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The information contained in this report is based on the books and records of the bank, on statements made to the examiner by directors, officers, and employees, and on information obtained from other sources believed to be reliable and presumed by the examiner to be correct. It is emphasized that this Report of Examination is not an audit of the bank and should not be construed as such. This examination does not relieve the directors of their responsibility for performing or providing for adequate audits of the bank.

Each director, in keeping with his or her responsibilities both to depositors and to shareholders, should thoroughly review this report. Subsequent to this review, the directors should sign the form attached to this report. If the board is not in substantial agreement with the contents and conclusions of this report, a request should be made promptly for a conference between selected members of the board and officers of the bank and representatives of the deputy comptroller to review these matters.

Name of Bank:	Wachovia Bank, N.A.
City, State:	Charlotte, North Carolina
Charter No:	1
Examination Cycle Ending:	June 30, 2006

All correspondence should be addressed to David K. Wilson, National Bank Examiner, Two Wachovia T16/NC0100, 301 S. Tryon St., Charlotte, NC 28288, with a copy to Delora Ng Jee, Deputy Comptroller, Large Bank Supervision, Comptroller of the Currency, 250 E Street, S.W., Mail Stop 6-1, Washington, D.C., 20219.

Comptroller of the Currency
Administrator of National Banks

National Bank Examiners
Two Wachovia Center, 16th Floor/NC0100
301 South Tryon Street
Charlotte, North Carolina 28282-0100

August 10, 2006

Board of Directors
Wachovia Bank, N.A.
301 South College Street
40th Floor, Suite 4000
Charlotte, NC 28288-0005

Dear Board Members:

This Report of Examination provides an assessment of the overall condition and the risks of Wachovia Bank, National Association (Wachovia) based on the supervisory activities performed from July 1, 2005 to June 30, 2006 with financial information as of June 30, 2006.

The overall condition of Wachovia remains sound, and Wachovia is rated a "2" under the FFIEC Uniform Financial Institutions Rating System. 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.

Management continues to take appropriate actions to address our remaining board level Matter Requiring Attention (MRA) - IT Risk Remediation. Remediation of the longstanding issues in Corporate Information Security (CIS) and Distributed Software Configuration Management (DSCM) are targeted for completion by year-end 2006. However, there are some identified CIS issues that were not part of the original remediation plan, which will still need to be addressed. Another issue that will not be resolved in 2006 is mitigating proximity risk between Wachovia's main data processing center and its backup facility, both located in Winston-Salem, NC. Management provided a strategy in December 2005, but it did not meet our expectations. A dedicated Project Management team has since been established to address the overall data center strategy, including the proximity risk issue. Further details about this issue are provided in the *Matters Requiring Attention* section of this report.

In addition to the MRA addressed above, we have other supervisory items that we are closely following, including Bank Secrecy Act/Anti-Money Laundering (BSA/AML) activities and

Basel II implementation. Over the past several years, management has devoted significant human and financial resources to both of these areas.

- Wachovia's BSA/AML compliance program satisfies regulatory requirements. While management continues to make good progress in implementing an enterprise-wide process for BSA/AML activities, additional efforts are needed to ensure consistent application in all business lines.

- Basel II implementation continues toward Wachovia's goal of conducting parallel testing in 2008. Although Wachovia's planning process is satisfactory, we recently identified a few areas which need enhancement in the Basel project process.

Management has been responsive to both of these issues and action plans are in place to address our comments. For more detail on these items, please see the *Additional Comments* section of this report.

The overall risk profile of Wachovia is considered "moderate." All risk categories are rated "moderate" with the exception of Strategic, BSA/AML, and Transaction risks, which are "high" and Foreign Currency Translation risk, which is "low." There are several areas which we continue to closely monitor including the "increasing" direction of price, liquidity, and credit risks.

- Price risk is increasing due to expansions in trading activities, primarily Structured Products and Equities, coupled with staffing, 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.

- 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. The recent plans to acquire Golden West Financial Corporation (Golden West) will also introduce new funding demands at the corporate level.

- Credit risk indicators remain extremely favorable. However, inherent risk in the credits 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.

Throughout the year, we have communicated our supervisory concerns through our Supervisory Letters and through our quarterly communications with Chairman Thompson. Since our June 30, 2005 Report of Examination, we have issued three quarterly Supervisory Letters, and 37 additional supervisory letters to various lines of business, 17 of which identified MRAs. Management has been responsive, and MRAs have either been resolved or appropriate corrective action plans are in place.

Please provide a written response by October 31, 2006 to this Report of Examination that confirms Board and management's commitment and action plan for addressing the Matter Requiring Attention – IT Risk Remediation.

Sincerely,

David K. Wilson
Examiner-In-Charge
Large Bank Supervision

Delora Ng Jee
Deputy Comptroller
Large Bank Supervision

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Matters Requiring Attention

Information Technology (IT) Risk Remediation

Management continues to make progress in addressing the residual risk exposures for CIS and DSCM. Year-end completion dates appear attainable; however, the remediation projects for CIS will not address all risks and some additional work will be needed after year-end. The proximity risk impact on disaster recovery also remains a pressing regulatory issue. A new 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. The importance of these projects, along with the reduction of the proximity risk, continues to be at the forefront of our concerns. Specific details about these issues are provided below:

- ***Corporate Information Security***
  Management's current remediation projects should result in significant risk reduction by the projected completion date of year-end 2006. However, management has identified some significant information security risks that were not part of the original remediation plan. Management plans to address these remaining risk issues once the current remediation efforts are completed. It is important that management devote sufficient resources to implement these additional controls in a timely manner. We will be closely monitoring specific projects and timelines.

- ***Proximity Risk***
  Disaster recovery proximity risk remains a supervisory concern. As we communicated in our February 17, 2006 Supervisory Letter to CEO Thompson, Wachovia must establish a strategy to remediate proximity risk to an acceptable level. Management's new data center strategy team appears to be following an appropriate methodology and approach to address this risk. Management has promised to give us an outline shortly describing when and how management will remediate the proximity issue.

Ratings*

	Exam Date June 30, 2006	Prior Exam June 30, 2005	Prior Exam June 30, 2004
Composite Uniform Financial Institution Rating	2	2	2
Component Ratings:			
Capital	2	2	2
Asset Quality	2	2	2
Management	2	2	2
Earnings	2	2	2
Liquidity – Asset/Liability Management	1	1	1
Sensitivity to Market Risk	2	2	2
Uniform Rating System for Information Technology	2	2	2
Composite Uniform Interagency Trust Rating	2	2	2
Uniform Interagency Consumer Compliance Rating	2	2	2
Community Reinvestment Act Rating	1	1	1

***Refer to OCC Bulletin 97-1(January 3, 1997) for a description of the CAMELS and Specialty Ratings.**

Composite Rating – 2

The overall condition of Wachovia Bank, N.A. remains sound. The overall composite ("CAMELS") rating is a "2" under the FFIEC Uniform Financial Institutions Rating System,[1] and the overall risk profile remains "moderate" with risk management rated satisfactory or better in all risk categories. The bank remains well capitalized, and earnings performance continues to be solid as Wachovia integrates recent acquisitions. Asset quality indicators are stable at favorable levels, and portfolio management practices are sound. Liquidity management and contingency funding planning processes are strong. Wholesale funding is actively managed, and the volume, maturity, stratification, and provider diversification are also adequate. Wachovia's sensitivity to market risk is also satisfactory. Market risks are appropriately managed with the individual components of interest rate risk, price risk, and liquidity risk, all receiving proper levels of management attention.

[1] A rating of 2 indicates satisfactory management and board performance and risk management practices relative to the institution's size, complexity and risk profile. Minor weaknesses may exist, but are not material to the safety and soundness of the institution and are being addressed. In general, significant risks and problems are effectively identified, measured, monitored, and controlled.

Capital Rating – 2

Wachovia remains well-capitalized. The Tier 1 capital and leverage capital ratios at June 30, 2006 were 7.77% and 6.57%, respectively. Earning forecasts for 2006 appear achievable. Future capital levels are expected to be negatively impacted by the merger of Golden West in fourth quarter 2006 and the new accounting requirements for leveraged lease transactions in first quarter 2007. Additionally, there is some uncertainty regarding the impact of the new accounting requirements which occur at year-end for post retirement benefits. Like many other banks, Wachovia will need to record an additional liability, with a corresponding entry to other comprehensive income (a reduction of equity). Banking regulators will need to rule on whether regulatory capital must also be reduced by the amount of this accounting entry. Although the above items may be significant, capital ratios are projected to remain at "well-capitalized" levels. If necessary, the bank can restrict stock buy backs and dividend payouts to maintain capital at appropriate levels. As discussed elsewhere, management continues to make satisfactory progress in implementing systems to comply with the proposed Basel II capital framework.

Asset Quality Rating – 2

Asset quality remains good. After several years of improvement, asset quality indicators have stabilized at favorable levels. Nonperforming assets (including AHFS and foreclosed property) were 0.25% as of June 30, 2006, compared to 0.28% at year-end 2005 and 0.53% at year-end 2004. Asset sales continue to help drive down the NPA and criticized levels. Nonperforming levels are projected to remain relatively stable during 2006. Projected full year net charge-offs (excluding AHFS) are stable at 0.09% for the legacy Wachovia portfolios and 0.18% when Westcorp is included. These levels compare favorably to those at peer banks. Also, they are well within the initial charge-off guidance range of 0.15% - 0.25% management provided to the market. The bank's concentration in commercial real estate related industries, recent potential weaknesses reflected by loan rating migration trends and liberalizing underwriting precludes a current rating stronger than a "2".

Aggregate credit risk remains on the low-end of the moderate range. Our credit risk quantity rating remains low; however, we changed the direction of risk during the first quarter of 2006 from stable to increasing. The change in the direction of risk pro-actively recognizes subtle changes in the bank's and the credit market's risk appetite. The quality of risk management remains satisfactory. Lagging asset quality (delinquency, net loss levels and NPA) indicators remain historically very strong and continued to improve throughout 2005 and have stabilized at low rates during 2006. Commercial criticized and classified levels have continued to decline slightly as a percentage of loans from year-end 2005 levels of 2.44% to 2.33% as of June 30, 2006. These indicators are in line with peers and remain at historical lows for the bank.

While asset quality indicators remain very favorable, we see indicators that show credit risk increasing. Pressure from the frothy, competitive conditions is starting to weaken credit quality in the pass grades. Commercial loan risk rating migration trends show the ratio of downgrades to upgrades is now regularly in the 1.1 to 1.3 range. Lending standards continue to loosen which increases risk. The difficult issue with analyzing these changes in underwriting is measuring the incremental risk associated with them. Lowering cap rates, increasing leverage and minimal covenants will clearly impact future probability of default, loss given default and exposure at default levels. Credit quality remains very strong, but the inherent risk in these credits is clearly increasing. Management should continue to develop risk management tools to better capture risk and return measures and to ensure economic capital allocations reflect this higher inherent risk.

Management is also expanding the lending universe to riskier customers in several consumer-lending lines of business. This includes the merger with Westcorp, a prime and sub-prime indirect auto lender, and the announced re-entry into credit card lending. The bank also faces several operational issues that could increase credit risk. These include the implementation of the "end-to-end" rollout, which is a change in loan approval and servicing processes in the General Bank and new reduced servicing procedures for lower risk Corporate & Investment Banking (CIB) customers. These items are further discussed below in the specific line of business sections.

Management is actively and prudently managing these changing risks in the portfolio. Management 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 continues to use loan sales and is becoming more active in using cash and synthetic securitizations. They are expanding their use of single name credit default swaps and a macro event risk hedge program to mitigate risk in the overall portfolio. Management is also more actively monitoring commercial loans with excess exposures and implementing policies to control this growing trend in exposures.

The ALLL, as a percentage of loans at 1.07%, remains adequate. This percentage increased slightly as a result of the merger with Westcorp. Management continues to provide for losses and adjust the reserve based on analysis of the risk in the loan portfolio.

<u>Shared National Credits (SNC)</u>

The quality of the SNC portfolio remains good. Our recent review found underwriting standards continue to loosen. Strong financial performance of borrowers and limited hold positions mitigate the bank's risk at this time, but continued liberalization raises concern when the current positive market for commercial credit ends.

<u>General Banking Group</u>

The General Bank's commercial and commercial real estate portfolios are diversified and are of moderate risk. Risk management systems within the General Bank are effective. Periodic bulk sales of problem and/or marginal quality credits and good workout programs continue to prune risk. We are closely monitoring the "end-to-end" process. This new process involved reducing staff and centralizing many underwriting and servicing functions. This has caused some underwriting and servicing backlogs which management is addressing. This operational risk could increase credit risk by reducing the timeliness of risk identification. Consumer loan quality remains good with the bulk of the portfolio secured by residential real estate and higher FICO score individuals. The addition of the Westcorp portfolio will increase risk but performance is in line with a sub-prime dominated indirect auto portfolio. We are monitoring strategic plans in many consumer lines of business that have aggressive growth goals and expansion of underwriting criteria to include lower FICO scores. Also, a weakening consumer housing market warrants monitoring for the impact on the real estate builder portfolio and the consumer portfolio.

Corporate & Investment Banking (CIB)
Credit risk in Corporate & Investment Banking continues to decline. The Facility Default Grade profile of CIB's exposures continues to strengthen. This improvement results from a positive credit cycle, emphasis on investment grade clients, and good discipline on hold levels in non-investment grade exposures. The CIB area has also implemented a new servicing process intended to improve efficiency. The new process reduces servicing on investment grade credits, which should allow more time on higher risk credits. We will monitor this new process closely to ensure management continues to identify changing risk in a timely manner.

Management Rating – 2

Overall, management and the Board continue to demonstrate the ability to successfully compete and grow in the marketplace. The Board remains active, and the executive management team has effectively managed through industry changes and economic cycles. Management and the Board have established appropriate policies and controls addressing the bank's operations and risks. Management continues to take appropriate action to address supervisory concerns.

Corporate Governance structure and practices are satisfactory. Management is taking appropriate steps to further strengthen their practices from an enterprise-wide basis as well as in the various lines of business. Positive changes include the expansion of the Senior Risk Committee's role in the oversight of all risks, including credit, market, operational, liquidity and compliance; and the formation of the Investment Review Board. These steps further enhance Wachovia's enterprise risk management system and strengthen corporate governance practices. Management recently announced the undertaking of a major review of their corporate governance and enterprise-wide risk management processes to identify where greater effectiveness and efficiencies can be achieved. Wachovia has contracted the services of PriceWaterhouseCoopers to assist with this project.

Management has also instituted a sound control environment with satisfactory internal controls that promote effective operation and reliable financial and regulatory reporting. Wachovia's Sarbanes-Oxley (SOX) program is effective, and has completed its second year of sustainability. Wachovia's Internal Audit function has continued to improve and now provides an effective independent control function to safeguard assets and ensure compliance with laws, regulations, and internal policies. Management has successfully instilled a culture that values Internal Audit's opinions and requires management's timely and appropriate response to audit findings.

Earnings Rating – 2

Wachovia's earnings remain satisfactory. Wachovia continues to generate solid earnings to provide for adequate capital through retained earnings. Earnings exposure to market risk is reasonable and controlled.

Wachovia Corporation earnings performance remains sound. Year-to-date net income as of June 30, 2006 was $3.6 billion for a diluted EPS of $2.26, as compared to 2005 year-to-date net income of $3.3 billion or $2.02 per share. Wachovia continues to experience solid revenue and earnings growth, strong asset quality, and improved overhead efficiencies. While recent acquisitions have significantly contributed to Wachovia's double digit growth, core earnings have grown at more modest levels. Organic loan and deposit growth has slowed to approximately 1-2% per quarter, and the net interest margin continues to decline as a result of slower revenue growth and the yield curve environment. On a more positive note, fee income mostly from trading and capital markets activities has been strong in 2006. Also, merger synergies and expense discipline has resulted in improved overhead efficiency ratios (OER). As of June 30, 2006, the OER ratio was 57.03%, as compared to 60% at year-end 2004. Management continues to identify opportunities where additional efficiencies can be achieved in order to meet their stated goal of reducing the OER to the 52-55% range by year-end 2007.

Management continues to anticipate solid earnings for the remainder of 2006 as credit quality indicators remain favorable. Management is anticipating EPS in the range of $4.70-$4.75 for 2006. These estimates do not reflect the effect of the proposed Golden West merger, which is expected to close during fourth quarter 2006.

Liquidity Rating – 1

Liquidity management and contingency funding planning are strong. Wholesale funding is actively managed and the volume, maturity stratification, and provider diversification are adequate. Current trends reflect an increase in the level of wholesale funds to support continued loan growth. Core deposit growth has decelerated and is projected to be flat through year-end 2006. Wachovia's loans to core deposits ratio, while increasing, is still reasonable, and the quantity of credit risk is low.

The direction of risk changed from "Stable" to "Increasing" during second quarter 2006. Current trends reflect increases in the use of wholesale funds to support loan growth as well as the Golden West acquisition and its funding needs going forward. Projections for cumulative deposit growth from May 31, 2006 to June 30, 2007 are only $6B, while loans are projected to grow by $21B. Loans to core deposits have increased to 95% at May 31, 2006, compared to the mid 80 percentage range throughout 2005. Consolidated debt issuance projections for the entire 2006 year are projected at $19B, and include issuances to not only replace maturing obligations but also to invest $6B in Golden West.

Wachovia's market acceptance is good, as reflected by debt spreads that continue to be slightly below peer banks. If needed, management has many options that could be executed to reduce their reliance on overnight wholesale funding. Additionally, management has identified a wholesale funding tolerance level that will prompt actions to reduce reliance. As a result, the increase in wholesale funds is not expected to change the aggregate risk level within the next 12 months.

Management incorporates all key aspects of liquidity management into its overall risk management process. They operate under the clear direction of ALCO and are guided by thorough written policies. Management responds promptly to changing market conditions. In addition, MIS provides relevant information upon which to make sound decisions.

A comprehensive liquidity contingency funding plan exists. The contingency funding plan continues to show a surplus available in all scenarios. Management has improved their securitization estimates and designed a reasonable analysis. Management has also added an analysis of the impact of a $50B core deposit runoff. Included in this analysis is a Balance Sheet Mitigation Project that limits loan renewals, trading asset levels, and pre-funds wholesale debt.

Sensitivity to Market Risk Rating– 2

Overall interest rate risk remains moderate. Short-term earnings sensitivity has remained relatively neutral since October 2004. Long-term interest rate risk, as measured by EVE (Economic Value of Equity), has remained at moderate levels since March 2005. As of June 2006, the level of short-term interest rate risk is relatively neutral at -0.8% liability sensitive for an up 200 basis point ramp over the next twelve months. The rolling 12-month view, which provides a sensitivity forecast for each quarter of the next four quarters, shows sensitivity migrating to -1.4% (liability sensitive) by first quarter 2007, before any additional discretionary hedging decisions.

Management continues to be able to achieve the bank's targeted net interest income (NII) levels without increasing the levels of interest rate risk. They have identified the scenarios where they are most vulnerable and execute hedges when the benefits outweigh the cost of hedging the risk. Management and staff resources within Treasury continue to be under pressure to perform all scheduled tasks, respond to special projects, and manage new infrastructure projects. A number of major system initiatives are either underway or planned (BancWare, Blackrock, Enterprise Funding). BancWare was selected to replace RADAR and the new model implementation commenced second quarter 2004. The "full production" timeline has been extended to third quarter 2006, as management has identified critical lack of functionality issues with a few modules of the BancWare model. Management has committed to address these and other less critical conversion issues. An external project manager was recently engaged to guide the completion of the BancWare conversion, the build-out of additional application development, and the documentation of policies and procedures. Despite these issues, management continues to perform the critical interest rate management tasks and adequately monitors and manages risk.

Price risk remains moderate relative to Wachovia's earnings and capital. The direction of price risk is considered to be increasing. Trading activities reflect a moderate level of risk, however, the volume and complexity of traded products is expanding. The corporate-wide level of VaR remains moderate and stable. Year-to-date, the 1-day 97.5% confidence level VaR has ranged from a low of $13 million to a high of $22 million (corporate limit of $30 million). The average VaR has increased over first quarter 2006, driven by increases in warehoused assets for Structured Products and Equity trading activities. Risk is mitigated as there is a strong market for these products and one of the large warehouses, CMBS, is hedged for both interest rate and credit spread risk. Proprietary trading is not significant and revenue is generated mainly through capturing the bid/ask spread on customer transactions. Wachovia is planning a significant expansion of overseas operations in London and Hong Kong. Initially, they are adding traders for FX, structured products and equities in London and structured products sales and distribution capabilities in Hong Kong.

Wachovia posted record second quarter 2006 trading revenues of $995 million, driven by increased interest rate derivative volume, two large securitizations, and one-time gains. The Global Rates business posted a record quarter on derivative volumes and one-time gains on the unwinding of Tender Option Bond structures. Structured Products closed two large commercial securitizations, as well as recognizing one-time gains from warrants received in mezzanine financings. Credit Products' results were flat compared to first quarter 2006 due to lackluster demand and below forecast trading results. Equity Division revenues were well below forecast due to poor trading results and flat marketing. Revenues for 2005 were also good, driven by strong growth in Structured Products revenues. An improving economy and moderate impairments helped Principal Investing remain profitable in 2005 and 2006.

Market Risk Management (MRM) is independent of the line-of-business and monitors compliance with VaR limits, desk limits and guidelines, reviews stress test scenarios, and interacts with the trading desk to identify risks. MRM is responsible for ongoing monitoring and exception reporting to Risk Return Committee. A new head of MRM was hired in 2005. He has added staff, reorganized the Market Risk group, and has established a separate MRM Committee. Trading and risk systems remain a concern. Management has made substantial progress towards stabilizing and upgrading trading and risk platforms. The new VaR system and major trading platform upgrades are on target to be fully stabilized by year-end 2006. Until fully implemented and tested, risk management limits exposures in products where good systems or reporting is lacking. The development flow of new products remains steady, particularly within Structured Products. The new product approval and fund commitment processes continue to evolve and improve.

Information Technology Rating – 2

IT risk remains high at Wachovia, but overall, Wachovia's management of this risk is satisfactory. Management continues to address the remediation of longstanding issues in CIS and DSCM, as well as the proximity risk issue existing between Wachovia's main data processing center and its local backup facility. While progress is being made, additional efforts are needed, which are outlined in the *Matters Requiring Attention* section of this report.

In the past year, there have been a number of management changes including Gerald Enos replacing the retiring Jean Davis as head of Operations, Technology and eCommerce (OTE). We consider IT Management to be skilled and proficient. Reporting and tracking systems continue to evolve. The Information Technology division makes use of a metrics reporting format. The CIO division is less detailed and will stress CIO scorecards to track performance. *Centerprise* will be the corporate repository for risk assessments.

The SouthTrust conversions were completed without significant problems. The major development projects for e-Commerce (Sawgrass) and BSA/AML (*SearchSpace*) were also successful. Efforts are underway to improve efficiencies through offshoring. Wachovia has offshored support for 107 applications and the bank predicts this will grow to over 300 by year-end 2006. Business processes are also being offshored. A tollgate approach is used to manage readiness assessments for business processes. The new approach is an outgrowth from the *Six-Sigma* methodology supported by Genpact, and management is successfully managing the ten pilot projects underway. The current projects involve approximately 250 FTEs, but substantial increases are planned.

Trust Rating – 2

The administration of fiduciary activities at Wachovia continues to be fundamentally sound. Executive management is committed to the growth of asset management related activities as core parts of Wachovia's diversified business model. Overall, fiduciary activities at Wachovia are profitable, and when combined with the balance of Asset Management business lines, contribute significantly to corporate net operating income. Executive management is making reasoned decisions to exit selected trust business lines and refocus resources according to their strategic plan. Acquisitions have been in line with this plan, complementing or expanding areas seen as growth opportunities.

Corporate level control functions, including Internal Audit, Risk Management and Compliance provide an effective oversight process for risk identification and internal controls. With the exception of Trust Company controls and Know Your Customer process improvements, discussed below, control assessment reports and Internal Audit reports reflect issues in fiduciary business lines that can be addressed in the normal course of business.

Management is in the process of addressing a variety of control issues related to the personal trust business that became apparent as activities were centralized under a Trust Company label. These issues were initially identified in a joint effort by the business line and Corporate Compliance, and later supplemented by OCC and Internal Audit reviews. Failure to execute on proposed corrective actions led Internal Audit to issue an "Unsatisfactory" rating which resulted in new management in 2005. New management is taking appropriate action to address all control gaps. We will continue to monitor corrective actions as they proceed and re-assess the control environment within the Trust Company during 2007.

Management is continuing to strengthen BSA/AML controls across all business units within Capital and Wealth Management (C&WM). We are monitoring action plans being implemented in International Trust until their completion. Management reports the implementation of a good customer documentation process for the Wealth Teams, which is supported by Internal Audit reviews. BSA/AML will continue to be a focus into 2007 as we review management's continuing implementation of a control process in remaining C&WM business units.

Consumer Compliance Rating – 2

Wachovia continues to reflect a satisfactory level of compliance with consumer protection laws and regulations. Compliance risk, while still high in certain areas, is stable and moderate from an overall perspective. Wachovia's BSA/AML compliance program satisfies regulatory requirements, but the aggregate level of BSA/AML risk continues to be high. For more details on Wachovia's BSA/AML compliance program, see the *Additional Comments* section of this report.

The corporate oversight process includes substantial resources allocated to implement and monitor compliance with the varied laws, rulings, regulations, policies and procedures. While the inherent volume of risk in this large and diversified bank is high, this compliance risk management structure helps to minimize risk.

Wachovia operates a sound fair lending assessment program. Our fourth quarter 2005 fair lending examination found no evidence of illegal discrimination or other illegal credit practices. In addition to underwriting processes, we reviewed pricing features via the bank's regression-based analysis and through the comparative file reviews we completed.

Privacy issues remain a concern due to the potential impact on consumers, as well as reputation risk, when internal and third party incidents expose customer information. While these situations continue to garner the prompt attention of management, every effort must be made to strengthen controls over customer information, including proper handling and transport by vendors and other outside parties. The implementation of interagency guidance on privacy notifications and customer information procedures has been achieved.

Community Reinvestment Act Rating – 1

Bank performance to help meet community credit needs reflects a rating of "Outstanding" (otherwise denoted as "1"). The evaluation of Wachovia performance is reflected in the CRA Public Disclosures (lead bank and Delaware) issued in June 2005.

Management has effectively determined credit, investment, and service needs of the defined assessment areas. Management has also taken meaningful actions to address those needs, especially for low- and moderate-income individuals and geographies, as well as for small businesses. All tests were rated "High Satisfactory" or better, with one exception. The Newburgh MSA Investment Test performance can afford to be strengthened, and it reflects a rating of "Needs to Improve." We also found that Wachovia has complied with the requirements of the implementing regulation (12 C.F.R. 25) for the public notice and public file.

Our next assessment of CRA performance will begin third quarter 2006. This assessment will cover the lead bank and the Delaware bank.

Additional Comments

BSA/AML

Wachovia's 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. Wachovia's system of internal controls include policies, procedures and processes that identify high risk products, services and customers with updates designed to account for changes. SVP Zbrzeznj has been designated the BSA/AML officer responsible for ongoing oversight of the program, and Internal Audit's BSA/AML function is the primary source for independent testing. An adequate training program exists which includes comprehensive training at the enterprise-wide level, and specific risks are considered when designing training at the individual lines of business.

Over the past two years, management has continued to make progress in establishing more effective enterprise-wide processes in the BSA/AML area. Significant human and financial resources are being devoted to the goal of achieving sufficient mitigation of BSA/AML risk. The central corporate AML office, which includes line of business compliance liaisons and an independent risk assessment team, has been expanded. Also, *SearchSpace*, the system-wide automated function for the detection of suspicious activities and transactions, was fully implemented in December 2005.

Because Wachovia has focused on the highest risk areas (e.g. foreign correspondent banking, MSBs), OCC and Audit findings are now generally satisfactory in those functions. However, in some other lines of business, OCC and Internal Audit reports still reflect issues, pointing to a continued need to fully implement a consistent enterprise-wide process. Because of the nature of the products and issues involved, we feel they constitute only a moderate increase in money laundering or terrorist financing risk. Management has been responsive and is taking action to address these concerns.

Potential Currency Transaction Report (CTR) back-filing issues remain outstanding as a result of poor past practices in CTR exemption processes. After a self-assessment and subsequent review by Internal Audit in 2004, a number of weaknesses were disclosed in Wachovia's CTR exemption procedures. These included weak management oversight, training and operating procedures; and inappropriate review procedures, especially related to mergers. In late 2004 and early 2005, management reviewed all 2,690 exemption files for proper documentation and exemption status. After document gathering, repapering and matching CTR exemptions to an OCC list obtained from FinCEN, most files were determined to be appropriately exempt or that they had been revoked in a timely manner. However, 331 files (3,934 accounts) did not appear to be eligible for an exemption. Exemptions for these files are now revoked. Management asserts, and the OCC concurs, that most of these accounts do not present a significant risk of inappropriate activity. However, there are some accounts where back-filing will likely be necessary. Wachovia is working with FinCEN and the OCC to resolve this issue.

Basel II Implementation

Wachovia continues to implement Basel II capital requirements. In February 2006, we issued Supervisory Letter WB-2006-07 for the Basel Project Management Office (PMO). We concluded that Wachovia's Basel planning process was satisfactory, but we identified four Matters Requiring Attention. These included: 1) increasing Board oversight, 2) better defining the validation process, 3) enhancing the quality assurance process, and 4) ensuring a comprehensive gap resolution process. Management has provided a satisfactory response, and action plans are in place to address these issues. Basel project teams continue to re-visit the bank's implementation plan and project interdependencies to meet the parallel year start date, and Internal Audit remains active in monitoring the Basel PMO. We will continue to communicate extensively with management as the regulatory guidance and the final rule are issued.

Risk Assessment Summary

RISK PROFILE	QUANTITY OF RISK	QUALITY OF RISK MANAGEMENT	AGGREGATE RISK	DIRECTION
Strategic	----	----	High	Stable
Reputation	----	----	Moderate	Increasing
Credit	Low	Satisfactory	Moderate	Increasing
Interest Rate	Moderate	Satisfactory	Moderate	Stable
Liquidity	Moderate	Strong	Moderate	Increasing
Price	Moderate	Satisfactory	Moderate	Increasing
Foreign Currency Translation	Low	Satisfactory	Low	Stable
Transaction	High	Satisfactory	High	Stable
Compliance	Moderate	Satisfactory	Moderate	Stable

	QUANTITY OF RISK	QUALITY OF RISK MANAGEMENT	AGGREGATE RISK	DIRECTION
BSA/AML	High	Satisfactory	High	Stable

	AGGREGATE RISK
BSA/AML	High
Internal Control	Satisfactory
Audit	Satisfactory

Strategic Risk – High

Strategic risk was recently changed from moderate to high as a result of recently announced mergers and the bank's aggressive expansion in the consumer lending business. Wachovia is expanding their mortgage company business, growing its indirect auto lending business with the purchase of Westcorp – a large prime/sub-prime auto lender, and is re-entering the credit card business. Management continues to make targeted strategic moves in various other lines of business, especially in the insurance and asset management areas. These activities coupled with the Golden West merger represents a high strategic risk due to the investment required to expand and integrate these businesses to gain market share.

Management continues to provide appropriate oversight while seeking opportunities that facilitate execution of the strategic plan.

Reputation Risk – Moderate

Aggregate reputation risk is moderate as Wachovia's name and reputation in the marketplace remains good. Wachovia continues to receive high marks for customer satisfaction. However, Wachovia's reputation in the market was recently somewhat negatively impacted after the announced merger with Golden West. Analysts remain skeptical of how these two organizations will be effectively integrated. Risk direction continues to be increasing in recognition of the bank's high level of strategic risk.

Outstanding litigation and increased regulatory scrutiny on a variety of operating practices is consistent with the rest of the banking industry. Reserves are appropriately established and have proven to be adequate in recently settled cases. Management continues to demonstrate their ability to satisfactorily resolve the various legal, integration, and investigative issues that bear upon Wachovia's credibility and public perception.

Credit Risk – Moderate

Aggregate credit risk remains on the low-end of the moderate range. The quantity of risk in the bank's portfolio is low. Criticized and classified loan levels and loan losses remain at historical lows. The acquisition of Westcorp has slightly increased the quantity of risk but higher returns support the additional risk. Commercial credit quality remains good, but pressure from the frothy, competitive conditions is starting to weaken credit quality and increase the inherent risk in the portfolio. The consumer portfolios continue to perform well.

The quality of credit risk management is satisfactory. Management has satisfactory MIS and governance processes in place to measure, monitor and control credit risk. Credit Risk Review and Internal Audit processes and procedures are effective. Management has prudently hired additional personnel to focus on loan portfolio management. This has allowed management to implement some cash and synthetic securitizations as well as credit default swaps to mitigate risk in the overall portfolio.

While asset quality indicators remain favorable, we see several market indicators that show the direction of credit risk increasing. These include the continued competitive pressure on underwriting and trends in loan migration. The bank also faces several operational issues that could increase credit risk. These include the implementation of the "end-to-end" rollout, which is a change in loan approval and servicing processes in the general bank and new reduced servicing procedures for lower risk CIB customers.

Interest Rate Risk – Moderate

The bank remains moderately liability sensitive, primarily due to long-term interest rate risk. On a short term basis, interest rate sensitivity is neutral. Due to continued growth in fixed rate loans and a weaker outlook for deposit growth, management anticipates the balance sheet will continue to trend toward liability sensitivity. Limits are prudent and restrict overall IRR, and are primarily accomplished through balance sheet hedges. Overall policies and procedures and the risk management system allow the bank to effectively manage and control IRR.

Management and staff resources within Treasury continue to be under pressure to perform all scheduled tasks, respond to special projects, and manage new infrastructure projects. The BancWare Convergence Implementation Project continues to have issues that need to be addressed and special projects like the Westcorp and Golden West acquisitions have consumed staff resources. Despite these issues, management continues to perform the critical IRR management function. To address these issues, an external project manager was recently engaged to guide the completion of the BancWare conversion, the build-out of additional application development, and the documentation of policies and procedures. Additionally, a project manager for all of Treasury is in process of being recruited. This individual will coordinate and direct all significant Treasury infrastructure projects.

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. Management addresses all key aspects of liquidity management in its overall risk management process. Committee oversight is well-defined and policies and procedures are adequate. In addition, MIS provides relevant information upon which to make sound decisions. The contingency funding plan is comprehensive and flexible, and bank projections reflect adequate funding sources under adverse market scenarios. Market acceptance of the bank's debt is very favorable, and debt spreads continue to be lower than peers. Wachovia has significant off-balance sheet exposures but also has adequate plans for any potential funding draws and has recently taken steps to reduce contingent liquidity exposure. Holding company funding is adequate.

Overall liquidity risk is increasing. Liquidity trends show a greater reliance on wholesale funds to support growing loan demand as core deposit growth remains flat. However, wholesale funding levels, diversity and maturity are satisfactory. Wachovia is managing its increased funding needs by prudently accessing the overnight markets and issuing incremental term bank and holding company debt. The announcement of the acquisition of Golden West earlier this year and the uncertainty regarding the outcome of FHLB negotiations have also increased funding challenges. Golden West will increase overnight and term funding needs; however, management does not expect the liquidity posture to be adversely impacted. Management plans to further diversify its investor base by marketing Euro denominated debt issuances to the international community in third quarter 2006 along with potentially developing a Covered Bond program.

Price Risk - Moderate

Overall, trading activities including Principal Investing reflect stable and growing revenue, and market risk generated from positions is moderate. Proprietary trading is not significant and revenue is generated mainly through capturing the bid/ask spread on customer transactions. However, the volume and complexity of traded products continues to expand, particularly in Structured Products originated across all business lines. Counterparty credit exposure remains low with minimal exposure to high risk entities.

Trading risk is monitored at appropriate levels. The independent Market Risk Management (MRM) function sets and monitors compliance with VaR limits, desk limits and guidelines; develops and reviews stress test scenarios; and interacts with the trading desk. MRM is upgrading its current VaR system, has added staff to better support the market risk function, and is enhancing some stress scenarios. The new product approval and fund commitment processes continues to evolve and improve.

Overall price risk is increasing, given the growth in new products and limitations of current technology. Technology issues and limited MIS currently restrict the effectiveness of risk management, and trading and risk systems remain a concern. To deal with these limitations, risk management limits exposures in products where issues exist with MIS or systems. Management has also implemented plans to continue to enhance the recently implemented new VaR system. Additionally, CIB Technology has developed and is implementing a multi-year plan to stabilize and upgrade trading platforms, and better align resources to support the lines of business. The focus on other Trading Platform IT issues including change control and SDLC, controls over systems maintained by the business line, and information security needs to continue. Enterprise initiatives are in process to address these issues, and progress is noted. Management is also addressing system and MIS issues associated with counterparty credit systems, MIS and staffing.

Foreign Currency Translation Risk - Low

This risk is immaterial and is not expected to increase substantially in the near future.

Transaction Risk – High

Transaction risk is considered high and stable. The quantity of transaction risk is high primarily due to the volume, type, and complexity of transactions. Products and services continue to grow and so does the bank’s reliance on automation for support and delivery.

Operational risk governance continues to expand and improve. Management has reduced the bank's overall risk profile for distributed systems change control. Additionally, current remediation projects should significantly reduce customer information security risk by year-end 2006. Management is working to improve processes to better control weaknesses in the management of vendor risk. Vendor risk will increase as the bank expands offshore activities.

Efforts to address the proximity risk between Wachovia's main data processing center and its local backup facility continue. The bank's proximity remediation solution is expected to be a part of the overall data center strategy, which is expected to be presented to us shortly. The actual remediation may be extended and the interim risk may actually increase as the new strategy is implemented.

Corporate-wide activities surrounding implementation of Basel II capital requirements are on schedule and are an integral part of the bank's processes for controlling transaction risk. Financial reporting controls also continue to improve and are consistent with Sarbanes-Oxley requirements.

Compliance Risk – Moderate

The aggregate compliance risk of Moderate reflects the strength of risk management systems, processes, and personnel to mitigate inherent risks associated with operations in a company as large and diversified as Wachovia. Overall compliance policies and processes are sound. The level of compliance with consumer protection laws and regulations, including fair lending regulations, is also satisfactory. CRA ratings for both banking subsidiaries are "Outstanding."

Compliance management has resources available to successfully incorporate the company's ongoing expansion of territory and product offerings. Acquisition of Westcorp and its banking subsidiary along with the corporate re-entry into the credit card business will increase the quantity of risk. However, this is mitigated to a great extent by the demonstrated success of Wachovia with other recently acquired institutions and by its previous credit card experience. Expansion of the company and its activities is taking place in an orderly and well-controlled manner. Management has shown the willingness to address and cure shortcomings, whether identified internally or by auditors, regulators, or consultants. With consideration to all of these factors, the overall direction of compliance risk is stable.

BSA/AML – High

The aggregate BSA/AML risk, a component of Compliance Risk, remains High and reflects inherent risk associated with the volume and diversity of products and services, operating locations (domestic and foreign), and the broad customer base of Wachovia for varied transactions. In addition, Currency Transaction Report (CTR) back-filing issues remain outstanding as a result of poor past practices in CTR exemption processes. While the Wachovia

BSA/AML compliance program satisfies regulatory requirements overall, additional efforts are needed in some lines of business to ensure the optimum level of consistency in risk assessment and management.

Due to Wachovia's significant focus on the highest risk areas (e.g. foreign correspondent banking, MSBs), OCC and Internal Audit findings are now generally satisfactory in those functions. However, in some other lines of business, OCC and Internal Audit reports still reflect issues, pointing to a continued need to fully implement a consistent enterprise-wide process. Because of the nature of the products and issues involved, we feel they constitute only a moderate increase in money laundering or terrorist financing risk. Management has been responsive and is taking action to address these concerns.

While the acquisition of foreign correspondent banking business from Union Bank of California in 2005 increased risk, a majority of the acquired accounts are held by existing customers of Wachovia, mitigating this risk somewhat. In addition, the sale of Embassy Banking accounts to HSBC reduced AML risk. Reasonable processes and procedures are in place to help ensure that mergers and acquisitions, including growth through the West Coast expansion, are incorporated without increased risk to the AML program.

Internal Controls – Satisfactory

Overall, Wachovia's system of internal controls provides reasonable assurance that business units achieve their stated objectives and produce reliable financial reports. The control environment is supported by a well-conceived committee structure that allows the Board to properly oversee risk taking and control activities.

Consistent with improvements in the internal audit program and Sarbanes-Oxley (SOX) program, Wachovia has become more effective at identifying and resolving internal control deficiencies. Financial reporting controls continue to receive intense scrutiny via the bank's Financial Governance Office and its SOX implementation project. Information technology controls continue to be the top internal control concern, as ten of the 13 outstanding significant SOX deficiencies are IT related. Remediation efforts are in process to address each of the deficiencies.

Internal Audit – Satisfactory

Wachovia's internal audit function remains "satisfactory." Audit Committee and audit leadership continue to elevate Audit's stature within the company whereby audit identified control weaknesses are receiving more timely and appropriate management attention. The Audit Committee is effective, and provides the appropriate direction and oversight.

Audit management and staff are capable and focused on continuing to improve the overall quality and effectiveness of the audit function. A sound audit program is in place that includes coverage audits, project monitoring, and continuous monitoring of risk and strategic changes within the audit universe. Audit staffing levels and expertise has improved substantially over the past several years. As a result, coverage audits have significantly increased along with the depth and breath of the testing performed. In the past year, the IT and compliance audit functions have improved and are now considered satisfactory.

Signatures of Directors

We, the undersigned directors, comprise the Audit Committee (Committee) of Wachovia Corporation, Charlotte, NC. Board Resolutions authorize this Committee to review and sign reports of examination from federal regulatory agencies for Wachovia Corporation and its subsidiaries. We have personally reviewed the contents of this Report of Examination for Wachovia Bank, National Association, dated June 30, 2006.

NAMES:	SIGNATURES:	DATES:
Joseph L. Neubauer (Chairman)	____________________	__________
James D. Baker II	____________________	__________
John T. Casteen III	____________________	__________
Lanty L. Smith	____________________	__________

NOTE: This form should remain attached to the Report of Examination and be retained in the institution's file for review during subsequent examinations. The signature of committee members will suffice only if the committee includes outside directors and a resolution has been passed by the full board delegating the review to such committee.