Quarterly Risk Assessment Profile
Wachovia Corporation
2nd Quarter 2008

Holding Company No:	500609	**Last Fed Exam:**	06/30/2008
Total Assets ($B):	$812.4B	**RFI/C/(D):**	332/3/(2)
Examiner-in-Charge:	David K. Wilson		

National Bank:				
Charter	**Name**	**City, State**	**Assets ($B)**	**C/CAMELS/ITCC**
1	Wachovia Bank, NA	Charlotte, NC	670.6B	3/233322/2221
22559	Wachovia Bank of Delaware, NA	Wilmington, DE	4.0B	2/222222/2021
23201	Delaware Trust Company, NA	Wilmington, DE	0.4B	2/222222/2220
24728	Wachovia Card Services, NA	Atlanta, GA	2.5B	2/222222/2020

Risk Assessment Summary

The overall condition of Wachovia has deteriorated during the past year. As a result of the significant deterioration in the residential real estate and commercial real estate portfolios and the continuing market disruption, Wachovia's earnings, present and future, have been severely impacted. Financial markets remain unstable, and credit losses are expected to increase substantially over the next year. In addition, recent regulatory and legal matters have also become public, which have further tarnished Wachovia's brand name and reputation and have highlighted weaknesses in Wachovia's board oversight and management of risk.

As a result of the deteriorating condition of the bank, we downgraded the overall composite rating for Wachovia Bank, N.A. to a "3" rating this quarter in conjunction with issuing our 2008 Annual Report of Examination. While the bank is within the "well capitalized" level for Prompt Corrective Action purposes, asset quality deterioration and significant operating losses have put a strain on the bank's liquidity and capital levels. Similarly, while the bank remains liquid, potential funding sources have become more restricted. Board oversight and overall management supervision needs attention. Management, Asset Quality, and Earnings are all rated "3" with Capital, Liquidity, and Sensitivity to Market Risk remaining "2" at this time. However, given market and bank volatility, these ratings continue to be evaluated and could result in additional downgrades if earnings do not rebound or further deterioration occurs. Additional comments about the CAMELS are provided in the ***Other Information*** section of this RAS.

Because of the downgrade to a composite "3", we expect Wachovia's Board of Directors to enter into a Memorandum of Understanding with the OCC. Additionally, the bank is subject to limitations on controlling or holding an interest in financial subsidiaries set forth in 12 USC 24a and 12 CFR 5.39, and its composite and management "3" ratings will require that the bank enter into an agreement with the OCC pursuant to 12 USC 24a(3) (a) and 3) and 12 CFR 5.39(j)(1)(ii) and (iii).

Many of Wachovia's recent difficulties have stemmed from questionable strategic decisions and incomplete due diligence activities. In addition, the Board and management sometimes did not proactively respond to changing market and business conditions. This has led to higher than normal risk in several areas of the bank including the legacy Golden West portfolio, the residential commercial real estate portfolio, certain parts of CIB, and certain activities in Treasury and Balance Sheet Management. Wachovia lacked an atmosphere of credible challenge when the Golden West acquisition took place. Strategic initiatives have not received a thorough vetting to ensure that all risks are identified, evaluated, and addressed.

The Board needs to clearly define the company's strategic direction and the Board's overall risk appetite. Appropriate policies, procedures and practices need to be in place to provide clear guidance regarding acceptable risk exposure levels, and strategic directions should be consistent with achieving this desired risk profile. The Board also needs to ensure executive management builds a strong management structure that promotes a corporate culture that is balanced, transparent, instills discipline and accountability, and emphasizes strong risk management practices.

Corporate Oversight/Management of risk continues to be an area of top concern. Wachovia's present risk culture and decentralized approach lends itself to an environment with inconsistent identification, escalation, prioritization, and management of risk. Wachovia needs a strong risk culture that enforces strong accountability and ensures management makes all risk- taking activities transparent to appropriate risk and control partners. Risks should be comprehensively analyzed and escalated appropriately. In addition, management of risk should be conducted at the line of business level, and the Risk Management unit should have clear authority to approve, disapprove, or escalate risk.

Significant asset quality deterioration in the legacy Golden West portfolio, and its associated OREO, is the primary reason for the decline in overall asset quality for Wachovia. The commercial residential building portfolio and general weaknesses across all of the portfolios have, to a lesser extent, also contributed to the deterioration. Loan losses and NPAs have reached levels that are of concern. The rate of increase is rapid, and there are no signs of stabilization. Management in the near term needs to continue to focus on proactively seeking opportunities to reduce credit risk. Poor strategic decisions in the past have put management in a tenuous situation – its immediate missions are to timely identify problem assets and improve asset quality in a poor economic and illiquid environment.

With the continuing deterioration of Wachovia, management has enacted its Liquidity Crisis Management plan and is taking steps to build liquidity to meet potential stress events. Because of the heightened sensitivity of the market to Wachovia's financial condition, more formal liquidity and capital planning processes are needed.

The Board has recently acknowledged many of these weaknesses and has taken a more active oversight role in Wachovia. The Board hired a new CEO on July 9, 2008; contracted with an outside consulting firm to conduct an independent assessment of Wachovia's risk management practices and corporate governance structure; tightened underwriting and eliminated the negative amortization feature for the Pick-a-Pay product; and commenced actions to generate, protect, and preserve capital. These actions as well as actions taken to hold people accountable represent positive steps toward improving Wachovia's overall condition.

Regulatory and legal matters continue to also negatively impact Wachovia's reputation in the market. The Formal Agreement (Agreement) covering remotely created checks (RCC's) issues' stemming from

the PPC investigation was entered into on 4/24/08. This includes provisions for consumer education, and further requires the bank to reimburse consumers harmed by the bank's relationships with certain telemarketers and third party payment processors that used RCC's. To date, Wachovia is making progress in complying with this Agreement, and management has provided all required submissions in a timely manner. We intend to evaluate this information for its sufficiency and quality during a targeted examination scheduled to commence 8/4/08. In addition to this regulatory matter, Wachovia continues to be subject to other legal and regulatory investigations that may expose the bank to additional reputation risk, compliance risk, civil money penalties, and possible criminal/civil litigation. These include the municipal bid rigging matter, Auction Rate Securities, and AML concerns related to Wachovia's former relationships with certain *casas de cambio*.

Top Concerns

As addressed above, Corporate Oversight/Management of Risk and Credit Risk are our top supervisory concerns. Specifically, the following actions are needed to address each of these.

Corporate Oversight/Management of Risk

- Develop a clearly defined strategic plan;
- Develop a clear, well-defined desired risk profile with clear risk tolerance levels;
- Develop a formal action plan to address how Wachovia will achieve the desired risk profile;
- Develop a uniform process for thoroughly vetting strategic decisions;
- Define clear roles and responsibilities for line of business management and Risk Management personnel that promotes accountability;
- Adopt a consistent process for identifying, prioritizing, and escalating risk issues;
- Enhance risk reporting to ensure it quantitatively measures and monitors risks so risks can be meaningfully aggregated at the corporate level;
- Institute a robust Treasury Risk Management function;
- Continue to enhance formal liquidity management processes; and
- Formalize stress testing processes for capital.

Credit Risk

- Develop aggregate reporting that tracks this risk reduction and establishes goals and asset quality targets for the short (6 months) and intermediate term (12-24 months);
- Continue and accelerate actions to meet the above targets, including:
  - Working with troubled residential real estate borrowers while also adhering to safe and sound banking practices that include timely and proper recognition of nonaccruals, Troubled Debt Restructurings, and losses; and
  - Proactively reducing long-term risk via refinances of Pick-a-Pay mortgages into amortizing product using proprietary or government-sponsored programs and/or asset sales.
- Develop improved credit risk aggregation and portfolio governance processes and more clearly establish tools to enforce credit risk tolerances across the corporation, including:
  - Formalizing warehouse / pipeline risk limits relative to capital or earnings at risk;
  - Coordinating hedges across business areas;
  - Increasing servicing and collection efforts; and
  - Adhering to house limit hold levels.

Other Supervisory Concerns

In addition to the concerns previously highlighted above, we also have supervisory concerns in the following areas:

Basel II Implementation

We continue to have concerns with Wachovia's implementation of Basel II. The overall Basel program remains "deficient" (red status) with various work streams either behind schedule or lacking approved

integrated work plans. Retail modeling remains behind schedule, and management needs to build more models than they previously anticipated. The Risk Data Strategy (RDS) has missed target completion dates, and Regulatory Capital Calculations and Reporting has key dependencies on projects which are behind schedule.

The recently completed Horizontal IRB Review indicates that the bank's progress toward Basel compliance lags its peers with respect to the Retail work stream. While the bank's progress is also slow in some areas of Wholesale, most of the other mandatory banks are also experiencing similar difficulties regarding Basel compliance. Wachovia continues to make progress in the Basel AMA areas. However, management is actively developing and implementing changes to incorporate a consistent methodology for the identification, reporting, and aggregation of Business Environment Internal Control Factors (BEICF), as well as enhanced operational risk reporting and a "new" capital model that includes multiple units of measure.

Currently, the Basel Project Management Office (PMO) is coordinating efforts around the creation, review, and approval of the Regulatory Plan at the upcoming August Board meeting. The Plan is expected to include objective, measurable milestones, and will describe the resources budgeted and available to implement the plan. Management's present timeline calls for the start of parallel run on October 1, 2009. Basel II-Final Rule requires mandatory banks to start their parallel run no later than April 1, 2010, to ensure that they commence a first floor period start date by April 1, 2011. The Basel program's history is one of not meeting target dates. This is a source of concern as the bank's current schedule leaves limited cushion for any additional slippage in key projects.

BSA/AML

The Wachovia BSA/AML compliance program satisfies regulatory requirements prescribed in 12 CFR 21.21; however, certain aspects of the program need further attention. These areas include CIB AML processes and Currency Transaction Report back-filing. We continue to review Wachovia's activities related to certain *casas de cambio*. Although Wachovia exited the foreign currency exchange business, an investigation is underway for potential money laundering activities and the OCC has started an examination to review related controls and monitoring processes. We will continue to review other aspects of the BSA/AML program including the oversight changes that are underway in terms of the reporting structure, management, and risk assessment for BSA/AML activities.

IT Risk Remediation

While IT risk remains high, management continues to make good progress in addressing the various IT Risk Remediation projects for access control deficiencies, data center proximity risk (DCPR), and vendor management. Management is in the process of resolving risk exposures for developer's access to distributed production servers, and is executing Phase II of the DCPR strategy. This includes application analysis, build-out of the third data center, and testing of scenarios and critically bound applications. Remediation efforts for both access and DCPR are expected to extend into the 4Q09.

The Global Supplier Management & Outsourcing/Offshoring (GSMO) Group continues to strengthen governance and internal controls over the vendor management program. These efforts are expected to continue throughout 2008. GSMO has developed a risk-based vendor management program leveraging off Wachovia's Operational Risk process. Enterprise-wide vendor management will remain a vulnerable function until all aspects of the governance and internal controls structure are in place and vendor managers are fully trained.

Spreadsheets and End-User Computing Tools (EUCTs)

During late 2006, we identified the need for an integrated and effective enterprise-wide governance plan to identify use of spreadsheets and EUCTs activity. Since that time, management has developed a Draft Enterprise Spreadsheet Governance Rollout Plan. Management has determined the highest risk areas, and plans to roll out a solution to those higher risk areas in 2008. These areas include Treasury and Planning, and Corporate Accounting and Reporting. CIB continues with its roll out of the Prodiance tool and has

made good progress on implementation. The OCC will continue to monitor the CIB and Enterprise-wide solutions for controlling spreadsheet risk.

Risk Profile

The overall risk profile of Wachovia has now increased to "High". Strategic, Reputation, Credit, Liquidity, Price, Transaction and BSA/AML risks are all considered "High", while the remaining risks (IRR and Compliance Risks) remain "Moderate" and Foreign Currency Translation risk remains "Low." As a result of the significant deterioration within the credit portfolio and the continuing market disruption, we made the following changes to risk ratings this quarter:

- Direction of Strategic Risk from "Stable" to "Increasing"
- Aggregate and Quantity of Credit Risk changed from "Moderate" to "High"
- Aggregate Liquidity Risk from "Moderate" to "High"

Below is a brief summary of each risk. More detailed support for the ratings can be found in the back section of this report.

Strategic Risk – High
Strategic risk is "High" and increasing due to the continued impact of the market disruption. Wachovia's problems are being magnified by questionable strategic decisions, lack of due diligence, and incomplete vetting of the risks associated with strategic decisions. The Board has now acknowledged that the Golden West acquisition was a mistake. Strategic efforts are now focused on generating, protecting and preserving capital. The market disruption has significantly impacted Wachovia's structured products business and will have a significant continuing profitability impact until markets are re-established or new revenue sources are identified. At this point, Wachovia is strategically pulling back from this business and has announced staff reduction in its corporate and investment banking. Wachovia is also exiting the wholesale mortgage origination business, which will result in additional personnel cuts. International expansion activities have slowed and reduced in scale in many cases. On the domestic front, the western branch expansion plans into California, Nevada, and Arizona continue but at a reduced rate, along with the opening of branches in Texas. Major cost containment initiatives, instituted in late 2Q08 will likely have an impact on Wachovia's strategic initiatives.

Reputation Risk – High
Wachovia's Reputation Risk is now considered "High" and increasing. Primary driver of this rating is the recently poor earnings performance compounded by market disruption and its impact on Wachovia's earnings, stock price and overall reputation. The market now perceives Wachovia as a troubled institution. Wachovia's reputation continues to be negatively impacted by the acquisition of legacy Golden West in 2006 and the significant decline in the mortgage lending business. Wachovia has been subject to ongoing negative media attention as a result of its poor earnings results; the issuance of the Formal Agreement with fines/restitution charges for the PPC relationship; the DOJ investigation into *casas de cambio* activities involving alleged money laundering of drug proceeds; the DOJ investigation into municipal bond rigging; regulatory investigations into auction rate securities; the markdown on its SILO transactions; and the BOLI earnings charge.

Credit Risk – High
Aggregate credit risk is "High," with the quantity of risk rated "High" and the quality of risk management rated satisfactory, although weaknesses exist in the risk management function. The direction of risk remains increasing. The aggregate and quantity ratings represent downgrades from the previous moderate level rating. Underwriting, strategic, external and quantity of credit risk factors are now all considered high. Asset quality metrics continue to worsen and are considered less than satisfactory as they are coming off the pristine levels of recent years. Continued deterioration is most evident in consumer mortgages, residential builders and indirect autos with other portfolios showing milder weakness. While

current lagging indicators are manageable, losses, delinquencies and criticized assets are projected to reach levels that are of concern.

Management is taking action to mitigate this increasing credit risk. They are addressing several self identified weaknesses and increased the depth of risk management portfolio analysis. Policy, personnel and control system factors are satisfactory, although risk management processes remain weak. Management needs better ways to aggregate risk across the corporation. Management also lacked proactive processes to identify risk in the legacy Golden West acquired portfolio. The market disruptions revealed the need for improved processes to measure, monitor, and control risk in the structured products area and the need for a more formalized process to aggregate and control pipeline distribution risks primarily in leveraged lending, CMBS and structured products.

The slumping housing market and broader economic slowdown continue to cause asset quality deterioration. These credit risk indicators have yet to stabilize and support the continued increasing direction of risk.

Interest Rate Risk – Moderate

Interest Rate Risk remains "Moderate" and "Increasing." Management has used a number of strategies, including active positioning with derivative and cash instruments to change the company's net exposure. Because of the uncertainty around future rates, management has decided to hold exposures steady and opportunistically replace hedges over time.

Management of IRR exposures remains satisfactory due to experienced staff and their ability to adapt to changing market conditions. Due to earnings volatility, management has recommended to ALCO that short-term IRR be measured as a percentage of net interest income with a policy limit of 3.5% of projected 12 month NII. Historical analysis shows that this is a reasonable limit. Modifications to the BancWare system are still needed to properly model Golden West products. EVE modeling is being implemented under a separate project phase and will be evaluated in 4Q08. Management has taken steps to address previous concerns regarding the lack of formal project management.

Liquidity Risk – High

Liquidity risk in aggregate is being raised to "High" due to the company's financial deterioration and investors and the market's concerns about Wachovia. Wachovia as compared to other financial institutions has more expensive term funding and reduced availability. All major credit agencies downgraded Wachovia's credit rating one notch as expected following the company's recent earnings announcement. The Net Funding Gap risk has been raised to high, given the significant funding gaps which could occur in a severe funding scenario.

Liquidity management remains satisfactory, and management is taking action to build and retain liquid assets. Wachovia recently produced two stress scenarios in order to assess and plan for the impact of a potential credit downgrade to better deal with this environment. The contingency funding plan has been activated to build liquidity in light of negative perceptions and potential customer and investor panic. Wachovia has established a centralized communication response team to deal with inquiries from interested parties, including its retail branch management team and the media. Given the critical condition of Wachovia's Liquidity position, the Board needs to ensure that funding continues to be actively monitored, and actions are taken to strengthen liquidity. Formal reporting to the Board is also needed.

In management's stress scenarios, the moderate scenario reflects sufficient liquidity. Under the severe scenario, Wachovia reflects significant funding gaps. Management has put in place strategies to reduce funding gaps presented in these scenarios.

Price Risk - High
Aggregate Price Risk remains "High", with the quantity of risk "High" and the direction stable. While CIB trading risk is decreasing, Treasury and Balance Sheet Management risk is increasing, primarily due to the increase in BOLI risk. We continue to be concerned with the lack of transparency of some Treasury and Balance Sheet Management risks; however, we note that management is developing a plan to address these issues.

Treasury and Balance Sheet Management price risk is high and increasing. Treasury takes a significant level of risk which has not been readily transparent. In particular, the recent significant losses in BOLI do not coincide with management disclosures of risk to ALCO or regulators. This lack of transparency has led us to question the validity of management disclosures on other Treasury risks. Management is in process of building a formal Treasury Risk Management function.

CIB Trading activities, in aggregate and quantity, reflect a high but decreasing level of risk. Market disruption has led to increased PNL volatility and limited liquidity, resulting in an increased level of risk. However, marked-to-market positions continue to decrease. Management has significantly reduced aged inventory through sales or designating these as held to maturity assets. The corporate-wide one-day management VaR stands at $35.6MM as of July 28, 2008. Trading stress tests results reflect reduced risk and trading growth plans remain on hold as management reassesses and reorganizes the business.

Overall risk management of price risk remains satisfactory. While we have significant concerns with Treasury Risk Management, CIB houses the majority of price risk and these processes are satisfactory.

Treasury and Balance Sheet risk management processes are weak. We noted significant weaknesses in BOLI processes and controls. Processes are weak due to the inadequacy of risk measurement systems to capture risks inherent in the transactions. Additionally, the adequacy of independent measurement and analysis of risk under a variety of scenarios was inadequate. Management information is also misleading, as significant losses were not disclosed in MIS to ALCO or the regulators. Control systems are also weak as risk-monitoring and control functions failed to detect these issues in a timely manner.

CIB Market Risk Management is satisfactory; however, control systems are now considered weak. In particular, certain large transactions lacked the appropriate, detailed review to assess, identify and control risk. MIS aggregation of positions has also been an issue. While overall price verification processes in CIB are satisfactory, staffing, documentation and testing of these positions needs improvement. Other issues exist with technology and modeling.

Foreign Currency Translation Risk - Low
This risk remains very low. Residual risk is limited to the translation of net operating income from foreign operations.

Transaction Risk – High
Transaction risk is considered "High" and "Stable." The quantity of transaction risk is "High" primarily due to growth in the volume, type, and complexity of transactions. Products and services continue to grow as does the bank's reliance on automation for support and delivery. Operational risk governance continues to expand and improve. Significant progress has been noted in the remediation of unauthorized access to financial systems and pervasive control weaknesses surrounding spreadsheets used in the preparation of financial reports.

Management continues to address the IT Risk Remediation concerns.

- Corporate Information Security remediation work has led to improvements in the bank's information security profile. Additionally, controls over developer access to distributed systems are being addressed under the DSAC project. Internal audit continues to validate the effectiveness of corrective actions and sustainability of controls.

- Management also continues to appropriately address the Disaster Center Proximity Risk (DCPR) issue. The DCPR project was extended due to the A.G. Edwards (AGE) merger integration. Management does not anticipate reaching an "acceptable" level of risk until late 2009. The Phase 1 Pilot has been completed, and Phase II has been initiated. Successful completion of Phase II will enable the bank to achieve acceptable proximity risk reduction.
- Governance processes and internal controls for managing domestic vendors have not been effective. However, management continues to make progress toward implementing governance and internal controls for managing domestic vendors. Management is in process of implementing an end-to-end vendor management governance and control process to address these weaknesses. Vendor risk will remain high until the new procedures are fully implemented and the employees trained. This is expected by year-end 2008.

As addressed earlier in the RAS, Wachovia is under a Formal Agreement for the purpose of improving internal controls and risk management systems related to the bank's acceptance of RCC's. Treasury Services Risk Management is leading several governance initiatives including development of guidelines for unacceptable uses of RCC's and account underwriting procedures. Risk management enhancements are also being implemented in order to monitor RCC usage and detect and investigate potential fraud. We will evaluate the sufficiency of these corrective actions via target examination and ongoing monitoring activities.

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 the lead bank and the Delaware bank are "Outstanding."

Compliance management has resources available to successfully incorporate the company's ongoing expansion of territory and product offerings. The increased risk from additional products, services, and geographies is mitigated to a great extent by the demonstrated success of Wachovia.

In 2008, the OCC met several times with management regarding efforts to comply with one aspect of Advisory Letter 2003-3 – "Avoiding Predatory and Abusive Lending Practices in Brokered and Purchased Loans." Specifically, the bank needs a process for review of written agreements between borrowers and brokers to ensure that the agreements conspicuously disclose the fees to be paid to the broker for services; contain a specific request for such broker services at that fee; and include a signed and dated acknowledgement of receipt by the consumer before the broker commences services. The bank should also retain copies of this documentation. Management has committed that all Wachovia units which utilize brokers for loan production will be in compliance by July 31, 2008. In addition, management has committed that all loans purchased will also comply by that same date. The OCC will test for compliance at a later date, but this should be less of an issue since Wachovia is exiting the wholesale origination business.

BSA/AML – High

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. The Currency Transaction Report (CTR) back-filing issues remain outstanding as a result of poor past practices in CTR exemption processes, but significant progress has been made to remediate this matter. 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.

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. Recent market disruption events and legal/regulatory issues have highlighted the need for stronger management of risk throughout Wachovia. Clearer roles and responsibilities, consistent identification and escalation of risk issues, and a robust Treasury Risk Management function are needed. Recent operational/process breakdowns within the Treasury and CIB areas have resulted in significant and unexpected losses.

Risk assessment processes exist in most areas of the bank, although these processes are inconsistent. Management's decentralized approach lends itself to an environment with inconsistent identification, escalation, and management of risk. Risks are being identified, but not consistently prioritized and escalated, when needed. Management is in the process of developing a more consistent methodology for the identification, reporting, and aggregating of operational risks.

Accounting information and communication systems are satisfactory and financial reporting controls continue to receive scrutiny via the Corporate Financial Governance Office (CFG). While Wachovia's Sarbanes-Oxley program is effective, our recent exam and a recent internal audit has identified the need for improved oversight and monitoring. Policies and procedures are in place to control risk of inaccurate financial reporting.

Audit continues to be effective in identifying control weaknesses throughout the company. Control remediation efforts are adequately tracked with improving trends noted in the timeliness of audit validation of "management closed" control issues.

Internal Audit – Satisfactory
Wachovia's internal audit (Audit) function remains "Satisfactory." The Audit Committee and new Chief Auditor have elevated Audit's stature within Wachovia. Audit Committee oversight and support is appropriate, and audit management/processes, reporting, and staffing is satisfactory. Audit issues are appropriately escalated to senior management and the Audit Committee, and management is taking timely and appropriate action to address internal control weaknesses.

Chief Auditor David Julian has outlined a new vision and direction for Audit that provides for a more flexible program that reacts to current market conditions and looks more horizontally across the organization to identify risk governance and control weaknesses. Audit leadership is encouraged to continue in these efforts and also to continue towards providing more explicit opinions on Wachovia's overall risk profile and quality of risk management within the lines of business, as well as, on an enterprise-wide basis.

The IT Audit function continues to be an area needing improvement. While progress has been made in the past year to improve overall quality, additional efforts are needed to ensure that a sustainable program is in place to provide effective IT Audit coverage. Audit leadership is addressing this issue.

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	Increasing	Stable	08/12/2008
Reputation	----	----	High	Moderate	02/11/2008	Increasing	Stable	05/08/2008
Credit	High	Satisfactory	High	Moderate	08/12/2008	Increasing	Stable	02/06/2006
Interest Rate	Moderate	Satisfactory	Moderate	---	03/31/2003	Increasing	Stable	02/20/2007
Liquidity	High	Satisfactory	High	Moderate	07/24/2008	Increasing	Stable	07/17/2006
Price	High	Satisfactory	High	Moderate	01/25/2008	Stable	Increasing	01/25/2008
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
BSA/AML	High	Satisfactory	High	---	10/31/2007	Stable	---	10/31/2007

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

Risk Assessment Detail

Strategic Risk	Aggregate: High	Direction: Increasing	
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	High	05/15/2008	Moderate
Direction of Change	**Increasing**	**08/12/2008**	**Stable-**

Aggregate Strategic Risk – High

- Strategic risk remains high due to the continued deterioration of the mortgage portfolio, significant operating losses, and the impact of the market disruption on Wachovia's strategic plans. Strategic efforts are now focused on generating, protecting and preserving capital.
- Wachovia's problems are being magnified by questionable strategic decisions, lack of due diligence, and incomplete vetting of the risks associated with strategic decisions.
- Deterioration in the mortgage industry along with the continued market disruption has increased strategic risk. Significant losses in market disruption related valuation losses coupled with very high and increasing provision expenses have eliminated earnings for 2008. As a result, cost containment measures have been instituted and will likely have additional impact on Wachovia's strategic initiatives. Management recently announced their plans to eliminate approximately 11,000 positions. Major projects are being reviewed to identify where cost reductions can be made.
- The Golden West merger has particularly presented challenges, as the quality of the legacy Golden West portfolio has significantly deteriorated. With loan losses and NPA reaching levels of concern, management has tightened underwriting in recent months; eliminated the Pick-A-Pay product for negative amortization loans; and recently exited the wholesale origination business.
- New business volumes are down significantly in commercial credit areas. The lack of new business will increase strategic risk as management looks for ways to replace this lost revenue stream.
- Management is also scaling back their western expansion efforts in an effort to preserve capital and liquidity. Branch expansion plans have been cut nearly 50%.
- The market disruption continues to significantly impacted Wachovia's structured products business, and will have a significant continuing profitability impact until markets are re-established or new revenue sources are identified. Wachovia has strategically pulled back from this business.
- Wachovia's international expansion activities into Asia and Europe have also slowed in scale in many cases. The structured products expansion is being re-evaluated and commercial real estate assets were moved to HTM. These products are on hold until new strategies are developed or the market returns to more normal conditions.
- International expansion plans are still being discussed within CMG to include the potential for a joint venture with an asset manager in China and a potential Registered Investment Advisor in Tokyo in 2009. CMG has added a sales force in London for ECM, its European fixed income asset manager.
- 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.
- Integration of the A. G. Edwards, Inc. (AGE) acquisition continues. Wachovia Securities LLC and AGE combined now has $1.1 trillion in client assets and about 15,000 financial advisers. Wachovia Securities and AGE will continue to operate under separate names into 2009, and the merger integration is scheduled to be completed in 1Q09.
- In most cases, 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 – Increasing

- The direction of risk has moved from "stable" to "increasing" as a result of Wachovia's deteriorating condition which has limited their strategic capabilities. Wachovia continues to have a lack of a clear strategic direction and a clearly defined desired risk profile.
- The potential for new strategic initiatives are limited based upon Wachovia's weakened condition, and poor reputation in the marketplace, recently announced legal matters.

Reputation Risk	**Aggregate: High**	**Direction: Increasing**	
Type of Risk	Current Rating	Date Last Changed	Prior Rating
Aggregate	**High**	**02/11/2008**	**Moderate**
Strategic Factors	High	02/20/2007	Moderate
External Factors	High	02/11/2008	Moderate
Management, Processes and Systems	High	05/13/2008	Moderate
Direction of Change	**Increasing**	**05/08/08**	**Stable**

Aggregate Reputation Risk – High

- Aggregate reputation risk remains high with the primary driver being the significant deterioration in the mortgage portfolio, and poor recent earnings performance compounded by the market disruption. These issues have had significant negative impact on Wachovia's earnings, stock price and reputation. In addition, there continues to be several pending legal matters that will likely further tarnish its reputation. The market now perceives Wachovia as a "troubled institution."
- During 2Q08, Wachovia experienced its second straight quarter of significant negative earnings, which has resulted in negative media coverage for Wachovia. Wachovia's dividend was slashed to $0.05 per share following 2Q08 earnings results. In the last 30 days, Wachovia's stock price has been as low as $7.80, but closed at $14.50 on 7/25/08.
- The rapid deterioration of the legacy Golden West portfolio continues to be the driving factor for Wachovia's poor reputation. This deterioration is expected to continue into 2010. Wachovia is viewed less favorably in the market than peers due to this "ill-timed" acquisition.
- Legal risks and its impact on Wachovia's reputation also continue to be an area of concern. Wachovia is the subject of several OCC and other legal and regulatory investigations and lawsuits which may have a detrimental impact on Wachovia's reputation. On 4/25/08, Wachovia entered into a Formal Agreement involving RCC's which included civil money penalties, and full reimbursement to affected customers. In addition to the OCC action, Wachovia continues to be subject to the US Attorney's investigation as well as a class action lawsuit filed in late December 2007.
- Another legal matter that could further tarnish Wachovia's reputation involves the DOJ and SEC investigation into possible violations of anti-trust laws through the rigging of bids on municipal bond investment deals. At this time, this case continues to be investigated, and resolution is expected in 2008.
- Adverse comments and attention to some BSA/AML matters have also contributed to the high reputation risk. Regulatory examinations and investigations by the OCC and DOJ (US Attorney's Office – Southern District of Florida) into *casas de cambio* activity reflect concern within this high risk type of business for illegal activity such as money laundering.
- In addition to these three major cases, Wachovia and related subsidiaries continue to receive increased scrutiny from regulatory authorities on a variety of operating practices. This includes an investigation by several states regarding Auction Rate Securities, a NY State Attorney General inquiry concerning potential conflicts of interest and illegal conduct in the student lending industry,

and IRS scrutiny of two recently unwound international SPVs created to take advantage of tax benefits. Wachovia is also named in two significant lawsuits involving its underwriting of Adelphia Communications loans in the late 1990s and its banking relationship with Le Natures Inc. Final impact to Wachovia's reputation from these lawsuits and investigations is still unknown.

- While the integration of the 2007 acquisition of AGE continues to proceed on track, reputation risk may be impacted by (1) the integration of the operating systems and the success of maintaining a positive customer experience throughout the integration; (2) the ability to retain brokers; and (3) the success in managing/blending the two corporate cultures.
- On a more positive note, Wachovia has not been significantly impacted by privacy issues. Privacy breaches have been minimal to date, and privacy processes remain effective.
- Wachovia continues to be recognized by multiple independent organizations for providing exceptional customer service.

Direction of Risk - Increasing

- Wachovia's reputation risk is increasing as a result of (1) recent management changes, (2) surprise earnings announcements; (3) the dividend rate cut in 1Q08 and the resulting reaction by investors and analysts; (4) continued deterioration of the mortgage portfolio; (5) further write-downs as a result of the rapid deterioration of the mortgage portfolio and market disruption; and (6) anticipated legal matters addressed above.

Credit Risk	**Aggregate: High** **Quantity: High**	**Direction: Increasing** **Quality: Satisfactory**	
Type of Risk	Current Rating	Date Last Changed	Prior Rating
Aggregate	**High**	**08/12/2008**	**Moderate**
Quantity	**High**	**08/12/2008**	**Moderate**
Underwriting Factors	High	07/25/2007	Moderate
Strategic Factors	High	05/08/2008	Moderate
External Factors	High	10/30/2007	Moderate
Credit Quality Factors	High	08/12/2008	Moderate
Quality	**Satisfactory**	**03/31/2003**	**-**
Policies	Satisfactory	02/13/2007	Strong
Processes	Weak	05/08/2008	Satisfactory
Personnel	Satisfactory	03/31/2003	-
Control Systems	Satisfactory	03/31/2003	-
Direction of Change	**Increasing**	**02/06/2006**	**Stable**

Aggregate Credit Risk - High

- In light of continued adverse trends, projections, and no evidence of stabilization, aggregate Credit Risk is elevated to High and asset quality is lowered to less than satisfactory. Continued deterioration is evident in residential builders, consumer mortgages, and indirect autos. As forecast by management, all metrics continue to worsen as they are coming off the pristine levels of recent years. Criticized assets and NPAs show clear increasing trends since year-end 2006 and forecasts show them increasing through 2008 and into 2009. NPAs, losses, delinquencies and criticized assets have reached levels that are of concern.
- The legacy $122B Golden West Pick-a-Pay portfolio (and its associated OREO) has become the largest class of distressed assets in Wachovia. The portfolio has deteriorated much more rapidly than projected and management is frequently revising the loss and NPA forecasts upward. This portfolio is concentrated in distressed CA and FL markets. The remainder of the consumer portfolio is performing reasonably well compared to the Golden West portfolio, but it too is demonstrating the worsening performance expected by management.
- The recent market disruption showed the volatility in market liquidity with investors now requiring better underwriting, stronger structure and increasing spreads in all asset classes. These new

underwriting standards should improve credit quality going forward, but the weak underwriting of the past two years increases risk in the near term.

- The market disruption caused the bank to bring or keep approximately $25B in assets with credit risk onto its books. These assets were from off-balance sheet structures (Atlas, VFCC) or from areas that historically originated assets for distribution (leveraged lending, CMBS, structured products). The credit risk in these assets is satisfactory at this time and returns are generally good since most assets were booked at a discounted value. However, some assets, especially in the "opportunistic portfolio", are showing continued stress with approximately $480MM in temporary impairments.
- The general bank commercial portfolio continues to perform in a satisfactory manner although this portfolio is showing some deterioration in line with the slowing economy.
- While we maintained a Satisfactory rating for the quality of risk management, we maintained the Weak rating for Processes due to reasons related to Legacy Golden West, governance over pipelines, and risks in the structured products areas.

Quantity of Risk – High

- The quantity of credit risk rating is elevated to High. Asset quality continues to deteriorate especially in residential real estate industries/consumer mortgage loans. The approximate $8B in new capital injected in 2Q08 was partially diminished by the growing losses and increasing provisions.
- Quarterly loan losses have gone from 0.14% as of June 30, 2007 to 1.10% as of June 30, 2008 and the full year loss forecast exceeds 1.35% with fourth quarter losses at 2.08%. Criticized and Classified asset commitments for the bank now represent 48% and 32% of Tier 1 capital plus the ALLL. NPAs show clear increasing trends since year-end 2006. They have gone from 0.32% as of year-end 2006 to 2.44% as of June 30, 2008. Forecasts show them increasing through 2008 and into 2009 where they are projected to exceed 4%.
- This deterioration shows no sign of stabilization in the foreseeable future. Management thus far has provided $6.3B over and above YTD charge-offs to address deteriorating credit trends and maintain an adequate ALLL.
- Management has tightened underwriting standards across most commercial and consumer product lines. However, loan quality is suffering from past loose underwriting, and we are maintaining a rating of High for this component. Examiners observed a fourth year of eased underwriting in 2007. Golden West underwriting was also loose as they did not have a FICO overlay until the 2Q08 and production at less than 620 FICO was between 20% - 25% per month until the second half of 2007.
- Both Strategic and External factors remain High. Management admits the acquisition of Golden West was a mistake. Despite worsening quality of Legacy Golden West assets and increasing media scrutiny of the Pick-a-Pay product, it was not until after the end of the 2Q08 that Wachovia finally eliminated the negative amortization feature of this product. Under new CEO Steele, the company also closed the wholesale origination channel, which will greatly reduce Pick-a-Pay originations. The external environment for banks is harsh and one of the worst in years. The stressed housing and credit markets will contribute to worsening asset quality. Liquidity in the capital markets remains spotty, which has made distributing credit risk difficult.
- Overall retail credit risk is now considered "High." The legacy Wachovia product lines are deteriorating as expected, but their performance is markedly better than the distressed legacy Golden West portfolio.
- The 2Q08 loss rate for the legacy Golden West loans was 1.67% compared to 0.79% for the 1Q08. Management under-forecast losses on this portfolio and converted its forecast methodology to a loan-level model with more granularity and economic/market inputs beginning with the 1Q08 reporting period. The most recent full year forecast for Golden West charge-offs is now $3.0B, which is about twice the estimate made only one quarter earlier. This equates to a loss rate of about 2.5%. Charge-offs and the loss rate for 2009 are now forecast at $6.6B, or about 5.4%. Estimated cumulative losses for the existing portfolio are now about 12%. It is encouraging to note that, for the five quarters ending with 4Q08, management has and will have provisions in excess of charge-offs of about $6.25B for the Golden West portfolio. The associated ALLL is now 4.2% and is projected to be 5.4% by year-end. Golden West NPAs are now $7B, which, at 5.78% of outstandings, are up 193 bps in

Wachovia's structure. Management was content with Golden West's approach until it became apparent that the portfolio was rapidly deteriorating. For instance:

- Legacy Golden West did not have a FICO overlay in its underwriting standards and did not implement one until late April 2008.
- Management's actions to tighten underwriting standards and implement corporate-wide loss mitigation approaches in Golden West, while definitely warranted, were belated.
- Golden West collections staffing and approach were found to be deficient by internal loan review.
- Golden West loss forecasting has also been deficient.
- Golden West's "Quick Qualifier" program has been inconsistently applied, resulting in varying degrees of loans with less than full documentation.

- The market disruptions revealed the need for improved processes to measure, monitor and control risk in the structured products area and the need for a more formalized process to aggregate and control pipeline distribution risks primarily in leveraged lending, CMBS and structured products.
- Credit Risk Review and Audit processes and procedures are effective.

Direction of Risk – Increasing

- The overall direction of risk is increasing and there are no signs of stabilization. This is especially apparent in the legacy Golden West portfolio, which is highly impacted by the nation's crisis in the housing market. The worsening economy is impacting all borrowers.
- Credit portfolio statistics including losses, NPAs, and criticized loan levels continue to increase from the historical lows at year-end 2006. Forecasts show continued deterioration throughout 2008 and into 2009.
- Key risk managers from the bank agree that credit risk is increasing and events such as issues with subprime loans, decreased market acceptance of weak structures and weaknesses in the housing market are triggering the asset quality deterioration.
- The softening in the housing market and Wachovia's large exposure to residential real estate collateralized loans and commercial borrowers' dependent on the housing industry is increasing criticized and nonaccrual numbers.
- Liquidity in the capital markets remains very weak which limits the bank's ability to mitigate or sell credit risk.

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	02/12/2008	High
Options Risk	High	06/08/2004	Moderate
Strategic Factors	Moderate	02/11/2008	Low
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

- Current interest rate risk practices are satisfactory. Interest rate risk is managed at the corporate level, thus this presentation is based on overall corporate controls, exposures and measurements.
- Management is constantly revising IRR management strategies to adjust to challenging market conditions and changes in the balance sheet profile. The mix of fixed/floating Pick-a-Pay mortgages and liabilities changes significantly with shifts in the yield curve, and derivatives are being opportunistically bought and sold to balance this risk.
- Due to earnings volatility and high projected loan losses and trading losses, management has recommended to ALCO that short term IRR be measured as a percentage of net interest income with a policy limit of 3.5%. Historical analysis shows that this is a reasonable limit.
- Modifications to the BancWare system are still needed to properly model Golden West products. EVE modeling is being implemented under a separate project phase and will be evaluated in 4Q08. Management has taken steps to address previous concerns regarding the lack of formal project management.
- Management uses a wide variety of on-and off-balance sheet instruments to manage interest rate risk. Management believes the economic outlook for 2008 and 2009 favors taking a neutral stance towards rates. Because of uncertainty in the financial markets and option costs, management will also delay replacing maturing hedging trades until the future direction of short-term rates becomes clearer.
- The Forecasting Group has a capable staff that adequately manages IRR and ensures compliance with limits. Information provided to senior management, ALCO, and the Board's Risk Committee is sufficient to ensure understanding of Wachovia's IRR profile.

Quantity of Risk - Moderate

- Although short-term IRR has historically been low, forecasted levels have increased to moderate. At June 30, 2008, Wachovia was -0.9% liability sensitive versus -2.4% at year-end 2007. Management has used a number of strategies, including active positioning with derivative and cash instruments, to change the company's net exposure depending on balance sheet structure, market conditions, and management's outlook for interest rates. Formal limits for IRR sensitivity are +/-3.5% exposure of 12 months of net interest income given a composite/average of three up 200 rate scenarios.
- Results from the EVE model continue to reflect a moderate level of long-term interest rate risk. The most recently reported EVE analysis dated April 2008, reflects a –13.2% change in base EVE for an up 200 bps shock.

Quality of Risk Management - Satisfactory

- Wachovia's management of IRR risk is satisfactory. Treasury Management personnel are experienced and capable. Staffing is adequate considering the addition of legacy Golden West staff. However, control systems have weaknesses. Poor communication between the model validation group and Treasury management has caused delays in getting full model validations performed before new systems are implemented. Additionally, further delays and issues were encountered because of limited staffing in the model validation group.
- Due to uncertainty of future rates, management has moved towards a more neutral bias and has decided to replace maturing hedges opportunistically. Management has identified the scenarios where they are most vulnerable and executes hedges when the benefits outweigh the cost of hedging to mitigate this risk. IRR and EVE sensitivity are consistently managed within established policy limits. Information received by ALCO and the Board's Risk Committee adequately communicates the level of risk.
- Management has taken steps to address our previous concerns regarding the lack of formal project management. Staff has been added to the Treasury COO group to handle formal project management tasks for all of Treasury. A standardized project management process has also been established.
- Implementation of Phase I of the new BancWare model is complete, and model validation by the Model Validation and Approval Group (MVA) was completed in 1Q08. However, some operational issues remain, and modifications to the BancWare system will be required to properly model the

Golden West Option ARM products. Conversion of EVE modeling to BancWare is being implemented under a separate project phase and will be evaluated in 4Q08.

Direction of Risk - Stable

- IRR risk remains increasing. Overall IRR levels increased through 1Q08 as a result of management actions taken to react to market conditions and their interest rate outlook. However, management has moved toward a neutral bias on future rates due to uncertainty. As of month-end June 2008, projected earnings sensitivity for the next 12 months was -1.7% liability sensitive. Management decided not to replace forward hedges against rising rates and wanted to remain in a position to take advantage of continuing low short-term rates. In addition, management expects long-term interest rate risk to remain relatively stable in the near term.
- We have concerns with the lack of validation of the BlackRock portfolio management platform for the generation of EVE calculations for mortgage backed investments and whole loans. This concern, combined with the continued lack of adequate planning for model validation in Phase II of the BancWare platform, has led to an increasing direction of risk.

Liquidity Risk	**Aggregate: High** **Quantity: High**	**Direction: Increasing** **Quality: Satisfactory**	
Type of Risk	Current Rating	Date Last Changed	Prior Rating
Aggregate	**High**	**07/24/2008**	**Moderate**
Quantity	**High**	**05/08/2008**	**Moderate**
Wholesale Liabilities	High	05/08/2008	**Moderate**
Retail Liabilities	Moderate	**07/24/2008**	Low
Diversification	High	01/25/2008	Moderate
On- and Off-Balance Sheet Cash Flows	High	01/25/2008	Moderate
Net Funding Gaps	High	08/12/2008	Moderate
External and Environmental Factors	High	01/25/2008	Moderate
Liquid Asset-based Factors	Moderate	03/31/2003	-
Quality	**Satisfactory**	**11/29/2007**	**Strong**
Policies	Satisfactory	11/29/2007	Strong
Processes	Satisfactory	11/29/2007	Strong
Personnel	Satisfactory	05/08/2008	Strong
Control Systems	Satisfactory	02/20/2007	Strong
Direction of Change	**Increasing**	**07/17/2006**	**Stable**

Aggregate Risk - High

- Liquidity risk in aggregate is being raised to "high" due to the financial deterioration of Wachovia and investors and the market's concerns about Wachovia. Wachovia as compared to other financials has more expensive term funding and reduced availability. On June 27th, Fitch placed Wachovia's credit rating on a negative watch because of further expected weakness in the credit markets.
- Liquidity management remains satisfactory; management is taking action to build and retain liquid assets. Wachovia recently produced two stress scenarios in order to assess and plan for the impact of a potential credit downgrade to better deal with this environment. The contingency funding plan has been activated to build liquidity in light of negative perceptions and potential customer and investor panic. Wachovia has established a centralized communication response team to deal with inquiries from interested parties, including its retail branch management team and the media.
- In the moderate scenario, liquidity remains sufficient but under the severe scenario, Wachovia reflects significant funding gaps. Management has put in place strategies to reduce funding gaps presented in these scenarios. However, the Net Funding Gap risk has been raised to high.

Quantity of Risk – High

- Liquidity levels remain sufficient at present; however, stressed liquidity needs remain high. Stressed liquidity needs reflect the fact that Wachovia Bank is susceptible to a credit downgrade as a result of poor earnings performance. A credit downgrade would likely reduce funding availability and raise funding costs. Management has conducted stress scenario analyses to assess funding needs under a credit downgrade scenario, and they are actively engaged in developing funding sources should such a scenario develop.
- Term debt markets have become less accommodating as evidenced by rising CDS and cash bond spreads. Wachovia has increased its reliance on wholesale and TAF borrowings. Wholesale funding reliance has increased from 28.2% as of 3Q07 to 33% as of May 2008. The maturity structure of wholesale funds is adequately diversified, with 24% of such funds maturing in greater than five years and 41% maturing in one to five years. Wholesale funding is becoming less diversified due to increased FHLB borrowings. The most recent large provider report reflects that the top 20 funds providers funded 14.5% of TA. The FHLBs are the largest fund providers at approximately 7% of TA with advances increasing from $41.8B in 2007 to $53.7B as of 2Q08. Overnight funding is currently tightly constrained and limited to core, stable funding.
- Loans grew faster than core deposits in 2Q08; however, this trend is expected to reverse over the rest of 2008. The loan to core deposit ratio increased from 116.2% as of 12/31/2007 to 125.2% as of May 2008. When long-term funding is captured, the ratio decreases to 109.4%, but also reflects an increase from 104.5% in 2007. As part of its medium term balance sheet optimization project, Wachovia is planning for no loan growth and an overall decline in size of balance sheet. The goal of the balance sheet shrinkage is to free up $1.4B in capital by year-end.
- Wachovia continues to benefit from its extensive retail banking franchise. In June, management initiated a deposit promotion with goal of raising $20B in deposits (emphasis is on money market balances and certificates of deposit). Promotional pricing is designed to place Wachovia in the "top quartile" of market participants in terms of interest rate paid. However, we raised the quantity of retail liabilities from low to moderate, reflecting the potential that retail depositors are likely to feel less comfortable with Wachovia given its poor financial performance.
- Through its AGE acquisition, Wachovia Bank acquired more than $22B of deposits since 2007, with $16B arriving in 2Q08. Wachovia expects an additional $9.5B in retail and commercial sweep deposits to arrive by first quarter 2009.
- Risk due to external and environmental factors is high. Disruptions in credit markets are impacting all market participants; however, Wachovia's susceptibility to external shocks is heightened at present due to management turnover and upcoming earnings release. Wachovia's credit default swap spreads have widened recently versus its peer banks, reflecting its higher perceived risk profile.

Quality of Risk Management – Satisfactory

- The quality of risk management is satisfactory. Wachovia has taken steps to mitigate risks arising from its deteriorating financial condition. Management has frozen off-balance sheet exposures, initiated hard risk-weighted asset caps on various LOBs to control capital usage, tightened underwriting standards, borrowed $12.5B though the Term Auction Facility and raised $15B in capital. Management has also launched a deposit promotion and increased FHLB borrowing.
- We have three MRAs from our recent Liquidity and Capital Management exam. Wachovia needs to comprehensively gather and analyze contingent funding risk posed by various affiliates and refine stress scenario definitions to ensure stress events are appropriately captured; strengthen management information systems around period-end liquidity reporting; and review liquidity staffing to mitigate key man risk. Management responses are due July 31st.
- The Liquidity and Capital Planning Committee has approved specific limits for all large unsecured funds providers with accompanying sub-limits. Secured borrower limits are needed for FHLB borrowings.

- Risk oversight of Treasury functions continues to be a primary regulatory concern as evidenced by recent credit and market losses from various Treasury investments. Independent risk monitoring of all Treasury activities needs to be implemented.
- Management is moving forward with the Enterprise Funding Initiative (EFI) to provide for centralized oversight of liquidity funding. Phase 1 (BFED), which included a major automation initiative to allow for more efficient coordination of funding needs across business desks, will help ensure accurate and timely communication with the Federal Reserve is complete. Scoping of next two phases of the project has begun.
- Wachovia management remains active in seeking novel funding arrangements. In 2Q08, Wachovia closed on a liquidity facility with a large European bank. Through this facility the European bank will enjoy certain European tax breaks which will allow it to pass through a favorable funding rate of LIBOR minus 36 bps to Wachovia. This transaction will be viewed as short-term funding as there is a short-term bilateral put on this funding.

Direction of Risk – Increasing

- The direction of risk remains increasing as continued poor earnings performance and/or external market events could adversely impact funds availability and pricing.

Price Risk	**Aggregate: High** **Quantity: High**		**Direction: Stable** **Quality: Satisfactory**
Type of Risk	Current Rating	Date Last Changed	Prior Rating
Aggregate	**High**	**01/25/2008**	**Moderate**
Quantity	**High**	**01/25/2008**	**Moderate**
Volume of Open Positions	High	01/25/2008	Moderate
Market Factors	Moderate	10/30/2007	Low
Options Risk	Moderate	10/30/2007	Low
Basis Risk	High	01/25/2008	Moderate
Concentration of Factors	Moderate	03/31/2003	-
Product Liquidity	High	01/25/2008	Moderate
Stability of Trading Revenue	High	01/25/2008	Moderate
Quality	**Satisfactory**	**03/31/2003**	**-**
Policies	Satisfactory	03/31/2003	-
Processes	Satisfactory	03/31/2003	-
Personnel	Satisfactory	03/31/2003	-
Control Systems	Weak	05/08/2008	Satisfactory
Direction of Change	**Stable**	**01/25/2008**	**Increasing**

Aggregate Price Risk - High

- The corporate-wide VaR has reduced some, but remains above historic levels for the bank. Increased volatility has kept VaR levels high and led to backtesting exceptions. FV accounting adoption also kept the VaR elevated as risk positions were moved to trading in 1Q08. Management is in the process of making some technical adjustments to the VaR model and anticipates a declining VaR in the next few months.
- Liquidity in many markets is slow to return with any degree of reliability. Credit spreads continue to be volatile and driven by fear. The Fed actions to increase liquidity (TAF collateral and TSLF) early in the quarter provided a calming effect to markets and led to increased investor risk tolerance and credit curve flattening. With limited new issuance supply, investor demand increased in certain sectors (CMBS and Non Resi consumer) allowing the bank to reduce warehouse and trading inventory. However, credit spreads widened the last week of June as investor concern for further economic deterioration returned, namely due to inflationary pressure on the consumer, collateral performance, weakness in real estate, and monoline problems. Diminished reliability of NRSRO

ratings as well as the spate of downgrades triggering divestiture due to 2a7 rules contributes to the volatility of price.

- Basis risk between cash and synthetic instruments, while reduced from 1Q08 levels, remains elevated and volatile. Basis risk lead to significant hedging inefficiencies particularly in CMBS and TOBs.
- CIB's 2Q08 Market Disruption related write downs of $ 520MM are lower than 1Q08 of $1.6B.
- Management changes and re-organization is occurring. Key management positions are open for the head of Fixed Income and Global Rates. New products and international expansion essentially remain on hold except for the addition of a small distressed lending desk. Also, management plans to expand commodities and to add a low frequency stat arb desk. Performance in the Equity, Global Rates and Credit Products is favorable.
- Treasury and Balance Sheet Risk Management, particularly around BOLI investments are weak. Given the limited transparency of these risks, the level of risk is considered high.

Quantity of Price Risk - High

- CIB Trading activities, in aggregate and quantity, reflect a high but decreasing level of risk. However, Treasury and Balance Sheet Price Risk are high and increasing.
- Treasury takes a significant level of risk which has not been readily transparent. In particular, the recent significant losses of almost $661MM in BOLI did not coincide with management disclosures of risk to ALCO or regulators. Additionally, there are no price risk reports to evaluate the impact of market shifts on sensitive portfolios and other MIS is deficient. This lack of transparency has led us to question the validity of disclosures on other Treasury Risks. The bank has hired an external law firm to investigate Treasury risk practices. Independent risk monitoring of all Treasury activities needs to be implemented, and we are issuing an MRA to address this issue.
- Corporate-wide VaR at 1-day 97.5% confidence level remains higher than historical levels due to market disruption. Muni TOB, RMBS Trading and Asian Real Estate Stock investments are the main drivers of price risk exposures.
- The Management VaR used for internal risk limits now excludes positions in run off portfolios and not actively traded positions. Corporate Regulatory VaR stands at $59.8MM and includes these positions. The VaR Stress Tests showing the largest negative impact are in Rates with a US Rates worst 1 week move up in 5 years loss of $77MM. Management is working on a disaster scenario related to the current Market Disruption.
- 2Q08 GMIB Total Revenues were $1.4B, which is much improved from 1Q08's $666MM loss, and compares favorably to 2Q07's profit of $1.1B. The positive driver this quarter was a recovery of FAS 5 loss estimate on Leverage Finance positions. The 'originate to distribute' business model remains shut down. Focus is now on reducing risk with limited proprietary views on customer flow.
- Leveraged Finance made $170MM this quarter driven by reversal of FAS 5 loss projections on Penn National Gaming (Penn). This is significantly better than 1Q08 results which showed a loss of $704MM dominated by Penn and Clear Channel commitments.
- RE/RECM (Commercial RE) Division generated $380MM positive revenue driven by REFs, Servicing, and other interest and fee income businesses. The CMBS/CRE warehousing and trading businesses lost $110MM due to continued marks on ESH and basis risk driven by spread volatility resulting in ineffective hedging. Warehouse and trading levels continue to reduce. CMBS trading is down $1.8B due to sales; ESH sales have required financing. Legacy Structured Products loss of $135MM was an improvement over 1Q08 loss of $571MM. Losses this quarter were driven by monoline reserves of $94MM, basis adjustments for renting out their balance sheet $80MM, $198MM in the principal investing unit due to impairments, further writedowns on Super senior CDOS, and spread moves on RMBS and CMBS positions.
- Principal Investing revenues were significantly below 2007's results at $137MM due to the downturn in the private equity markets as a result of the credit market disruption. Revenues were also significantly below 1Q08 results as the company took a $449MM MTM gain on their portfolios from the adoption of FV accounting.
- Global Rates generated $264MM in revenues which includes an $87MM TOB gain from spreads narrowing between cash and BMA swaps.

- High Grade revenue of $155MM improved 2% over 1Q08, driven by high grade syndicate and originations and high grade trading. Equity Division revenues of $194MM increased 26% over 1Q08 driven by origination activities, sales and trading, structured equity products and derivatives trading. The division also lost $11MM from a trade error and made a one time fee of $93MM from the issuance of capital for Wachovia in 2Q08.
- Counterparty credit exposure is up due to increased exposures in monolines and the banking sector. The former risk measurement system (STIERS) has been replaced by CRISP/Adaptiv in 2Q08, allowing better risk aggregation and Basel compliance. The system will be reviewed as part of our Counterparty Credit review in 3Q08.

Quality of Risk Management - Satisfactory

- Overall risk management remains satisfactory as the majority of price risk is housed in CIB, which has satisfactory risk management with the exception of Control Processes. BOLI processes in Treasury and Balance Sheet Management is overall rated weak.
- BOLI processes are weak due to the inadequacy of systems to measure and analyze the impact to investments under a variety of market moves. Price risk from the BOLI investments is not quantified in management reports. An analysis is also not available on the level of protection provided by the wraps and the impact of attempting to collect under the wrap. Management information is also misleading, as significant losses were not transparent in any reports disclosed to ALCO or to the regulators. Control systems are weak as risk-monitoring and control functions failed to detect these issues in a timely manner. BOLI policies are weak as it does not adequately address the measurement of price risk considering the protection provided by Stable Value Protection (SVP) wraps under market stresses. It also does not establish limits on the level of price risk that is acceptable from the BOLI Portfolio. We also identified issues with Risk Management oversight of the Opportunistic Portfolio as well as our continuing MRA on Investment Portfolio Risk Management. We are issuing an MRA regarding overall Treasury Risk Management Processes.
- CIB Market Risk Management which covers the majority of price risk, remains satisfactory; however, we have downgraded control systems to weak, given the corporate governance issues noted in our recent Price Verification exam. In particular, we noted that certain large transactions lacked the appropriate detailed review to assess, identify and control risk. Additionally, MIS aggregation of positions is an issue. Major losses in certain trading books were the result of Basis Risk experienced during the Market Disruption, and were not captured by the current stress test scenarios. Management plans to implement a Market Disruption scenario in 2008 to incorporate this basis risk. While overall price verification processes in CIB are satisfactory, staffing, documentation and testing of these positions needs improvement.
- CIB Trading risk is monitored at appropriate levels. Market Risk Management (MRM) sets and monitors compliance with VaR limits as well as desk limits and guidelines; develops and reviews stress test scenarios; and interacts with the trading desk to identify risks.
- MRM is expanding their responsibilities to include market risk exposures in Treasury. MRM is also making changes to their stress tests and limit structure to better identify risk and issues from market disruptions.
- Technology limits the effectiveness of trading and risk management. CIBT continues to stabilize systems and automate processes. CIBT is creating an infrastructure using proprietary trading software and a large data warehouse for improved MIS. The trading platform is being standardized across businesses to have a single front-to-back process. MARS enhancements for reporting continue.
- Wachovia remains engaged in industry efforts to improve derivative confirmation issues. Credit and equity derivative goals continue to be met. Management is working on a plan to meet new industry initiatives on close out procedures.
- Targeted Complex Product review is nearing completion and the MRM onsite work has been completed. The MRM Report is in the process of being reviewed by bank management.
- Management is reviewing their controls over operational risk for all of trading. The review was spurred by the recent operational losses at SocGen. Management incorrectly booked a trade resulting

in an $11MM loss. Operational controls at several points failed to identify this error at inception. Management is implementing new controls to prevent this type of control failure in the future.

Direction of Price Risk - Stable

- CIB market risk is decreasing; however, Treasury Risk given certain issues, is increasing.
- Issues which drive us to rate Treasury exposures as increasing include the BOLI losses and lack of transparency around this transactions as well as the limited Treasury and Balance Sheet Management Risk management function.
- CIB Market Risk is stable and management anticipates it will decrease over the next few months. Risk increased significantly over the past year; however, significant positions have been moved to HTM or liquidated. Future MTM writedowns will likely be reduced. Stress test results are also reflecting reduced risk levels. Trading growth plans are on hold until management reduces inventory and can identify viable trading opportunities.

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

- This risk remains very low. Residual risk is limited to the translation of net operating income from foreign operations.

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 growth in the volume of transactions and complexity of products and services.
- The quality of risk management is Satisfactory. Operations Technology Group (OTG) implemented a new operating model to better align with and provide support of recent changes in corporate strategy.
- Active new product delivery, merger and conversion activities, and technological innovation will continue to challenge the technology division.
- OTG plans to increase technology systems to support domestic and international expansion.

Quantity of Risk - High

- Overall quantity of inherent transaction risk is high. Access control issues remain for distributed servers. Wachovia continues to remediate this issue through the DSAC project. Management is executing DSAC plans with minimum issues. The projected completion date is 4Q09.
- DSAC shares interdependence with projects like Access Management, Role-based Access, Access Automation, IT Future Network Strategy, and the High Risk Application Repository. Successful completion of all of these projects will strengthen logical controls.
- Data Center Proximity Risk (DCPR) remains a supervisory concern. The AGE merger integration established needs that extended this project six months. Management projects reaching an "acceptable" risk level by 4Q09.
- A number of critical line of business (LOB) managed applications have not received annual Disaster Recovery (DR) testing. Management has identified these applications and developed LOB-DR governance controls for documenting, testing, and reporting.
- The level of vendor management risk remains high. Correction is expected to be substantially complete by year-end 2008, although the Procure-to-Pay project will continue through 2Q09.
- Offshoring in India, Mexico and the Philippines does not represent a significant level of risk.
- Operational risk and losses are trending upwards. Corporate Operational Risk Management forecasts this trend to continue through 2009. Net operational losses for the twelve months ending 6/30/08 totaled $574MM, up dramatically from the previous rolling twelve months. Of this total, $458MM results from a documentation error on a synthetic CDO utilizing sub-prime mortgages as collateral. Another $23MM resulted from a series of spot FX trades that exceeded settlement limits approved by the customer. Negotiations are currently underway to settle both disputes.
- In April 2008, the bank agreed to reimburse consumers harmed by its processing relationships with certain telemarketers and payment processors. This maximum amount of this exposure is estimated at $125MM. Payment of claims associated with this settlement will be reflected in operational loss totals through 2010.

Quality of Risk Management – Satisfactory

- CIS has improved through completing the ISR3 projects. Future access controls are also being addressed through multiple interdependent projects under a single enterprise access strategy.
- Management continues to implement the DCPR remediation project. The DCPR Project team is executing Phase II of the project.
- Specific to the provisions for GLBA 501(b) program, Wachovia needs to improve enterprise-wide oversight, provide clear reporting, and re-address CTRM GLBA rating definitions.
- The bank continues to demonstrate good risk controls and management oversight for merger and conversion activities. The conversion of AGE Trust business at the end of May 2008 progressed without problems and reflects well on the adequacy of project implementation governance. The AGE Bond integration project team is preparing for a February 2009 target conversion.
- BCP program issues involve DR testing of LOB applications and the need to expand pandemic planning to include escalation procedures.
- Global Supplier Management & Outsourcing/Offshoring (GSMO) Group is on track to implement corrective measures by February 2009. GSMO has taken steps to develop a risk-based vendor management program, establish roles and responsibilities, revise the vendor risk management policy, and establish end-to-end vendor management governance requirements.
- GSMO also initiated a new vendor manager training curriculum to educate LOB staff. Existing staff should complete training by December 2008.
- OTG is changing offshore outsourcing initiatives to better align with its new operating model in support of strategic business changes. IT Sourcing Management Oversight is also consolidating into a new model.
- CTRM has made substantial progress to develop standards for documenting risk assessments.

Direction of Risk – Stable

- Transaction risk remains stable. OTG continues to improve its operating model to better align with business partners' strategies.
- The threat of reduced technology spends and loss of key personnel is possible. Thus far, the impacts have been project reprioritization and extending project completion dates.
- Wachovia continues to execute conversions and merger-related projects well. They recently completed conversion of AGE Trusts business and are on target to covert AGE Bond activities early in 2009.
- Technology has appropriate policies and standards in place with a continuous review process.
- Customers and employees increasingly use mobile access via cell phones and wireless computing.

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. Findings from significant investigations and examinations underway have the potential to raise this rating to High. As noted last quarter, these investigations present new challenges to the compliance risk management program which has, in the past, reflected a reasonable level of compliance and conformance.
- The nature and extent of business activities for Wachovia present the potential for serious or frequent violations or instances of noncompliance. Historically, management has typically corrected matters of noncompliance 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. The responsive actions by management to current investigations will receive close supervisory attention.
- Wachovia maintains a satisfactory compliance risk management program sufficient to control a substantial majority of the current risks. Recent changes in the risk management program should strengthen compliance and control risks; however, the effectiveness of these efforts is untested.
- In terms of BSA/AML risk, the inherent level of risk remains High and the quality of risk management is generally satisfactory. However, risk controls have not been consistently maintained for BSA/AML across the wide array of business activities.
- From a fair lending perspective, the aggregate level of compliance risk is impacted by the underwriting methodologies from some new products available from acquired institutions.
- Compliance risk continues to reflect an increasing direction despite the shift of some assets to the thrift. The ability of the lead national bank to effectively manage new business initiatives (non-traditional mortgage products, credit cards, and geographic expansion), to ensure fair lending practices are applied throughout the branch network, and to effectively control high risk currency activities contribute to the increasing direction of compliance risk.

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 and fair lending laws/regulations is satisfactory.
- Aggressive entry into new markets, delivery of new products and services, and integration of merged compliance control cultures also affect the quantity of risk and represent challenges that management must meet.
- Recent acquisitions and re-entry into the credit card business have introduced higher risk markets and products. The transfer of mortgage origination to the thrift charter effectively reduced the quantity of compliance risk in the national bank. WB management's performance in managing this new risk environment has yet to be demonstrated.
- 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 generally 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 for key compliance management positions in 2007 and in 2008 is being monitored.
- Management design and implementation of proprietary compliance risk monitoring systems is both forward-thinking and innovative. However, verification and testing of compliance controls at the Credit Card Business Unit level have been slow to develop.

- Board approved corporate compliance policies are satisfactory, and are complimented with reasonable line of business practices applied across the Company. Exceptions and areas for improvement are being reviewed.
- The Board of Directors and senior management have consistently demonstrated support for the necessary compliance functions by providing needed resources.
- Compliance Risk Management is in the process of enhancing systems to better identify and monitor compliance risks.
- The fair lending program has historically been satisfactory. Improvements are planned for a formal risk assessment and for ongoing pricing analysis components.
- Management has demonstrated commitment to needed improvements and continues to devote resources to correcting identified deficiencies.
- The potential impacts on compliance risk, given current budgetary constraints, are unknown.
- Overall, Fair Lending risk management in Wachovia is satisfactory. Improvements are being addressed to strengthen the pricing analysis aspects of the internal self-evaluation process, and the effectiveness of management changes in the last year is being assessed.
- Management expects to complete a detailed, formal internal fair lending risk assessment by year-end 2008.
- Our examinations have found no evidence of illegal discrimination.

Direction of Risk – Increasing

- The Increasing direction of compliance risk continues given the cumulative effect of successive mergers, geographic expansion into new markets, and the introduction of new products and services that also bring in higher transaction volumes.
- New and increasing challenges for compliance management coincide with the volume of growth in business channels and products in traditionally high risk areas.
- The impact of personnel changes in key compliance management positions remains unknown until the officers are established within the compliance organization.
- 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.

BSA/AML	Product/Service Customer/Entity	Current Rating	Date Last Changed	Prior Rating
Aggregate Risk		**High**	**10/31/07**	-
Quantity of Risk		**High**	**10/31/07**	-
BSA/AML Risk Components:				
1st Highest Risk Product Service/Customer/Entity	Non-Bank Financial Institutions	High		
2nd Highest Risk Product Service/Customer/Entity	Funds Transfers	High		
3rd Highest Risk Product Service/Customer/Entity	Correspondent Accounts (Foreign)	High		
4th Highest Risk Product Service/Customer/Entity	Private Banking - International	High		
5th Highest Risk Product Service/Customer/Entity	Trade Finance Activities	High		
OFAC Risk		High	10/31/07	-
Quality of Risk Management		**Satisfactory**	**10/31/07**	-

BSA/AML Risk Components:				
1st Highest Risk Product Service/Customer/Entity	Large Currency Reporting & Exemption Process	Satisfactory		
2nd Highest Risk Product Service/Customer/Entity	Corporate Entities (Domestic & Foreign)	Satisfactory		
3rd Highest Risk Product Service/Customer/Entity	Correspondent Accounts (Foreign)	Satisfactory		
4th Highest Risk Product Service/Customer/Entity	AML Risk Assessments	Satisfactory		
5th Highest Risk Product Service/Customer/Entity	Private Banking - International	Satisfactory		
BSA Compliance Program:		Satisfactory	10/31/07	
Internal Controls		Satisfactory	10/31/07	-
BSA Compliance Officer		Satisfactory	10/31/07	-
Training		Satisfactory	10/31/07	-
Independent Testing		Satisfactory	10/31/07	-
OFAC Compliance System		Satisfactory	10/31/07	-
Suspicious Activity Monitoring System		Satisfactory	10/31/07	-
Suspicious Activity Reporting System		Satisfactory	10/31/07	-
Direction of Change		**Stable**	**10/31/07**	-

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.
- 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.
- WB has closed all GFITS foreign currency exchange business accounts and has noted plans to exit the bulk cash business. However, an investigation related to the Mexican *casas de cambio* activity remains underway. As a result, Reputation risk remains impacted by potential adverse publicity from prior relationships.

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.
- 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.

Quality of Risk Management – Satisfactory

- Wachovia's BSA/AML compliance program contains all of the four required elements as specified in 12 CFR 21.
- Changes have been implemented to strengthen the overall AML function. Attention to these changes, including the new BSA/AML Officer, will continue as we evaluate their effectiveness.

- Wachovia does not have a consistent, corporate-wide methodology to assess BSA/AML risk. However, the development of a corporate-wide risk assessment process is underway with completion projected for late 2008.
- Recent reviews (internal audits and preliminary results from OCC examinations) indicate the need to strengthen controls in CIB related to CIP, training, AML risk assessment, OFAC documentation, suspicious activity monitoring and enhanced due diligence.
- Management continues to make progress on the CTR back-filing project.

Direction of Risk – Stable

- While some aspects of BSA/AML risk have increased, responsive actions by management afford the stable designation. This may shift to Increasing by the next quarter given investigation matters underway.
- Reasonable processes and procedures are in place to help ensure that mergers and acquisitions 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	Weak	08/12/2008	Satisfactory
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

Quality of Internal Controls – Satisfactory

- For the most part, Wachovia's system of internal controls provides reasonable assurance that business units achieve their stated objectives and produce reliable financial reports. However, management's decentralized approach lends itself to an environment with inconsistent identification, escalation, and management of risk. Recent market disruption events along with recent targets have highlighted the need for clearer roles and responsibilities, consistent identification and escalation of risk issues, and a robust Treasury Risk Management function.
- Risk assessment processes are inconsistent throughout the company. Risks are being identified, but not consistently prioritized and escalated when needed. Management is in the process of developing a more consistent methodology for the identification, reporting, and aggregation of operational risks.
- Operational losses have increased in recent quarters. Net operational losses in the past 12 months total $574MM. During the market disruption, operational and/or process breakdowns within the Treasury and CIB areas have resulted in significant and unexpected losses. These losses bring into question the overall quality of the control environment within these areas.
- Year-to-date 2008, internal audit has issued three unsatisfactory ratings compared to three during all of 2007 and three during all of 2006 which may indicate some deterioration in internal controls.
- Accounting information and communication systems are satisfactory and financial reporting controls continue to receive scrutiny via the Corporate Financial Governance Office (CFG). However, recent Internal Audit and examination work identified the need to enhance the SOX quality control program.
- SOX Testing has identified a total of six significant deficiencies (SD). In addition to the existing four as of year-end 2007, two new SDs have been identified in 2008 relating to failure to obtain counterparty credit approval for the BOLI transaction and an unrecorded credit default swap. Additionally, two deficiencies are under active consideration as SDs relating to a lack of GBG mortgage documentation and an equity trade error.
- Wachovia's overall control activities remain satisfactory. Policies and procedures are in place to control risk. However, Wachovia's budgeting process has shown to be unreliable in the recent

months, and transaction approval/authorization processes within the Treasury area needs improvement.

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 continues to improve, and management is giving appropriate attention to audit identified control weaknesses. The Audit Committee (AC) remains active and provides appropriate direction and oversight. AC reporting continues to improve through its increased emphasis on enterprise risks.
- Internal Audit's role is being expanded to assess the design and effectiveness of the risk management framework to ensure risks are appropriately evaluated and communicated.
- Audit management remains capable and focused on continuing to improve audit's overall quality and effectiveness. The Audit Committee and new Chief Auditor, David Julian, have continued to elevate Audit's stature within Wachovia.
- Wachovia's internal audit function remains satisfactory. Chief Auditor Julian has articulated a "new" vision for Audit that provides for a more flexible program that reacts to current market conditions and looks more horizontally across the organization to identify risk governance and control weaknesses. Management continues to take timely and appropriate action to address the internal control weaknesses identified by Audit.
- Overall quality of audit work is considered satisfactory. However, we continue to have concerns with the quality and sustainability of an effective IT audit function. IT Audit leadership has taken steps in the past 18 months to address the concerns including restructuring the audit universe, instituting a temporary real-time quality assurance program, shifting testing application controls back to the LOB audit teams in an effort to devote more attention to the technology services area, and emphasizing the need for "quality" throughout the team. While we see these as positive steps, execution is critical to ensure that an effective overall IT audit program is sustained over time. Recent turnover in the IT audit leadership level adds another challenge for achieving overall sustainability.
- Audit reporting remains satisfactory. Audit reports reveal sound conclusions with ratings well-supported.
- Audit staffing levels and expertise is satisfactory. Turnover at the leadership level has been minimal in the past several years. However, there has been recent turnover in five Senior Manager/Director positions including four positions in IT and one in Professional Practices. Most of the vacancies were filled during March and April 2008. Two of the positions were filled from within audit and three were filled from the line of business (LOB). The two IT positions filled from the LOB were accomplished through a newly implemented 24-month rotation program. Given this influx from the line of business, audit leadership must ensure a strong level of independence and objectivity is maintained.
- Audit has satisfactorily addressed our MRA regarding the approach to project auditing/monitoring including more robust coverage, better resource coordination, and enhanced reporting. Audit management must ensure this improved approach is sustained through the multi-dimensional Basel II project.
- Audit has satisfactorily addressed our MRA regarding quantitative modeling expertise and effective coverage. Audit hired an individual with significant quantitative modeling expertise and has executed effective coverage of complex modeling activities.

Other Information

CAMELS/ETCC

In conjunction with the 2008 Annual Report of Examination, the following CAMELS/ETCC ratings were assigned.

Composite Rating – 3
The overall condition of Wachovia Bank, N.A. has deteriorated and exhibits weaknesses in Management, Asset Quality, and Earnings that are of supervisory concern. The overall composite ("CAMELS") rating is a "3" under the FFIEC Uniform Financial Institutions Rating System, and the overall risk profile is "High." Management of risk throughout Wachovia needs improvement, and the Board and management have been slow to react to risks that have arisen from changing market and business conditions. Asset quality is less than satisfactory, and credit risk is high as a result of continued deterioration over the last 12 months. Earnings are poor, and the trend has been negative. The bank's capital ratios are acceptable at this time. However, Wachovia now has limited options for raising capital, if needed. While liquidity levels remain sufficient, liquidity risk is "High" as funding pressures have persisted and are likely to increase as a result of the on-going market disruption and investor concern. Wachovia's sensitivity to market risk remains acceptable.

Capital Rating – 2
At this time, capital is rated a "2," and the bank is within the "well-capitalized" level for Prompt Corrective Action (PCA) purposes. Wachovia's capital levels are projected to remain adequate through year-end 2008 and into 2009. However, the financial condition of the bank has deteriorated and it is difficult to determine when the main driver of poor earnings, the bank's residential credit portfolio, will stabilize. If financial deterioration continues and other capital preservation efforts are not successful, the capital rating will likely be downgraded during the third quarter. Options to raise capital are more limited because they would likely be highly expensive and/or dilutive, and investors may have less of an appetite for more Wachovia debt or equity. In an effort to preserve capital, the Board further cut dividends in July 2008, to $0.05 per share which will save approximately $700MM in capital per quarter. Other major venues to maintain capital ratios include reducing expenses, deferring capital consuming initiatives, restricting asset growth, or selling assets. Management is estimating that these strategies will benefit Tier 1 capital by more than $5B by year-end 2009. In the past two months, management approved a plan to reduce total risk-weighted assets and balance sheet usage by $20B by year-end 2008. Project Stanley was recently implemented to address capital. Formal reporting to the Board on this project is needed. We also continue to closely monitor projected earnings and credit loss levels and have asked management to submit a more formal capital projection with appropriate stress scenarios.

Although capital levels declined in 2007 and first quarter 2008 due to asset write-downs and credit losses, Wachovia Corporation bolstered capital levels by issuing $15B in Tier 1 eligible instruments since December 2007. Wachovia Corporation's Total capital and Tier 1 capital at June 30, 2008 were approximately 12.9% and 8%, respectively. Bank Tier 1 capital stands at 7.2%, leverage capital at 6.26%, and Total Capital at 11.46%. Wachovia's capital levels were projected to deteriorate through year-end 2008 and into 2009; however, the company further cut the dividend in conjunction with the 2Q earnings announcement, which should improve projected ratios.

The Board needs to ensure that a formal stress testing process is implemented to identify potential drains on capital levels and the avenues available to address these concerns. Although capital models are updated monthly based on balance sheet forecasts, management has not prepared ongoing stress scenarios to determine risk to capital levels if the corporate forecast is not realized. Stress scenarios should include unexpected growth in assets and off-balance sheet contingencies as well as decreased earnings. This analysis should also contain trigger levels for additional capital issuance, cutting common dividends, and stopping or slowing asset growth.

Asset Quality Rating – 3
Asset quality is less than satisfactory and rated "3". This represents a downgrade from the previous "2" rating. Asset quality measures deteriorated significantly over the last 12 months and credit risk continues to increase. Aggregate credit risk is "High," with the quantity of risk rated "High" and the quality of risk management rated "Satisfactory," although weakness exist in the risk management function. The direction of risk remains increasing. The aggregate and quantity of risk ratings represent downgrades from the previous "Moderate" level rating.

All asset quality metrics continue to worsen as they are coming off the pristine levels of recent years. Continued deterioration is most evident in consumer mortgages, residential builders and indirect autos, with other portfolios showing milder weakness. While current lagging indicators appear manageable, losses, delinquencies and criticized assets are projected to reach levels that are concerning. Quarterly loan losses have gone from 0.14% as of June 30, 2007 to 1.1% as of June 30, 2008. Based upon preliminary numbers, Criticized and Classified asset commitments for the bank now represent approximately 49% and 33% of Tier 1 capital plus the ALLL. NPAs also show clear increasing trends since year-end 2006. They have gone from 0.18% as of year-end 2006 to 2.44% as of June 30, 2008. NPAs are forecast to increase into 2009 and are currently projected to exceed 4% at that time.

The level of the ALLL is adequate at this time. Management appropriately increased the ALLL from 1.04% as of June 30, 2007 to 2.24% as of June 30, 2008, given the increasing portfolio risk. We will conduct a detailed review of the ALLL level and the effectiveness of the methodology in the current stressed environment starting in August 2008. Management has already made changes in the retail loss modeling in an attempt to better capture inherent risks in the legacy Golden West portfolio. Management needs to maintain a conservative approach when establishing the ALLL level given continued deterioration and difficulty in forecasting defaults and loss severities.

Three related factors have caused a dramatic worsening in asset quality. First, the significant decline in the consumer housing markets caused losses in the Pick-a-Pay portfolio and residential building related commercial portfolio. Second, the 2007 credit market disruption caused significant market losses as assets (leveraged loan/CMBS warehouses, subprime securities, etc.) were written down. This disruption also required the bank to add several assets to the balance sheet that were originally intended for distribution or off-balance sheet vehicles. Lastly, the general economic slowdown has caused a milder deterioration across virtually all other loan portfolios.

Retail Credit
The general issues described above have had a greater negative impact on the retail portfolio. Retail asset quality is less than satisfactory, has deteriorated substantially in the past year, and has shown no signs of stabilization. Aggregate retail credit risk is "High" as compared to "Moderate" one year ago.

In the past year, total consumer NPAs have increased from $1.7B or .66% of total consumer loans at June 30, 2007 to $8.5B or 3.11% at June 30, 2008. Quarterly consumer loan losses similarly increased from $122MM or 0.29% of total consumer loans for the second quarter of 2007 to $854MM or 1.26% for the second quarter of 2008. Consumer NPAs and loan losses are forecast to further increase well into 2009.

The legacy Golden West's Pick-a-Pay portfolio (and its associated Other Real Estate Owned) is Wachovia's largest class of distressed assets. It constitutes a highly disproportionate share of consumer NPAs and loan losses. This portfolio, which is concentrated heavily in the distressed California and Florida markets, has deteriorated much more rapidly than projected. As a result, management is frequently revising its projected credit loss and NPAs levels upward and very large provisions are being made to cover these losses. For the first six months of 2008, Golden West net charge-offs were $748MM compared to only $5.7MM for the same prior-year period. As of June 30, 2008, Golden West NPAs were

$7.1B compared to only $1.2B a year earlier. Latest projections indicate that Golden West NPAs will likely be at least $12B, or 10% of the portfolio by year-end 2008. The Bank holds about 46% of the legacy Golden West portfolio on its books, and the Bank's portfolio represents about 50% of the NPAs and losses. Many of these loans had sub-prime characteristics with FICO scores below the industry accepted sub-prime level of 620. In addition, low documentation loans were not properly controlled. These practices were at odds with the largely conservative practices of legacy Wachovia, but management did not address them until it was obvious that the Golden West portfolio was highly problematic.

As discussed earlier, the corporate organization lacked an atmosphere of credible challenge when the Golden West acquisition took place and shortly thereafter. By necessity, this credible challenge aspect is now present. Consumer risk management is now taking the lead in making residential real estate loss mitigation programs uniform across the company. Risk management has also tightened underwriting practices across the mortgage portfolio including the Pick-a-Pay products. Similarly, management was conservative when they began treating some skip-a-pay credits as nonaccrual loans. We support this treatment until greater controls and transparency is implemented around this process. All of these actions are considered as positive steps to improve the quality of the residential real estate portfolio. Please refer to the Asset Quality MRA for detail on actions that management should continue to stress.

The indirect auto portfolio is of secondary concern. Wachovia acquired this portfolio in 2006 from Westcorp. While the business is profitable and coincident indicators are within industry norms, the portfolio is showing signs of deterioration. Full year 2008 losses are projected to be $660MM, or 2.6% of outstandings with many being sub-prime customers. Production of new loans has exceeded expectations for much of 2008, which is contrary to industry trends. Our concern is that management has not integrated the indirect business into the corporate risk structure. All other retail credit businesses have a separate risk function outside of the lines of business that report up to Chief Consumer Risk Officer Nole. However, the indirect operation was permitted to keep the legacy structure of Westcorp where the risk function is imbedded in the line of business. As part of the outside consultant's review of overall risk management, they should address whether this risk management structure is a sound method to control risk.

Commercial Credit

Commercial credit quality remains satisfactory. Clear weaknesses are present in the residential building related portfolio within Real Estate Finance (REFs), but the remaining portfolios show a milder deterioration. The general bank and investment bank portfolio asset quality levels, excluding housing related REFs, are returning to historical norms and remain manageable at this time. Despite current satisfactory performance, large potential risks to asset quality exist in the income-producing commercial real estate and leveraged loan portfolios. These incremental risks combined with existing consumer and residential building weakness would severely stress capital and earnings. Management is taking actions to mitigate this risk by continuing to sell leveraged loan exposures and conducting an in-depth review of the commercial real estate portfolio.

As noted above, management needs to continue to focus on credit risk aggregation and portfolio governance processes across the corporation. As an example, household level exceptions consistently showed an increasing trend over the last 2 years and warehouse/pipeline risk limits were not always formalized or measured relative to capital or earnings at risk. Also, hedging activities provided mixed risk mitigation because they occur in a number of areas and were not always well-correlated to specific risks. Management also needs to continue to focus on risk rating accuracy and the need for heightened servicing. These are critical for accurate and timely risk identification.

As noted above, commercial credit weakness is centered in residential building related borrowers. The dramatic slow down and price reductions in consumer housing is causing rapid deterioration in this $12B

portfolio. Our examination of this area in first quarter 2008 and the recent shared national credit examination confirmed continued significant deterioration in these credits, which are difficult to workout. Over 34% of this portfolio was criticized as of April 2008. NPAs have increased above 11% and losses are projected to exceed 2.5% in 2008.

The market disruption caused management to keep or bring approximately $25B in assets with credit risk onto its books. These assets were from off-balance sheet structures (Atlas, VFCC) or from areas that historically originated assets for distribution (leveraged lending, CMBS, structured products). At this time, credit risk in these assets is satisfactory, and returns are generally good since most assets were booked at a discounted value. However, some assets that were transferred from available for sale (AFS) to held for investment, especially in the "opportunistic portfolio", are showing continued stress with approximately $460MM in temporary impairments.

Management reduced exposures to AFS assets in various real estate warehouses and leveraged loan mandated commitments. These exposures are now less than $6B from a high of approximately $33B in June 2007. The significant write-downs taken on these assets were generally a result of the market's perception of the risk/return rather than deterioration in the underlying fundamentals of the company. Hedging activities off-set some of these losses but were not always correlated well. Underwriting on these assets was weak which presents a potential future asset quality issue if the economy continues to slow. Many of these credits were underwritten based on aggressive growth projections and hold levels now significantly exceed house limits.

Lastly, the bank's potential "indirect" exposure to monoline insurers warrants continued monitoring. Management is working on methodologies to attempt to quantify this potential exposure. As a result of this work, management has established reserves which we will review in more detail at our upcoming counterparty credit examination.

Management Rating – 3

Recent market events as well as legal and regulatory issues have raised concerns with the quality and effectiveness of Wachovia's management team, as well as Board oversight. As a result, management is being downgraded from a "2" rating to a "3" rating. Corporate oversight and management of risk need strengthening. Questionable strategic decisions and insufficiently proactive oversight has led to many of Wachovia's problems. In addition, the Board has not provided clear guidance regarding acceptable risk exposure levels, and has not ensured that appropriate policies, procedures and practices have been established.

Corporate governance structure and practices are in the process of being strengthened. While the overall corporate governance committee framework is appropriate, execution remains an area of concern. Management of risk needs improvement. In particular, management should strengthen the identification, escalation, control and measurement of risk including having a clear risk culture where management of risk is performed at the line of business level with the Risk Management Unit having clear authority to approve, disapprove, or escalate risk. While the Risk-related Corporate Governance Initiative (RRCGI), which commenced in 2006, addresses some of these concerns, additional efforts are needed. Management has engaged an independent consulting firm to evaluate Wachovia's risk management and corporate governance practices.

While the overall internal control environment remains satisfactory, deterioration has been noted in recent months as operational losses have increased. Significant and unexpected losses have occurred in the past year due to process breakdowns identified during the market disruption. In addition, legal and regulatory matters have increased substantially, thus exposing the bank to possible future losses and increased litigation costs.

Wachovia's internal audit function remains satisfactory. The Audit Committee and new Chief Auditor, David Julian, have continued to elevate Audit's stature within Wachovia. Chief Auditor Julian has articulated a "new" vision for Audit that provides for a more flexible program that reacts to current market conditions and looks more horizontally across the organization to identify risk governance and control weaknesses. Management continues to take timely and appropriate action to address the internal control weaknesses identified by Audit.

The compliance management process includes substantial resources allocated to implement and monitor compliance with the various laws, rulings, regulations, policies and procedures. Compliance policies and processes are sound. While the overall BSA/AML compliance program complies with regulatory requirements, BSA/AML related incidents such as the *casas de cambio* case, continue to occur that raise some concerns over the program's overall effectiveness.

Earnings Rating – 3

The earnings component continues to warrant a "3" rating. Wachovia earnings have been poor over the past two quarters as the market disruption and significant deterioration in the housing market has continued. Earnings have steadily deteriorated over the past four quarters with Wachovia suffering significant losses in the last two quarters. As of June 30, 2008, Wachovia reported an operating earnings loss for negative earnings per share of $1.27. Year-to-date operating losses have totaled $3.4B. In addition, the bank took a $6.1B charge for goodwill impairment during second quarter 2008. Management's forecast of a rebound in earnings has thus far not materialized as loan delinquencies and charge-offs continue to increase and provision expense remains elevated. Provision expenses are expected to remain elevated throughout 2008, at a minimum.

Management has aggressively taken large provisions in excess of charge-offs the last two quarters in an effort to stay on top of potential credit losses, most of which are from the Pick-a-Pay portfolio. Management changed their retail loss modeling as they build their allowance in anticipation of higher expected losses.

Market disruption losses continue to negatively impact Wachovia's earnings. Year-to-date, market disruption related charges (excluding provision expenses) have totaled $5B mostly centered in CIB trading and in the parent segment.

The overall quality of earnings varies based on the segment. Unfortunately, poor earnings in the CIB and mortgage area have overwhelmed the profitable units. On a positive note, with the exception of these two areas, segment earnings in Capital Management, Wealth Management and the General Bank Group (excluding Golden West) have remained fairly stable. Wachovia has launched several initiatives in June with a goal of building and preserving liquidity. While these actions are necessary, they will likely result in lower forward-looking earnings performance. Latest earnings projections for full year 2008 indicate that Wachovia will experience an operating loss of approximately $2.7B. However, earnings projections to date have been unreliable and have frequently been adjusted downward as the bank's condition has deteriorated. The earnings rating may further be downgraded if positive earnings are not restored in the near future.

Liquidity Rating – 2

Liquidity continues to be rated a "2". The market disruption and continued earnings deterioration have reduced funding opportunities and raised funding costs for Wachovia. While Wachovia's liquidity is presently adequate, the market is focused on the company's condition and potential events, which could trigger a loss of confidence in the bank and further reduce funding opportunities. Some large fund providers are already limiting Wachovia exposure. All major credit agencies have downgraded Wachovia's credit rating one notch as expected following the earnings announcement on July 22, 2008. We are closely monitoring the liquidity position and the appropriateness of the current liquidity rating in light of projected losses, credit downgrades and future potential loss of funding availability.

Liquidity management during the disruption has thus far been satisfactory. Management has conducted formal scenario analyses to assess funding needs under two increasingly severe credit downgrade scenarios. These scenarios reflect significant funding needs and management has instituted appropriate plans to address these needs. Additionally, to ensure that Wachovia's stressed liquidity needs are met, management has activated the bank's contingent funding plan and is taking steps to build liquidity to meet potential stress events. Actions taken to date include: initiating new retail and wholesale deposit promotions, placing hard caps on assets of various business lines to more carefully management balance sheet growth and redirecting all investment pay downs into U.S. Treasury securities. Additionally, management has established a centralized communication response team to deal with inquiries from interested parties, including its retail branch management team and the media.

Because of the heightened sensitivity of the market to Wachovia's financial condition, these programs are critical to ensure that Wachovia is proactive in addressing potential events which could impact the bank's viability. The Board needs to ensure that management continues its course to refine and formalize these plans as well as provide regular updates to the Board. Needed enhancements are discussed in the next paragraph.

Over the past year, the Treasury Funding staff was able to adapt the existing Stress Scenarios and Contingency Funding identification process to account for the current market disruption. Wachovia has historically used this more informal communication system to identify potentially non-legally binding liquidity demands from affiliates and subsidiaries. However, Asset Liability Management Committee (ALCO) now needs to be more formalized and integrated into liquidity management policies. Additionally, management needs to revise the description of stress scenarios to reflect changes recently made to incorporate experiences and observations from the market disruption. While some affiliates and subsidiaries of the holding company operate under a self-funding model, reputation risk may require the parent company or the bank to support them under extreme circumstances. Management needs to ensure that Stress and Contingency funding planning processes are comprehensive and identify entities in the consolidated company that could place a demand on parent or bank funding. Assessment of the funding risk should include contingent liabilities that are legally binding, as well as products or lines of business that the entity would support during a crisis because of reputation risk.

Liquidity risk is "High" as the on-going market disruption has reduced availability of unsecured term funding and raised funding costs. The market's appetite for securitizable assets has significantly diminished. As a result of the reduced availability of funding in the term debt market and loan growth, which has exceeded core deposit growth, wholesale funding levels have increased. Funding gap risk is high, as under a severe scenario, significant gaps could occur. Management is taking steps to address these gaps.

Wholesale funding reliance represents 32.7% of total assets as of May 31, 2008, up from 30.8% at year-end. Wholesale funding providers are currently reviewing, and cutting, in some cases, or limiting their exposure to Wachovia. Wachovia has active borrowing relationships with three FHLBs which represent a concentration, and in aggregate they fund 7% of assets. Wachovia's retail deposit base has been stable and remains a strong source of potential liquidity; a recently announced retail deposit promotion targeting CDs and money market deposits has been successful.

Investor concern is evidenced by Wachovia's credit default swap (CDS) spreads, which remain higher than many of its peer banks, and its depressed stock price. As of quarter-end, Wachovia 5-year CDS traded more than 70 basis points (bps) higher than Citibank, which was its closest peer. Cash bonds spreads have risen both on an absolute and relative basis; as of mid-June, the option adjusted spreads for various tenors of senior holding company debt was trading at 100 – 175 bps higher than JPMorgan Chase and Bank of America.

Sensitivity to Market Risk Rating – 2
A rating of "2" remains appropriate. Interest rate risk remains "Moderate." Short-term earnings sensitivity has increased to a moderate level over the past year, but is expected to remain stable for the near term. As of June 30, 2008, the level of short-term interest rate risk is relatively low at -1.7% liability sensitive for an up 200 basis point ramp over the next twelve months. The rolling 12-month view shows sensitivity migrating to -3.4% (liability sensitive) by second quarter 2009, before replacement of discretionary hedging decisions. Long-term interest rate risk, as measured by EVE (Economic Value of Equity), has remained at moderate levels since March 2005.

Although risk management is considered satisfactory, some control systems continue to have weaknesses. Model validation is an area which continues to need attention. Model validation has not always been completed prior to model implementation, as management has not historically integrated model validation into its project planning. Management is implementing a project to convert EVE modeling to BancWare and model validation is part of the project planning. All material model assumption changes need to be documented and reviewed by appropriate Committees.

Management continues to be able to achieve the bank's targeted net interest income (NII) levels without exceeding policy limits for interest rate risk (IRR). They have identified the scenarios where they are most vulnerable and execute hedges when the benefits outweigh the cost of hedging the risk. A volatile yield curve and resulting shifts in new loan production mix continues to challenge the Forecasting area's modeling and hedging skills. The addition of the Golden West merger along with the volatility of retail deposit growth and increases in fixed rate loan products has added significant complexity to the risk management process.

Trading activities, in aggregate and quantity, reflect a high level of sensitivity to market risk. Origination volumes have slowed dramatically and outright positions, while volatile, have slowly reduced. Hedging has not been as effective as the basis between instruments dislocated. Life to date market disruption losses are approximately $5B, but were significantly less in the second quarter 2008. Trading Risk remains centered in Extend Stay Holdings (ESH), Leveraged Loan Commitments, and the Tender Option Bond (TOB) municipal book. The corporate-wide one-day management Value-at-Risk (VaR) stands at $41.3MM as of June 27, 2008. Management has significantly reduced aged inventory through sales or designating these as held to maturity assets. Trading stress tests results are also showing reduced risk levels, and trading growth plans remain on hold as management reassesses and reorganizes the business.

Treasury and Balance Sheet Management price risk is high and increasing; however, this risk has not been readily transparent. Recent significant losses in BOLI did not coincide with management disclosures of risk to ALCO or regulators. This lack of transparency has led us to question the validity of management disclosures on other Treasury risks. Management is in process of building a formal Treasury Risk Management function.

Overall risk management of price risk remains satisfactory. While we have significant concerns with Treasury Risk Management, CIB houses the majority of price risk and these processes are satisfactory. CIB has a good price risk management function consisting of a satisfactory price risk model, market risk oversight personnel and adequate reporting. However, control systems are now weak. In particular, certain large transactions lacked the appropriate, detailed review to assess, identify and control risk. Failure to ensure accuracy of a single Credit Default Swap (CDS) agreement resulted in nearly a $500MM loss. Failure to correctly book two trades resulted in a net gain of $35MM. MIS aggregation of positions has also been an issue during market disruption. Other issues exist with technology and modeling. While overall price verification processes in CIB are satisfactory, staffing, documentation and testing of these positions needs improvement.

Information Technology (IT) Rating – 2
Overall, the Operations & Technology Group (OTG) along with the various governance committees provide appropriate oversight through its identification, monitoring and controlling of significant IT risks.

For the most part, IT management resolves internal audit and regulatory issues in the normal course of business. Major Risk Remediation projects for access control deficiencies, DCPR, and vendor management are generally receiving appropriate attention. However, the stress on earnings will impact current and interim spending, which could have an adverse impact on major projects, and could raise the risk of losing key personnel. To date, the impacts have been project reprioritization and extending project completion dates. The Investment Review process continues to provide governance over project approvals and resource prioritization to ensure efficiency and completion on project goals.

Technology Risk Management and overall operational risk management control efforts continue to develop and season. However, the immaturity of the processes requires us to be more cautious in our reliance on internal findings. Corporate standards and the quality of documentation need improvement. General reporting is adequate, but improved risk assessment aggregation is needed. Operational risk management practices also need improvement to ensure compliance with Basel II AMA. Management is taking appropriate steps to address these issues.

Support and Delivery activities are satisfactory. With the exception of line of business applications, annual disaster recovery and business continuity testing demonstrates the ability to recover systems. The bank is working to improve proximity risk and pandemic escalation procedures. Logical and physical data center security over critical IT platforms is satisfactory. Management's completion of the ISR3 remediation efforts has improved the overall security posture of the corporation.

Trust Rating – 2

The administration of fiduciary activities at Wachovia remains fundamentally sound. Executive management is experienced and committed to the growth of asset management activities as part of the bank's diversified strategic plan. Management appropriately addresses regulatory findings and is responsive to recommendations from audit and regulatory authorities.

Operational controls are effective and corporate level control functions, including Internal Audit and Corporate Compliance, provide effective oversight for risk identification. Corporate Risk Management processes are satisfactory, relative to the bank's size and risk profile, and continue to be enhanced to respond to the growing complexities of this business. Compliance with applicable laws, regulations, and accepted standards of fiduciary conduct is satisfactory. Fiduciary issues identified in control assessment reports and Internal Audit reports reflect matters that can be addressed in the normal course of business.

Asset management practices are satisfactory. Policies and practices governing asset management are adequate and fiduciary investment decisions are appropriate. Management's use of an open architecture investment platform provides greater transparency to fiduciary clients and is supported by a reasoned due diligence process.

Fiduciary activities at Wachovia are profitable, and when combined with the remaining asset management business lines, contribute significantly to corporate net operating income. Executive management continues to make reasoned decisions to acquire selected trust business lines and focus resources toward areas seen as growth opportunities.

Consumer Compliance Rating – 2

Wachovia reflects a satisfactory level of compliance with consumer protection laws and regulations. Overall compliance risk is "Moderate" and increasing with some aspects reflecting high risk. BSA/AML risk is "High." The BSA/AML compliance program satisfies regulatory requirements, but still needs attention in certain areas.

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

to minimize risk. Our supervisory efforts will continue to monitor recent changes within the compliance management structure, including the oversight for BSA/AML activities.

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) a training program for appropriate personnel. The system of internal controls includes policies, procedures and processes that identify high risk products, services and customers with updates designed to account for changes. Senior Vice President Soto has been designated the BSA/AML officer responsible for ongoing oversight of the program, and the Internal Audit 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.

Our fair lending examination found no evidence of illegal discriminatory practices; fair lending risk management is generally satisfactory. The examination identified the need to improve risk management and assessments of broker-generated loans.

Community Reinvestment Act Rating – 1
Bank performance to help meet community credit needs reflects a rating of "Outstanding". The evaluation of Wachovia performance is reflected in the CRA Public Disclosures (lead bank and Delaware issued in early 2008 and late 2007). This rating reflects the efforts by management to effectively determine 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. We found that Wachovia has complied with the requirements of the implementing regulation (12 C.F.R. 25) for the public notice and public file.

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