2007

OCC Quarterly Risk Assessment Profiles of Wachovia Corporation 2nd Quarter, 2007

Wachovia Corporation

Quarterly Risk Assessment Profile
Wachovia Corporation
2nd Quarter 2007

Holding Company No:	500609	**Last Fed Exam:**	04/04/2007
Total Assets ($B):	719.922	**BOPEC or RFI/C/(D):**	222/2/(2)
Examiner-in-Charge:	David K. Wilson		

National Bank:

Charter	**Name**	**City, State**	**Assets ($B)**	**C/CAMELS/ITCC**
1	Wachovia Bank NA	Charlotte, NC	524.113	2/222212/2221
23201	Delaware Trust Co NA	Wilmington, DE	.400	2/211212/2120
22559	Wachovia Bank of Delaware NA	Wilmington, DE	2.994	2/122112/2221
24728	Wachovia Card Services NA	Atlanta, GA	1.568	2/212312/2020

Risk Assessment Summary

The overall condition of Wachovia remains sound. Wachovia's National banks are "2" rated, and the overall risk profile of Wachovia is considered "moderate." Wachovia's continued success reflects well on the oversight of the Board of Directors and the capabilities of management. Risk management is effective, and satisfactory corporate governance practices are in place. Wachovia Card Services NA is recently chartered and the ratings noted above are new.

Management continues to work on integrating Golden West and expanding international activities. Wachovia has applied to transfer Golden West deposits and branches to the national bank later this year. And while the lending platform will remain in the thrifts, approximately $50 billion in loans would also be transferred to the national bank. The integration remains on schedule with no significant issues at this time. Wachovia's international expansion activities into Asia and Europe also continue to proceed as planned. These activities are expected to support Wachovia's plans to grow international structured products and securities businesses, especially Commercial Mortgage Backed Securities. The Irish bank is operational and has generated several deals.

On 5/31/07, Wachovia announced their intention to acquire A.G. Edwards, Inc. for $6.8 billion in a deal that will create the nation's 2nd largest retail brokerage. The combined brokerage unit will operate as Wachovia Securities, headquartered in St. Louis, and will have more than 3,300 brokerage locations nationwide, more that $1.1 trillion in client assets and nearly 15,000 financial advisors. The highest risks are implementation risk and people risk associated with the integration especially given the fact that Wachovia Securities headquarters is moving from Richmond, VA to St. Louis, MO. Integration of systems is not expected before late 2008.

Top Concern – IT Risk Remediation

Management continues to take appropriate actions to address our remaining board level Matter Requiring Attention (MRA) - IT Risk Remediation. This includes longstanding issues in Corporate Information Security (CIS), Source and Executable Code Development Management (SECDM), and Proximity Risk.

- ***CIS and SECDM***
  Management completed the CIS remediation project at year-end 2006, except for the platform access (PAC) issue which impacts the effectiveness of both SECDM and overall CIS. Management has promised a specific PAC remediation plan by the 9/30/07. Audit validated year-end 2006 CIS work and identified that approximately 93% of the 170 residual risks were resolved. However, Audit also identified concerns with mainframe remediation sustainment, weaknesses in processes and procedures related to databases, and access controls. Since 12/31/06, management continued to remediate these issues which resulted in their May 2007 declaration that overall CIS is now "acceptable." However, because this assertion was only recently made, Audit has not had the opportunity to validate the work. We began our review of the remediation projects and IT Risk Management's assessment of risk in July 2007. Until our assessment is complete, the CIS and SECDM MRAs remain outstanding.

- ***Proximity Risk***
  Disaster recovery proximity risk remains a supervisory concern. A team was formed to develop a data center strategy which will include the proximity risk issue. The scope of their project is expected to include the bank's recovery strategy, its recovery locations and hardware architecture. Management has developed a strategy to mitigate this risk, but true proximity risk reduction is not expected before April 2009. Until that time, Wachovia will remain exposed to recovery risk in the event a single event impacted both data centers in Winston-Salem.

In addition to IT Risk Remediation, other supervisory concerns include the following:

Recent Financial Markets Dislocation – Reduced investor appetite and rapid re-pricing of risk in the financial markets have adversely affected several of Wachovia's Corporate and Investment Banking businesses. These businesses include leveraged loan syndications, structured products and CMBS issuance, and one of the asset-backed commercial paper conduits (Atlas). Also, Wachovia finances a few mortgage and CDO customers that are under stress. While losses on these activities to date have not been substantial in relation to overall earnings and capital, continued deterioration in the markets could translate to a more significant impact. Of note, Wachovia has some "top of the house" macro hedges in place which has reduced the impact of widening spreads in the marketplace.

Basel II implementation – Basel II implementation continues as management is currently developing a new implementation plan and re-baselining projects. Management expects to complete this new assessment of gaps and timeframes in 3Q07. The Basel II Program remains in an overall Red Status, primarily due to the problems with implementing the new Risk Data Strategy (RDS) data warehouse.

Vendor Management – Wachovia's vendor management program needs strengthening. As responsibilities for this area have shifted to Enterprise Planning and Strategic Initiatives, a new remediation plan is in the process of being developed to address the governance processes and internal controls.

Spreadsheets and End User Computing Tools (EUCT) – Governance processes and internal controls for the use of EUCTs on an enterprise-wide basis are needed. Management has begun to implement these processes and controls, and is coordinating their activities with the CIB division to establish a corporate framework. Additional efforts are needed to ensure continued business unit buy-in and support.

BSA/AML – Wachovia management established and continues to maintain a satisfactory BSA/AML program that satisfies regulatory requirements. The bank is in compliance with 12 CFR 21.21 in terms of internal controls, training, independent testing (internal audit), and the appointment of a BSA Officer. While some MRAs remain outstanding and warrant continued attention, progress has been demonstrated to address those matters, including the Currency Transaction Report exemptions and violations of 31 CFR 103. Management also continues to make progress in refining the enterprise-wide process and promoting consistent application in all business lines.

<u>Risk Profile</u>

Wachovia's overall risk profile continues to be "moderate". All risk categories are rated "moderate" with the exception of Strategic and Transaction risks, which are "high" and Foreign Currency Translation risk, which is "low." This quarter we changed the quantity of credit risk from low to moderate to reflect the deterioration of asset quality trends, especially in residential real estate industries and continued weakness in commercial underwriting. We also changed the quantity of price risk from moderate to low as trading activities reflect low levels of risk with limited open or illiquid positions relative to Wachovia's earnings and capital. In addition to these changes, there are several areas which we continue to closely monitor including the "increasing" direction of credit, price, liquidity, and interest rate risks.

- Asset quality indicators remain favorable. However, inherent credit risk is increasing as Wachovia competes in a market of relaxing underwriting standards and credit structures. Management is actively and prudently managing these changing risks in the portfolio.

- Price risk is increasing due to expansions in trading activities, primarily Structured Products in Europe and Asia, Commodities and Convertible Arbitrage activities. In addition, there are systems and technology challenges. Management is undertaking a major overhaul of the trading infrastructure and maintains lower risk exposures in those books which have limited system support or MIS. Recent market volatility also contributes to the increasing direction of price risk.

- Liquidity management remains strong and demand for Wachovia issuances is substantial. Overall liquidity risk is increasing due to slower deposit growth coupled with increasing loan growth resulting in higher dependence on wholesale funding.

- Interest Rate Risk management is satisfactory. A volatile yield curve and resulting shifts in new loan production mix continues to challenge the Forecasting area's modeling and hedging due to an increase in complexity. Management continues to improve control system weaknesses for model validation and documentation.

Risk Profile

RISK PROFILE	QNTY OF RISK	QLTY OF RISK MGMT	AGGREGATE RISK	PRIOR AGGREGATE RISK	DATE LAST CHANGED	DIRECTION	PRIOR DIRECTION	DATE LAST CHANGED
Strategic	----	----	High	Moderate	07/10/2006	Stable		03/31/2003-
Reputation	----	----	Moderate	-	03/31/2003	Increasing	Stable	08/13/2004
Credit	**Moderate**	Satisfactory	Moderate	-	03/31/2003	Increasing	Stable	02/06/2006
Interest Rate	Moderate	Satisfactory	Moderate	-	03/31/2003	Increasing	Stable	02/20/2007
Liquidity	Moderate	Strong	Moderate	-	03/31/2003	Increasing	Stable	07/17/2006
Price	**Low**	Satisfactory	Moderate	-	03/31/2003	Increasing	Stable	11/28/2005
Foreign Currency Translation	Low	Satisfactory	Low	-	03/31/2003	Stable	-	03/31/2003
Transaction	High	Satisfactory	High	-	03/31/2003	Stable	Increasing	02/14/2006
Compliance	Moderate	Satisfactory	Moderate	-	03/31/2003	Increasing	Stable	02/20/2007

	QNTY OF RISK	QLTY OF RISK MGMT	AGGREGATE RISK	PRIOR AGGREGATE RISK	DATE LAST CHANGED	DIRECTION	PRIOR DIRECTION	DATE LAST CHANGED
BSA/AML	High	Satisfactory	High	-	11/15/2006	Stable	-	11/15/2006

	CURRENT OVRALL RISK	PRIOR OVRALL RATING	DATE LAST CHANGED
Internal Control	Satisfactory	-	03/31/2003
Audit	Satisfactory	Weak	08/30/2004

Risk Assessment Detail

Strategic Risk	Aggregate: High	Direction: Stable	
Type of Risk	Current Rating	Date Last Changed	Prior Rating
Aggregate	**High**	**07/10/2006**	**Moderate**
Strategic Factors	High	07/10/2006	Moderate
External Factors	High	07/10/2006	Moderate
Management, Processes and Systems	Moderate	03/31/2003	-
Direction of Change	**Stable**	**03/31/2003**	**-**

Aggregate Strategic Risk – High

- Strategic risk remains high due to risk associated with effectively integrating two major acquisitions (A.G. Edwards and Golden West mergers) as well as expanding internationally. Risk is elevated due to the resources required to manage the acquisitions, expand the businesses, and gain market share from competitors. While Wachovia has demonstrated their ability in recent years to effectively integrate new acquisitions, having to manage two major integrations at the same time may be a challenge.
- The Golden West (GW) merger continues to provide challenges, especially given the decline in the mortgage lending business. Asset quality indicators at Golden West are showing signs of deterioration.
- Wachovia's recent announcement to acquire A.G. Edwards, Inc. (AGE) will result in the nation's 2nd largest retail brokerage with more than 3,300 brokerage locations nationwide, more than $1.1 trillion in client assets and nearly 15,000 financial advisors. Also, management views the A.G. Edwards acquisition as low risk due to complimentary customer service models, common operating systems, and Wachovia's integration expertise with the Prudential Securities joint venture.
- Continued international expansion remains a major strategic initiative as Wachovia expands the Commercial Mortgage Backed Securities business and structured products in Europe and Asia, their fixed income asset management business in London, and correspondent banking operations in Asia.
- Management continues to actively compete with Bank of America and JPMorgan Chase for larger investment grade syndicated loans, and continues to aggressively emphasize consumer lending businesses. Wachovia is piloting a program to expand home equity lending by offering 2nd mortgages behind pay option ARMs.
- Continued expansion of offshoring activities is expected following the recent announcement to open a customer call center in the Philippines, Wachovia's first customer interfacing function to be offshored. Offshoring of business processes, software development, and software maintenance also continue to grow.
- Execution risk remains high for several key infrastructure projects currently in process, including the Oxmoor data center build out, the Basel II/RDS project and a number of CIB infrastructure improvements.
- Management has the ability to manage fair lending, community reinvestment and compliance issues including BSA/AML, in conjunction with its strategic initiatives. Board and senior management have consistently demonstrated support for the necessary compliance functions by providing needed resources.

Direction of Risk – Stable

- Strategic risk remains stable. As addressed above, management is providing appropriate oversight while seeking opportunities that facilitate execution of the strategic plan.
- Strategic moves are being made in a controlled manner, and Wachovia's recent track record on integrating deals is good.

Reputation Risk	Aggregate: Moderate	Direction: Increasing	
Type of Risk	Current Rating	Date Last Changed	Prior Rating
Aggregate	**Moderate**	**03/31/2003**	**-**
Strategic Factors	High	02/20/2007	Moderate
External Factors	Moderate	03/31/2003	-
Management, Processes and Systems	Moderate	03/31/2003	-
Direction of Change	**Increasing**	**08/13/2004**	**Stable**

Aggregate Reputation Risk - Moderate

- Aggregate reputation risk is moderate as Wachovia's name and reputation in the marketplace are good. There is no indication at this time that this will significantly change.
- Management has the ability and willingness to respond to industry changes and reacts well to fluctuating conditions.
- Through recent acquisitions, Wachovia is now the fourth largest financial institution in the US with $720 billion in assets and over $1 trillion of assets under management or under custody. As Wachovia continues to grow, market and political visibility increases.
- While analysts have expressed some skepticism of Wachovia's two most recent acquisitions (Golden West and A.G. Edwards Inc), management has demonstrated in recent years the ability to effectively integrate new businesses without having a significant negative impact on Wachovia's reputation.
- Wachovia's integration of Golden West remains a challenge as the mortgage lending industry continues to show weakness. Golden West has option ARMs and sub-prime loans that will affect overall reputation risk. Delinquencies and non-performing loans continue to significantly increase in the option arm portfolio. This will cause some non accrual optics issues for management to explain at the corporate level.
- Reputation risk associated with the A.G. Edwards, Inc acquisition is impacted by (1) the criticality of a flawless integration of the operating systems and a positive customer experience throughout the integration; (2) the importance of retaining brokers; and (3) the importance of managing/blending the two corporate cultures.
- Wachovia is an active originator of leveraged loans. Most of these loans are distributed, and because of increasingly liberal underwriting, Wachovia's reputation and legal risk could be affected if a number of these credits deteriorate. The 2006 LPC league table for leveraged lending showed Wachovia was #6 among lead arrangers at $27 billion. The bank's Leveraged Finance Group plans to introduce a High Yield unit, a Distressed Debt Trading Desk, and a Par Loan desk in 2007. Also, the bank plans to become more actively engaged in trading new versions of Credit Default Swaps (e.g. Loan CDS, synthetics, etc.). Wachovia is also active in high yield bond underwriting and trading. Recent market disruptions in the leveraged lending space has added to reputation risk.

- Legal risk remains at a manageable level. While Wachovia continues to be the subject of several investigations and lawsuits, negative impact on their reputation has been limited. However, Wachovia is named in two significant lawsuits involving its underwriting of Adelphia Communications loans in the late 1990s and their banking relationship with Le Natures Inc. Final impact to Wachovia's reputation from these lawsuits is still unknown.
- The Order of Investigation into Wachovia's handling of the PPC relationship is in its final stages. Despite recent negative newspaper articles, the degree of impact thus far to Wachovia's reputation has been minimal. However, this may change as formal enforcement action is being considered and the US Attorney's office continues their investigation.
- Another potential impact to Wachovia's reputation in the marketplace was the recent IRS proposal to eliminate tax benefits from certain international special purpose vehicles, set up by US financial institutions outside the country in partnership with local banks. This proposal will only impact 2007 and beyond, which would reduce earnings by $64MM per year. The bank has the ability to unwind both transactions without penalty. A more significant issue is that the IRS has initiated a full-scale audit of both transactions dating back to 2002. If the challenge is successful, on a gross basis this could impact the bank's tax credit of $750 million over the life of Monument Funding, and approximately $400 million for Augustus Funding. Management believes that the challenge will not be successful because of the strength of the "Should" tax opinions. Tax reserves have been set up for 40% of tax credits for Monument Funding deal and 30% for Augustus Funding deal.
- Wachovia and several other large banks have received an inquiry from the New York Attorney General concerning an ongoing investigation of potential conflicts of interest and illegal conduct in the student lending industry.

Direction of Risk - Increasing

- Factors adding to reputation risk include Wachovia's foreign expansion, potential legal matters, the recently consummated acquisition of GW, and the pending acquisition of AGE.
- The syndicated leveraged lending market has a record number of announced deals currently in the pipeline. Wachovia is an active participant and recently investor are rejecting weaker structures or requiring higher spreads. Wachovia's reputation in the market could be hurt if they are unable to syndicate a deal where they are the lead arranger.
- Management has demonstrated the ability to satisfactorily resolve the various legal, integration, and investigative issues that could impact their credibility and public perception.

Credit Risk	Aggregate: Moderate Quantity: Moderate	Direction: Increasing Quality: Satisfactory	
Type of Risk	**Current Rating**	**Date Last Changed**	**Prior Rating**
Aggregate	**Moderate**	**03/31/2003**	**-**
Quantity	**Moderate**	**06/30/2007**	**Low**
Underwriting Factors	**High**	**06/30/2007**	**Moderate**
Strategic Factors	Moderate	03/31/2003	-
External Factors	Moderate	02/13/2007	High
Credit Quality Factors	Low	02/06/2006	Moderate
Quality	**Satisfactory**	**03/31/2003**	**-**
Policies	Satisfactory	02/13/2007	Strong
Processes	Satisfactory	03/31/2003	-
Personnel	Satisfactory	03/31/2003	-
Control Systems	Satisfactory	03/31/2003	-
Direction of Change	**Increasing**	**02/06/2006**	**Stable**

Aggregate Credit Risk - Moderate

- Aggregate credit risk is moderate. Asset quality performance is good. Asset quality indicators remain low and are within or near management projections but have shown deteriorating trends in 2007. Criticized assets and NPAs show clear increasing trends since year-end 2006.
- Hold levels on large syndicated credits remain low. CIB continues to focus on investment grade loans but leverage lending is making up a larger portion of the market. The quality of the agented SNC portfolio remains good. The total criticized percentage improved from 3.62% last year to 2.38% this year. Liquidity in the market is changing as investor start to push back on some weak structures and spreads are increasing.
- Record levels of announced leverage lending deals during the first half of the year means the bank has several large syndicated credits in the pipeline which raises credit and reputation risk.
- The general bank commercial portfolio continues to perform in a satisfactory manner. We did note that credit risk review noted some weakness in the Texas market.
- The retail portfolio dominated by consumer real estate is low risk. The bank is expanding the eligible universe of consumers and the acquisition of Westcorp (a sub prime auto lender) and start up of a credit card portfolio does increase the risk within the low range.

Quantity of Risk – Moderate

- The quantity of credit risk rating increased this quarter to moderate primarily due to deteriorating asset quality trends, especially in residential real estate industries and continued weakness in commercial underwriting (rising leverage, weak structures).
- Credit portfolio statistics including losses, NPAs, and criticized loan levels increased from the historical lows at year end 2006.
- Losses remain low but show a slight increasing trend as predicted by management. YTD losses for the bank are 0.20% compared to full year 2006 losses of 0.12%. Commercial and consumer expected loss rates are at .20% and .33%, respectively, well below the 0.40% benchmark.
- Criticized commercial assets remain satisfactory at 2.71% of commercial loans but have increased 29% since 12/31/07 with the majority of this increase in the special mention

category. The increase is broadly spread across industries but the most severe migration is driven by weaknesses in residential housing related industries which take longer to work-out.

- Overall retail credit risk is low as the consumer portfolio continues to perform well. The launch of the credit card business has increased origination volume, but FICO score and LTV distributions are stable. Westcorp losses are showing an upward trend which warrants monitoring.
- Underwriting factors were increased to high this quarter. Examiners have observed a fourth year of eased underwriting. Our recent review of SNCs found underwriting standards continue to loosen on commercial credits. We reviewed underwriting in detail on 22 borrowers and found standards were weak on 4 or 18%. Weaknesses primarily related to high leverage, limited covenants and questionable long term ability to repay the debt.
- External and Strategic factors remain moderate. From a strategic standpoint, the bank continues to attempt to expand the retail lending universe in several product lines (offering 2nd mortgages behind pay option ARMs) and expand investment grade and leverage lending in CIB. External/market factors remain moderate although investors are focusing some changes and demanding wider spreads recently. Competition for retail business remains strong but a slump in housing has slowed mortgage originations.
- Management continues to effectively use portfolio management techniques to mitigate credit risk. This includes use of loan sales and single name and portfolio index hedges. The macro index hedge program has a notional of approximately $11 billion.
- The level of held leveraged loans is moderate. Management estimates the exposure to leveraged loans at $29 billion in commitments and $6B in outstandings as of March 31, 2007. Mandated underwriting exposure which is a subset of this exposure increased from $7.6B at year end to $11.5B as of the first quarter.

Quality of Risk Management – Satisfactory

- Overall, management of credit risk is satisfactory. Management has satisfactory MIS and governance processes in place to measure, monitor and control credit risk.
- Management has prudently hired additional personnel to focus on loan portfolio management. Management currently relies on a number of tools, including borrower and industry concentrations as well as hold level limits to monitor and diversify credit risk.
- Management is more actively monitoring commercial loans with excess exposures and implementing policies to control these exposures. Management has a draft revised excess exposure limit process that was reviewed at the June Credit Risk Committee meeting. Management plans to start implement the new process in September.
- Management is in process of standardizing slight inconsistencies between legacy Wachovia units which are transitioning/merging with the new units in the retail areas.
- The ALLL is adequate. We completed a review of the ALLL process and found it satisfactory. The ACL levels for Wachovia Bank NA decreased slightly from 1.10% in the fourth quarter to 1.09% primarily due to a slight increase in losses and loan growth. Management prudently updated its analysis of loss volatility, and continues to provide for losses and adjust the reserve based on analysis of the risk in the loan portfolio.
- Credit Risk Review and Audit processes and procedures are effective.

Direction of Risk – Increasing

- The overall direction of risk is increasing. Commercial risk is increasing and retail risk is stable but with factors that allude to increasing which supports the overall increasing direction. The change in the direction of risk in the first quarter of 2006 was to recognize subtle changes in the bank's and the credit market's risk appetite that are now starting to manifest in deteriorating asset quality and tightening liquidity in the market.

- We have noted lending standards continuing to loosen which inherently increases risk. Key risk managers from the bank agree that credit risk is increasing although and events such as issue with subprime loans, decreased market acceptance of weak structures and weaknesses in the housing are triggering some deterioration.
- The softening in the housing market and Wachovia's large exposure to residential real estate collateralized loans and commercial borrowers' dependant on the housing industry is starting to increase special mention and non accrual numbers.
- The bank also faces several operational issues that are or could increase credit risk. These include the impact of all the organizational changes in the retail risk and line management areas. Employees are dealing with a number of changes in management, policies and processes which can add risk during the transition including the roll-out of the new risk rating methodology based on scorecards and the expansion of the franchise into Texas and California. An initial review of the quality of the Texas portfolio by credit risk review revealed issues with the credit culture.
- The direction of retail risk metrics for Wachovia Bank, NA remains stable. There are various factors that allude to increasing risk including increasing losses at Wachovia Dealer Services, issuance of credit cards and expansion of home equity products behind pay option ARMs. However, management's modest growth plans combined with relatively conservative underwriting practices mitigate expected deterioration from the softening real estate market.

Interest Rate Risk	**Aggregate: Moderate** **Quantity: Moderate**	**Direction: Increasing** **Quality: Satisfactory**	
Type of Risk	Current Rating	Date Last Changed	Prior Rating
Aggregate	**Moderate**	**03/31/2003**	**-**
Quantity	**Moderate**	**03/31/2003**	**-**
Repricing Risk	Moderate	04/10/2006	Low
Basis Risk	Moderate	03/31/2003	-
Yield Curve Risk	Moderate	04/10/2006	High
Options Risk	High	06/08/2004	Moderate
Strategic Factors	Low	03/31/2003	-
External Factors	Moderate	03/31/2003	-
Quality	**Satisfactory**	**03/31/2003**	**-**
Policies	Satisfactory	03/31/2003	-
Processes	Satisfactory	03/31/2003	-
Personnel	Satisfactory	04/10/2006	Strong
Control Systems	Weak	02/20/2007	Satisfactory
Direction of Change	**Increasing**	**02/20/2007**	**Stable**

Aggregate Interest Rate Risk – Moderate

- Wachovia continues to achieve its targeted NII levels without significantly changing the interest rate risk (IRR) profile. Management uses a wide variety of on-and off-balance sheet instruments to manage interest rate risk.
- The Golden West (GW) merger, slowing retail deposit growth and increases in fixed rate loan production have tended to make the company more sensitive to rising rates. Management is constantly revising IRR management strategies to adjust to these changes.

The size of the available-for-sale (AFS) investment portfolio will likely decline over time, and derivatives are being opportunistically added to balance risk.

- Levels of IRR are closely monitored and quantified. IRR strategies are well-vetted in ALCO meetings and management closely monitors trends to determine hedging strategies.

Quantity of Risk – Moderate

- Using data as of 6/30/07, the level of short-term interest rate risk is -1.2% liability sensitive for the composite up 200 basis shift over the next twelve months, compared to -1.6% liability sensitive in March 2007.
- The 03/31/07 EVE model results reflect a -10.0% change in base EVE for an up 200 basis point shock. This is a slight increase from 12/31/06 EVE results of -9.7%. The main drivers behind the changes in EVE exposure were growth in fixed rate mortgages and consumer loans, and changes in derivative hedging exposures.

Quality of Risk Management – Satisfactory

- Treasury Management personnel are experienced and capable and have been effective in managing IRR. A volatile yield curve and resulting shifts in new loan production mix continues to challenge the Forecasting area's modeling and hedging skills.
- The retention of the GW Treasury staff should resolve our previous staffing concerns. With the implementation of BancWare, management's goal is to move from a monthly production of earnings sensitivity reports to more frequent updates of the discretionary balance sheet portion of the model.
- Some control systems continue to have weaknesses. Poor communications between the model validation group and Treasury management have created delays in getting model validations performed before new systems are implemented. Historically, management also has not integrated model validation into its project planning.
- Phase I of the new BancWare model was completed in 4Q06, and model validation by the Model Validation and Approval Group (MVA) was completed in 2Q07. However, some modifications to the BancWare system will be required to properly model the GW Option ARM products. Option ARM product modeling will continue to be performed outside of the BancWare model and be manually overlaid into overall earnings sensitivity reporting.
- All material model assumption changes need to be documented and reviewed by appropriate Committees. Management is working on a "dashboard" report that will improve documentation of key model drivers. GW adds a team that reportedly has good structure and discipline in documenting the interest rate risk model.
- Internal Audit issued a report dated 2/20/07 with a "Satisfactory" rating, no Key Issues and one new MRA. Two previous MRAs were partially resolved. A new MRA was identified regarding system security around the BancWare application.

Direction of Risk – Increasing

- IRR risk is increasing. The GW merger, slowing retail deposit growth and increases in fixed rate loan products have significantly changed the company's IRR profile and added complexity to the risk management process. Management is currently revising IRR management strategies and management systems to adjust to these changes.
- While overall risk management remains Satisfactory, we continue to have concerns with the timing of model validations and the quality of model documentation.
- While short-term and long-term interest rate risk levels have increased slightly, management does not anticipate any material change in the near future.

Liquidity Risk	Aggregate: Moderate Quantity: Moderate	Direction: Increasing Quality: Strong	
Type of Risk	**Current Rating**	**Date Last Changed**	**Prior Rating**
Aggregate	**Moderate**	**03/31/2003**	**-**
Quantity	**Moderate**	**03/31/2003**	**-**
Wholesale Liabilities	Moderate	03/31/2003	-
Retail Liabilities	Low	03/31/2003	-
Diversification	Moderate	03/31/2003	-
On- and Off-Balance Sheet Cash Flows	Moderate	03/31/2003	-
Net Funding Gaps	Low	04/10/2006	Moderate
External and Environmental Factors	Low	04/10/2006	Moderate
Liquid Asset-based Factors	Moderate	03/31/2003	-
Quality	**Strong**	**11/18/2003**	**Satisfactory**
Policies	Strong	06/08/2004	Satisfactory
Processes	Strong	06/08/2004	Satisfactory
Personnel	Strong	03/31/2003	-
Control Systems	Satisfactory	02/20/2007	Strong
Direction of Change	**Increasing**	**07/17/2006**	**Stable**

Aggregate Liquidity Risk – Moderate

- Management has well-developed funds management practices and Wachovia has reliable access to sufficient sources of funds on favorable terms to meet present and anticipated liquidity needs. Parent company liquidity is satisfactory.
- Management addresses all key aspects of liquidity management in its overall risk management process. They operate under the clear direction from ALCO and they respond promptly to changing market conditions. MIS provides relevant information upon which to make sound decisions.

Quantity of Risk – Moderate

- Demand for Liquidity continues to increase as loan growth exceeded deposit growth during the second quarter. The loan to deposit ratio increased to 118% as of 5/31/07, up from 114% as of year-end 2006. However, management projects that deposit growth will exceed loan growth during the second half of 2007 as a result of slowing loan demand and seasonally high deposit balances.
- Wachovia is managing its increased funding needs by prudently accessing the overnight markets and issuing incremental long-term bank and holding company debt. The ratio of loans to core deposits plus long-term debt was 107% as of 5/31/07, up from 104% at year-end. Market acceptance of company debt remains strong, both domestically and abroad.
- The company continues to expand its borrowings internationally, with approximately 36% of debt issued over the past eighteen months being denominated in a foreign currency. In May, the company issued $1.2 billion in Australian-dollar denominated senior and subordinated term debt.
- Wholesale funds increased to 29% of TA as of 5/30/07, up from 28% at year-end 2006. Diversification and maturity structure of wholesale funds are satisfactory. The most recent

large provider report reflects that the top 20 largest providers funded 11% of TA. The Federal Home Loan Banks are the largest funds providers at approximately 4.5% of TA.

- The company's dollar level off-balance sheet (OBS) exposure continues to expand, but has decreased as a percentage of total assets due to the GW merger. Exposure arises through counterparty backup lines, loan commitments, low floaters, tender option bond programs, and securitizations. On 6/18/07, the Bank exceeded their $50 billion OBS exposure policy limit. Management is revisiting this limit and changes will be recommended in August 2007.

Quality of Risk Management – Strong

- Management has designed a flexible and comprehensive contingency funding plan.
- Management is capable and has experience raising wholesale funds in adverse circumstances. They adequately respond to changes in market conditions.
- The Liquidity and Capital Planning Committee has approved specific limits for all large unsecured funds providers with accompanying sub-limits. Management is in compliance with these limits.
- As part of its quarterly liquidity planning process, Wachovia estimates its securitization and loan sale potential over the next twelve months across a range of scenarios.
- Management continues to address two areas of concern. Parent company contingency stress testing is now incorporated into the bank process. Management is moving forward with the Enterprise Funding Initiative (EFI) to provide for centralized oversight of liquidity funding. A Global Markets Treasurer position has been created and filled within CIB. The bank also has launched a major, multi-year automation initiative. Continued strong project management skills will be needed to ensure that this important project stays on track.

Direction of Risk – Increasing

- The direction of risk continues to reflect an "increasing" trend. While Wachovia easily accesses the markets at reasonable rates, liquidity demand continues to increase. Loan growth exceeds deposit growth, and off-balance sheet exposure continues to increase.
- Estimated term funding needs have declined from prior estimates, but remain substantial. The Bank projects term funding needs of $5 billion by 12/07 and $18 billion by 06/08.

Price Risk	Aggregate: Moderate Direction: Increasing Quantity: Low Quality: Satisfactory		
Type of Risk	Current Rating	Date Last Changed	Prior Rating
Aggregate	**Moderate**	**03/31/2003**	**-**
Quantity	**Low**	**06/30/2007**	**Moderate**
Volume of Open Positions	**Low**	06/30/2007	Moderate
Market Factors	Low	04/10/2006	Moderate
Options Risk	**Low**	06/30/2007	Moderate
Basis Risk	Moderate	03/31/2003	-
Concentration of Factors	Moderate	03/31/2003	-
Product Liquidity	Moderate	03/31/2003	-
Stability of Trading Revenue	Moderate	03/31/2003	-
Quality	**Satisfactory**	**03/31/2003**	**-**
Policies	Satisfactory	03/31/2003	-
Processes	Satisfactory	03/31/2003	-
Personnel	Satisfactory	03/31/2003	-
Control Systems	Satisfactory	03/31/2003	-
Direction of Change	**Increasing**	**11/28/2005**	**Stable**

Aggregate Price Risk – Moderate

- Trading activities reflect a low level of risk, however, the volume and complexity of traded products is expanding and we have concerns with technology. As a result, the aggregate price risk remains at moderate and direction increasing.
- Wachovia is planning a significant expansion of overseas operations in London and Hong Kong. Initially, they are adding FX, structured products and equities in London and structured products sales and distribution capabilities in Hong Kong.
- Technology issues and limited MIS currently restrict the effectiveness of risk management. Trading and risk systems remain a concern. To deal with these limitations, risk management limits product exposures where issues exist with MIS or systems. CIB Technology is implementing a multi-year plan to stabilize and upgrade trading platforms and better align business resources. Management has also implemented plans to enhance the new VaR system.

Quantity of Risk – Low

- The quantity of price risk is reduced to low this quarter as trading activities reflect low levels of risk with limited open or illiquid positions relative to Wachovia's earnings and capital. Proprietary trading is not significant and revenue is generated mainly through capturing the bid/ask spread on customer transactions. Counterparty credit exposure also remains low with minimal exposure to high risk entities.
- The corporate-wide level of 1-day 97.5% confidence level VAR stayed in the same range as 1Q07 and averaged $18MM. The corporate limit stands at $30MM. 2Q07 VaR was driven by CIB warehouses. Tender Option Bond MTM volatility, a new time series for ABX trading and a significant ($3-5MM) overstatement of a basis trade also impacted VaR during the quarter. The highest market risk comes from Structured Products Warehouses. Other higher risk areas include Principal Investing, Correlation Trading, and a Convertible Arb prop book. While management has plans to expand and increase their VaR limits accordingly, current risk from these activities is low.

- Domestically, Wachovia plans to expand their commodities powers. They also plan to significantly expand overseas in London and Hong Kong.
- Wachovia trading revenues for 2Q07 were $1.2B which is slightly better than 1Q07. 2Q07 trading revenues were affected by market factors including widening credit spreads, fallout from subprime lending, and increased market volatility. Structured Products continues to drive revenues with the CMBS securitizations being the strongest business.
- Counterparty credit exposure appears to be low, with minimal exposure to high risk entities. However, the current system to measure counterparty risk (STIERS) remains inadequate. Stiers is scheduled to be replaced by CRISP / Adaptiv in 11/07 which will allow better aggregation of risks and compliance with Basel requirements.

Quality of Risk Management – Satisfactory

- Risk measurement and monitoring processes are being improved. Business line and risk management systems are being upgraded and streamlined to improve the measurement and monitoring of risk.
- Trading risk is monitored at appropriate levels. The independent MRM unit sets and monitors compliance with VAR limits, desk limits and guidelines, develops and reviews stress test scenarios, and interacts with the trading desk.
- Technology currently limits the effectiveness of risk management, but significant progress has been made to upgrade the technology platform and risk reports. Risk management limits exposures in products where good reporting is limited.
- Trading Platform IT issues need to continue to focus on SDLC, system controls maintained by the business line, and information security. Progress is noted. CIBT is creating an infrastructure with prop trading software, standardizing trading platforms and creating a large data warehouse to improve MIS reporting.
- Wachovia continues to reduce their backlog of unsigned derivative confirmations and novations. Credit goals have been met. The 6/07 equity goals on confirmation reductions, electronic processing goals, and developing a second operating platform were met. They are engaged in the industry Interest Rate and Commodity Derivative confirmation issues but are a smaller player with manageable backlogs.
- The MRM Supervisory Letter, issued in 2Q07, was Satisfactory. Management made significant progress in addressing previous MRAs. Three MRAs were noted for inaccurate capital calculations, limit monitoring exceptions and modeling deficiencies. There were also two violations of law related to incorrect market risk capital calculations and failing to submit an accurate Call Report for three quarters.
- The 2006 Structured Products exam was Satisfactory with two MRAs. Management's response is reasonable and will be assessed at the 3Q07 Structured Products exam.

Direction of Risk – Increasing

- Overall, trading activities continue to reflect an increasing level of risk. Despite low current market risk, there are plans to expand commodities powers and overseas into Europe and Asia in the Structured Products area. The focus continues to be customer based and management continues to control risk through conservative pricing of positions, limits and reserving policies which mitigates the increasing risk level. Risk management also limits exposures in products where good systems or reporting is lacking. Although strong progress has been achieved, management still has a substantial amount of work to refine trading and risk systems in anticipation of future growth and development of robust risk reporting. Trading growth plans should continue to be carefully evaluated given that the system infrastructure needs significant upgrading. Management is committed to continue these upgrades. Recent market volatility also contributes to the increasing direction of price risk by escalating VAR levels.

Foreign Currency Translation Risk	**Aggregate: Low Quantity: Low**	**Direction: Stable Quality: Satisfactory**	
Type of Risk	Current Rating	Date Last Changed	Prior Rating
Aggregate	**Low**	**03/31/2003**	**-**
Quantity	**Low**	**03/31/2003**	**-**
Structural Factors	Low	03/31/2003	-
Strategic Factors	Low	03/31/2003	-
External Factors	Moderate	03/31/2003	-
Quality	**Satisfactory**	**03/31/2003**	**-**
Policies	Satisfactory	03/31/2003	-
Processes	Satisfactory	03/31/2003	-
Personnel	Satisfactory	03/31/2003	-
Control Systems	Satisfactory	03/31/2003	-
Direction of Change	**Stable**	**03/31/2003**	**-**

Aggregate Foreign Currency Translation Risk

- Risk remains low as Wachovia's capital investments and debt issuance in foreign denominated currencies is minimal but increasing. Translation risk is largely hedged as part of each transaction. Residual risk is generally limited to the translation of foreign denominated income into US dollars.

Quantity of Risk – Low
See above

Quality of Risk Management – Satisfactory
See above

Direction of Risk – Stable
See above

Transaction Risk	Aggregate: High Quantity: High	Direction: Stable Quality: Satisfactory	
Type of Risk	**Current Rating**	**Date Last Changed**	**Prior Rating**
Aggregate	**High**	**03/31/2003**	**-**
Quantity	**High**	**03/31/2003**	**-**
Structural Factors	High	03/31/2003	-
Strategic Factors	High	03/31/2003	-
External Factors	High	03/07/2006	Moderate
Quality	**Satisfactory**	**03/31/2003**	**-**
Policies	Satisfactory	03/31/2003	-
Processes	Satisfactory	03/07/2006	Weak
Personnel	Satisfactory	03/31/2003	-
Control Systems	Satisfactory	03/31/2003	-
Direction of Change	**Stable**	**02/14/2006**	**Increasing**

Aggregate Transaction Risk - High

- Aggregate Transaction Risk remains "High" primarily due to the volume, type, and complexity of transactions associated with the 4th largest financial institution in the country.
- While the quality of risk management is satisfactory, structural and strategic factors impact the overall level of transaction risk at the bank. Active new product delivery, merger and conversion activities, and technological innovation will continue to challenge the technology division to adapt and change to meet customer and market expectations.

Quantity of Risk - High

- Overall quantity of inherent transaction risk is high. The bank's residual risk for CIS and its impact on SECDM remains at an elevated level. The majority of the CIS remediation plans were complete at year-end 2006. Other security related issues excluded from the CIS project scope remain outstanding. Four Internal Audit reports on the CIS remediation projects outline concerns with some of the sustainment processes.
- CIS is rewriting key IT security policies and standards and is now planned to continue through the remainder of 2007. There is no timetable to complete the operating procedures.
- Although the SECDM risk remediation project concluded, IT management had transferred the server access issue to the ISR³ Platform Access Remediation sub-project. The bank was not able to use prior mainframe and midrange resolution techniques to correct the server access issue. Management has committed to provide action plans for the platform access issue by 9/30/07.
- Proximity risk remains a concern. Wachovia's Institutional Risk Group considers business continuity risk to be unacceptable until they resolve data center proximity. Although the level of residual risk is unacceptable, management believes, with the exception of very low probability scenarios, Wachovia is capable of recovering all of its critical functions. Management expects proximity risk to an acceptable level by the end of 1Q09.
- The Business Continuity Planning Group needs to improve its risk assessment process as identified by Internal Audit. BCP risk assessments are to be complete by year-end 2007.
- Offshoring volume is low but increasing. The primary ITGS and BPO vendors are increasing capacity, improving connectivity and security in anticipation of increases in offshore work. Management has not set efficiency targets for 2007. Approximately 650 FTEs (185

applications) are offshore for application development and maintenance. About 800 FTEs (39 processes) for business processes are offshore.

- The level of domestic vendor management risk associated with contract sourcing and relationship management governance is high. Our recent review of the vendor management program found significant deficiencies continue to exist with governance and internal controls. Oversight and remedial responsibility was transferred to the Enterprise Planning & Strategic Initiatives (EPSI) group. Major restructuring of the functional roles, responsibilities, and processes is underway.
- The Enterprise-wide Efficiency Improvement Program (EIP) has high public/investor visibility and is creating significant changes through twelve cross-organizational initiatives made up of hundreds of sub-projects involving process and operations redesign, site consolidation, and outsourcing. Executive management doubled the 2008 savings projections.
- Financial reporting controls continue to receive intense scrutiny via the bank's Financial Governance Office (FGO). FGO is tracking 5 significant deficiencies, down from 13 one year earlier. Three of these deficiencies involve system access controls.

Quality of Risk Management – Satisfactory

- CIS project management continues to provide satisfactory oversight for the server access project work carried over from year-end 2006. Also, IT management is working to address the recently identified Internal Audit concerns from the four CIS sub-projects. Server access and Internal Audit's recently identified issues are the most significant technology matters requiring attention. Management also intends to provide a plan to remediate platform access by the end of the 3Q07.
- The revised SDLC approach improves governance around application development and project management.
- Management continues to work on an end-to-end process model based on the Integrated Technology Operating Model. The new model will standardize operations and controls through a new document repository and software code build, deploy and test processes.
- A pilot project for Phase I of the new Data Center Strategy is in process. The new data center strategy will not resolve proximity risk until Phase II is complete in 1Q09. This multi-phase project will take significant management effort to control risks during implementation.
- High risk BCP plans now have pandemic procedures. The BCPG is updating lower risk plans. Technology Services did a test of its 32 BCP plans in April 2007 with only 1 failure.
- Limited progress has been made in correcting long-standing vendor management concerns.
- IT Risk Management devised written standards and procedures to clarify its role in the enterprise. These policies and standards were reasonable, but IT RM will need to coordinate the development of more detailed procedures with CORM.
- Management initiated a Risk Portfolio Management process to prioritize and allocate resources to address Internal Audit and management self-identified issues.
- Corporate-wide activities surrounding implementation of Basel II's Advanced Measurement Approach (AMA) to operational risk are on schedule and considered an integral part of the bank's processes for controlling transaction risk. Corporate Operational Risk Management (CORM) has determined via self-assessment that the bank is materially or fully compliant with 29 of 33 proposed AMA standards. Also, CORM recently completed work on a program for monitoring LOB adherence to operational risk standards.
- Several new systems and enhancements are in process in CIB and Treasury, including upgrading of the CIB Trading infrastructure, Adaptiv (Counterparty Credit), and BancWare (the new IRR system). Project management over these projects has varied but is improving.

Direction of Risk – Stable

- Most of the CIS projects were completed on schedule at year-end 2006. Some minor work carried over into 2007 and a significant risk dealing with developer's access to servers did not get finished. The completed remediation projects did reduce the overall level of risk within CIS. Management expects to provide a plan to remediate server access risk by the end of 3Q07.
- Internal audits of the completed CIS remediation sub-projects identified sustainability issues.
- SECDM project is complete. However, management still needs to implement more appropriate developer access controls.
- Severity 1 outages continue to impact production.
- The Golden West integration plans increase transaction risks into 2008. Management is being challenged to maintain current Golden West operations and keep key personnel.
- The expected new data center strategy will change the company's current production and recovery processes. Transition risk during this move will increase.
- Current off-shoring risk is low, but, future activities will increase transaction risk significantly with forecasts to transfer as many as 3,000 FTE(s) by year-end 2007 and early 2008.
- The CIS Annual Report to the Board of Directors and the Risk Committee assessed corporate information security and GLBA compliance to be at an acceptable level.
- Partnering with AT&T and Firethorn, the bank expects to significantly expand its mobile banking customer base and enhance service for existing online banking customers.

Compliance Risk	**Aggregate: Moderate** **Quantity: Moderate**	**Direction: Increasing** **Quality: Satisfactory**	
Type of Risk	Current Rating	Date Last Changed	Prior Rating
Aggregate	**Moderate**	**03/31/2003**	**-**
Quantity	**Moderate**	**03/31/2003**	**-**
Business Activity Factors	Moderate	03/31/2003	-
Noncompliance Factors	Moderate	03/31/2003	-
Litigation Factors	Moderate	03/31/2003	-
Quality	**Satisfactory**	**03/31/2003**	**-**
Policies	Satisfactory	03/31/2003	-
Processes	Satisfactory	03/31/2003	-
Personnel	Satisfactory	03/31/2003	-
Control Systems	Satisfactory	03/31/2003	-
Direction of Change	**Increasing**	**02/20/2007**	**Stable**

Aggregate Compliance Risk – Moderate

- Aggregate compliance risk is moderate. The nature and extent of business activities for the 4th largest bank in the country present the potential for serious or frequent violations or instances of noncompliance. However, such matters are typically corrected in the normal course of business without major impacts to reputation, capital, earnings or business opportunities. The history of complaints or litigation is not a major concern.
- Wachovia maintains a satisfactory compliance risk management program sufficient to control current risk levels.
- Wachovia reflects a reasonable level of compliance and conformance with the host of laws, rulings, regulations, policies and procedures that apply to its day-to-day operations.

Quantity of Risk – Moderate

- The overall quantity of compliance risk is moderate. While the nature and extent of Wachovia business activities presents the potential for violations and noncompliance, exception levels are reasonable.
- A satisfactory and centralized compliance risk management process mitigates the inherent risk of significant noncompliance in a company as large and diversified as Wachovia.
- Identified issues are generally correctable within the normal course of operations without a significant impact upon reputation, capital, earnings, or business opportunity.
- Compliance with consumer protection laws and regulations, including fair lending regulations, is satisfactory.
- Aggressive entry into new markets, delivery of new products and services, and integration of merged compliance control cultures are challenges that management will continue to meet.
- The acquisitions of Westcorp, AmNet, and GW along with Wachovia's re-entry into the credit card business increase the quantity of compliance risk. This is mitigated by the company's demonstrated success in incorporating acquired institutions and by its previous experience in credit card operations.
- The volume and significance of consumer litigation and complaints is relatively low. Complaint volume is likely to increase due to geographic and product expansion; however, Wachovia has a proven record of responsiveness to addressing consumer complaints.

Quality of Risk Management - Satisfactory

- Senior and mid-level compliance management functions are well organized, competently staffed, and well supported, even in the ever-expanding environment of Wachovia operations in terms of geographic territory and product offerings. The effect of change remains unknown for a couple of key management positions (the Chief Compliance Officer and the chief Fair Lending and CRA manager).
- Management design and implementation of proprietary compliance risk monitoring systems is both forward-thinking and innovative.
- Board approved corporate compliance policies are satisfactory, and are complimented with reasonable line of business practices applied across the Company.
- The Board of Directors and senior management have consistently demonstrated support for the necessary compliance functions by providing needed resources.
- Compliance Risk Management continually monitors and quantifies identifiable risks.
- Management has demonstrated significant commitment to needed improvements and has been largely successful in those efforts.
- Management has shown the willingness to address and cure shortcomings, whether identified internally or by external sources. In some cases, the complexity of corrective action presents a challenge resolving issues in a timely manner (e.g. back-filing CTR exemptions).
- Close attention remains directed to the efficiency assessments that are underway and their potential impact upon the quality of compliance risk management.

Direction of Risk – Increasing

- The increasing direction of compliance risk was noted due to the cumulative effect of successive mergers, geographic expansion into new, high growth and higher risk markets, and the introduction of new products and services with attendant transaction volume increases.
- New and increasing challenges for compliance management coincide with the volume of growth in business channels and products in traditionally high risk areas.

- Management continues to proceed in an orderly and controlled manner through the corporate expansion.
- The impact of personnel changes in key compliance management positions remains unknown until the officers are established within the compliance organization.

BSA/AML	Product/Service Customer/Entity	Current Rating	Date Last Changed	Prior Rating
Aggregate Risk		**High**	**11/15/06**	**None**
Quantity of Risk		**High**	**11/15/06**	**None**
BSA/AML Risk Components:				
1st Highest Risk Product Service/Customer/Entity	Funds Transfer Activities	High		
2nd Highest Risk Product Service/Customer/Entity	Foreign Correspondent Banking	High		
3rd Highest Risk Product Service/Customer/Entity	Money Service Businesses (Foreign and Domestic)	High		
4th Highest Risk Product Service/Customer/Entity	Private Banking, Wealth Management, and Trust Services	High		
5th Highest Risk Product Service/Customer/Entity	Global Trade Finance Services	High		
OFAC Risk		High	New	N/A
Quality of Risk Management		**Satisfactory**	**11/15/06**	**None**
BSA/AML Risk Components:				
1st Highest Risk Product Service/Customer/Entity	Large Currency Reporting and Exemption Process	Satisfactory		
2nd Highest Risk Product Service/Customer/Entity	Corporate and Investment Bank (CIB)	Satisfactory		
3rd Highest Risk Product Service/Customer/Entity	Foreign Branch Offices (Europe and Asia)	Satisfactory		
4th Highest Risk Product Service/Customer/Entity	AML Risk Assessments	Satisfactory		
5th Highest Risk Product Service/Customer/Entity	International Private Advisory Group (IPAG)	Satisfactory		
BSA Compliance Program:				
Internal Controls		Satisfactory	New	N/A
BSA Compliance Officer		Satisfactory	New	N/A
Training		Satisfactory	New	N/A
Independent Testing		Satisfactory	New	N/A

OFAC Compliance System		Satisfactory	New	N/A
Suspicious Activity Monitoring System		Satisfactory	New	N/A
Suspicious Activity Reporting System		Satisfactory	New	N/A
Direction of Change		**Stable**	**11/15/06**	**None**

Aggregate BSA/AML Risk – High

- Overall BSA/AML risk remains high. Despite a satisfactory quality of risk management rating, the high quantity of risk accompanied by the broad scope of operations of Wachovia denotes a continuing high aggregate risk.
- In aggregate, the Wachovia span of domestic BSA./AML operations includes 17 federally designated high risk areas. Geographical expansion into the high growth California market, and internationally adds to the risk.
- While improvements are needed to various systems and policies, management continues to make a concerted effort to identify and properly manage all of these risks.
- The required elements of 12 CFR 21.21 are being met.

Quantity of Risk – High

- The inherent level of BSA/AML risk remains high given the volume and diversity of products and services, the large foreign and domestic footprint coupled with numerous operating locations, combined with the broad and geographically dispersed customer base.
- The broad foreign correspondent banking customer base, coupled with a diverse domestic and foreign private banking client base, denotes a high level of inherent risk.
- Currency Transaction Report (CTR) back-filing issues remain outstanding as a result of poor past practices in CTR Exemption processes.
- Several internal audits reflect adverse AML results for CIB with deficiencies noted in CIP, KYC, EDD, OFAC documentation, and risk assessment. Management will focus on the master plan to implement corrective and preventive measures.
- The recent California based acquisitions also add an unknown element to enterprise-wide BSA/AML risk.

Quality of Risk Management – Satisfactory

- The Wachovia BSA/AML compliance program satisfies regulatory requirements, and provides for: 1) a system of internal controls to ensure ongoing compliance; 2) independent testing of BSA/AML compliance; 3) a BSA compliance officer; and 4) training program for appropriate personnel.
- Significant steps have been taken to strengthen the BSA/AML internal audit function.
- The central corporate AML office includes line of business compliance liaisons and an independent risk assessment team.
- Searchspace, the system-wide automated function for the detection of suspicious activities and transactions, serves as a major tool to help monitor BSA/AML risks, exposures, and compliance. While satisfactory overall, management continues to fine tune its efforts to provide the most accurate and meaningful output from the Searchspace tool.
- The need for additional efforts remains evident in some lines of business to ensure the optimum level of consistency in terms of BSA/AML risk assessment and management. In addition, overall BSA/AML risk assessments are hindered by the lack of corporate risk ratings and risk assessment processes (consistent for the AML Office and the lines of business).

- Management has started to implement plans outlined for a bifurcated CTR back-filing process using manual and automated solutions.
- Corporate and bank management continue to execute efforts to control for the high level of BSA/AML risk across the corporation.
- The need for additional efforts also applies to OFAC controls and processes. Recent internal audits and examinations have noted weaknesses that impact the quality of risk management for OFAC compliance.
- Continued enhancements to various operations (including the London Branch, IPAG, and CIB) have been noted.

Direction of Risk – Stable

- The significant focus by Wachovia management on the highest risk areas (e.g. funds transfer, foreign correspondent banking, MSBs) results in OCC and Audit findings that are now generally satisfactory for those functions.
- While some aspects of BSA/AML risk have increased, responsive actions by management afford the stable designation.
- Reasonable processes and procedures are in place to help ensure that mergers and acquisitions, including growth through the West Coast expansion, are incorporated without a significant increase in risk to the BSA/AML program.

Internal Control	Current Rating	Date Last Changed	Prior Rating
Overall	**Satisfactory**	**03/31/2003**	**-**
Control Environment	Satisfactory	03/31/2003	-
Risk Assessment	Satisfactory	08/13/2004	Weak
Control Activities	Satisfactory	03/31/2003	-
Accounting Information and Communications	Satisfactory	03/31/2003	-
Self Assessment & Monitoring	Satisfactory	12/10/2004	Weak

Internal Controls – Satisfactory

- Wachovia's system of internal controls provides reasonable assurance that business units achieve its stated objectives and produce reliable financial reports. The declining trend in both the frequency and severity of negative audit findings continues. Significant financial reporting deficiencies have reduced from 13 in early 2005 to 5 as of 6/30/07.
- The control environment is supported by a well-conceived committee structure that allows the Board to properly oversee risk taking and control activities.
- As part of the Risk Governance Initiative, risk management is considering streamlining their risk assessment activities to reduce overlap and duplication. Business units are responsible for identifying, acknowledging, quantifying, mitigating and managing all risks. Risk management provides oversight of risk-taking activities, works with the business units and functional areas to establish appropriate standards, and also monitors business practices in relation to those standards.
- More frequent and effective audit coverage has translated into cleaner audit reports and fewer significant negative audit findings over the past 18 months. Notably, less than 2% of audits issues in 2006 and year-to-date 2007 resulted in an 'unsatisfactory' rating versus 2005 and 2004 results of 10% and 15% respectively. Audit leadership believes this

improvement is indicative of more frequent audit coverage and management's improved responsiveness to previously identified audit issues. Like previous years, however, the most frequent control deficiencies cited by audit were (1) access controls, (2) account reconcilements, and (3) model validation. Corrective actions are ongoing.

- Financial reporting controls continue to receive intense scrutiny via the bank's Financial Governance Office (FGO). FGO is tracking five significant deficiencies, down from 13, one year earlier. Three of the five deficiencies involve IT controls. There have been no financial restatements or re-filings since implementation of SOX.
- Monitoring of financial reporting controls is under the general oversight of the Board of Directors acting through the Audit Committee, which is composed entirely of independent directors. KPMG LLP has direct and unrestricted access to the Audit Committee at all times, with no members of management present, to discuss its audit and any other matters that have come to its attention that may affect Wachovia's accounting, financial reporting or internal controls.

Audit	Current Rating	Date Last Changed	Prior Rating
Overall	**Satisfactory**	**08/30/2004**	**Weak**
Audit Committee	Satisfactory	08/30/2004	Weak
Management & Processes	Satisfactory	06/29/2005	Weak
Audit Reporting	Satisfactory	08/30/2004	Weak
Internal Audit Staff	Satisfactory	06/29/2005	Weak

Internal Audit – Satisfactory

- Internal audit remains "Satisfactory." Audit stature is appropriate, and audit identified control weaknesses continue to receive timely and appropriate management attention.
- Audit Committee (AC) remains active and provides appropriate direction and oversight. AC reporting continues to improve through its increased emphasis on enterprise risks. Audit leadership has committed to provide a more formal annual roll-up report for consumer compliance. This report should provide the directors with an independent assessment of the "state of compliance" from the internal audit perspective.
- Audit management and staff remain capable and focused on continuing to improve audit's overall quality and effectiveness. Former Controller David Julian, who will succeed GA Schild upon his retirement later in 2007, has begun initial transition activities.
- For the most part, audit processes are effective. However, the quality of the IT Audit function remains an area of concern. While an action plan is in place to address scope and documentation issues, execution of the plan is critical to ensure that an effective overall IT audit program is sustained over time.
- Audit's project auditing/monitoring approach also needs additional attention to ensure more robust coverage, better resource coordination, and enhanced reporting. While Audit's approach has worked successfully in monitoring merger integrations, it has been less effective for the multi-dimensional risk projects. Audit leadership is in the process of modifying its' practices to customize their activities for each project.
- Progress has been made in addressing the 2006 MRA concerning Audit's validation of CIS remediation efforts. Audit completed the work in May 2007, and we recently began efforts to assess the quality and level of reliance that may be placed on it. However, until our assessment is complete, the MRA remains outstanding.

- Audit reporting remains satisfactory. For the most part, audit reports reveal sound conclusions with ratings well-supported.
- Audit staffing levels and expertise is satisfactory, and staff turnover continues to be low. As Wachovia continues to grow and expand into new geographical areas, new products, services, and systems, staffing levels and expertise gaps will need to be re-evaluated to ensure sufficient resources are available to evaluate the control environment.
- In response to our 2006 MRA, Audit hired in May 2007, an individual with significant quantitative modeling expertise to perform complex modeling audit activities. Initial steps have been taken to execute their coverage plan for this area. This issue remains outstanding until the program further matures.

Other Information

Management

Management effectively governs the enterprise, and continues to be rated "2." CEO Thompson provides appropriate leadership, and the executive management team has the ability to effectively manage through industry changes and economic cycles. Management depth is appropriate for the size and complexity of Wachovia. The Board of Directors also provides effective oversight and support of institutional activities. They remain active and continue to demonstrate their ability to plan for and respond to risks that arise from changing business conditions and new products and services.

Wachovia's corporate governance structure and practices are satisfactory. The governance framework and decision-making processes are effective in allowing management to carry out the company's strategic goals and objectives. The Senior Risk Committee provides appropriate oversight of all risks in the bank including credit, market, operational, liquidity and compliance. Line of business corporate governance processes are also satisfactory. Policies and procedures are in place, and effective governance committees are actively engaged.

Management continues to enact the recommendations from the 2006 internal review of Wachovia's enterprise-wide risk management program. Initial findings of this review centered mostly on the need to better clarify foundational/structural issues such as roles and responsibilities, risk objectives, and risk tolerance, and the need to review the use of utilities to identify where greater efficiencies can be achieved without sacrificing effectiveness. Management has agreed upon key definitions, and objectives have been established. These include 1) provide reasonable assurance that controls to prevent, detect, correct and escalate risk are effective and efficient and that residual risk is within established tolerance limits; 2) establish a uniform governance, risk and compliance framework across the company; and 3) support roles and responsibilities of constituents (Board of Directors, management committees, senior management, line management and staff, risk oversight groups).

In general, the internal control environment is sound and continues to improve. Monitoring of internal controls is adequate based on work performed by internal and external audit. Management has also established appropriate policies and controls addressing the bank's operations and risks. Wachovia's internal controls over financial and regulatory reporting are satisfactory. Wachovia's SOX program is effective, and the internal audit program and credit review programs are also satisfactory. Wachovia's internal audit program is also satisfactory.

Earnings

Wachovia's earnings remain satisfactory for the quarter. The company reported second quarter net income of $2.360 billion for an EPS of $1.23. Wachovia beat Wall Street expectations of

$1.22 per share for operating quarterly results; however, results reflect the net impact from larger than normal gains in Principal Investing.

Fees and other income rose 13% from 1Q07 as a result of principal investing gains, trading account profits, and higher banking fees. Net interest income (NII) was down 1%, driven by growth in lower margin loans. The net interest margin (NIM) also dropped from 3.01 to 2.92 during the quarter. Non-interest expenses rose 6% driven by higher revenue based compensation, higher consulting fees from ongoing projects, and higher occupancy expenses.

Strong credit quality continues to positively impact Wachovia's earnings. The provision expense increased modestly between 1Q07 and 2Q07. The quarterly provision expense exceeded net charge-off expense by $29 million. Non performing assets increased from .40% at 1Q07 to .48% at 2Q07. Non-performing assets (NPA) increased from the prior quarter as a result of rising foreclosures in the World Savings Bath (WSB) mortgage portfolio. However, they still remain at historically low levels. Management does not anticipate any material credit losses from the higher NPA, as WSB loans are well-collateralized and have historically demonstrated extremely low credit losses.

Management expects the challenging business environment to continue throughout 2007. Management reduced their growth expectations for the remainder of the year as NII growth expectations were reduced to a range of flat to 2 percent growth. For remainder of 2007, management expects high single-digit loan growth, and low double-digit fee income growth.

Capital

Wachovia's capital position is satisfactory and levels are appropriate given the company's risk profile, asset quality trends, and growth plans. CAMELS components are rated either "1" or "2" in each area. Management has demonstrated the ability to effectively manage the capital position in various economic climates. Capital ratios exceed regulatory minimums by a reasonable margin and the bank is considered "well capitalized" for Prompt Corrective Action (PCA) purposes.

Tier 1 and leverage ratios have declined over the past year and are below those of similar banks. Tier 1 capital has declined from 7.81% at 6/30/06 to 7.5% at 6/30/07. Leverage capital also declined from 6.57% to 6.2% over the same period. The main drivers for the reduction in capital were the Golden West merger, and accounting policy changes. While capital ratios have declined, the overall risk profile of the bank has remained relatively stable.

Dividends have increased for the past several years, but remain less than 50 percent of net income. The corporation also has ready access to capital markets through the sale of treasury stock, issuance of new equity, or issuance of debt instruments. Credit ratings and spreads on recently issued debt are favorable with no adverse trends noted.