	Curmnt Qtr	% Chg	Lst FY	Curmnt Yr	% Chge	Next Yr	% Chgce	Future 5	% Chgce	Last 5 yrs	Next 5Yrs
\$0.71	\$0.30	\$0.68	-15.8%	\$ 3.33	\$2.97	-10.8%	\$2.72	-8.4%	\$ 3.58	9.60%	16.9%	0.0%

Projected Values - Value Model			
	End of YR	Next YR	5 Years
Price	\$46.70	\$44.73	\$51.51
Return	52%	46%	67%

Growth Model Predictions			
	End of Yr	Next YR	5 Years
Price	-93.85	-85.95	-113.16
Return	-396%	-371%	-458%
P/E Least Growth Rate:	-6.62		

**COMPANY DESCRIPTION**

First Union Corporation provides a wide range of commercial and retail banking and trust services through full-service banking offices in Connecticut, Delaware, Florida, Georgia, Maryland, New Jersey, New York, North Carolina, Pennsylvania, South Carolina, Tennessee, Virginia and Washington, D.C. The Company also provides various other financial services, including mortgage banking, credit card, investment banking, investment advisory, home equity lending, asset-based lending, leasing, insurance, international and securities brokerage services, through other subsidiaries

**How to read these models:**

The valuation model is used for value stocks. The value model returns the projected End of Yr, Next Yr and 5 Year values and return calculations for value oriented stocks.

For Growth stocks, the better measure is the P/E Least Growth Rate model. It demonstrates how much you are paying up for the growth the company has and is expected to experience. Try to buy companies that have a P/E Least of under 1.5x, and sell when it reaches 2.0x. The lower the number, the less you are paying for the earnings growth. THE NUMBER SHOULD NOT BE NEGATIVE!